



Dave Yost • Auditor of State

**CITY OF SALEM
COLUMBIANA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

City of Salem
Columbiana County
231 South Broadway Avenue
Salem, Ohio 44460

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salem, Columbiana County, Ohio (the City), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salem, Columbiana County, Ohio, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 18 to the financial statements, during the year ended June 30, 2015, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2016, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

August 12, 2016

City of Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2015
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, 2015. 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 2015 are as follows:

- Governmental net position decreased in 2015. This decrease relates to the decrease in capital assets due to an additional year of accumulated depreciation as well as an increase in current year liabilities and the Net Pension Liability. Unearned revenue increased compared to the prior year due to an oil and gas lease payment received. The City signed a new 3 year lease agreement and received the lease payment this year.
- City income tax receipts have been on an upswing over the last several years with the largest increase this year due to the improving economy. The voters passed a new income tax levy at the November 2015 election. The income tax levy is for an additional .25 percent income tax to be used for transportation purposes. The new income tax will be effective January 1, 2016. The voters passed the new income tax levy for a 5 year period.
- Total governmental capital assets decreased due an additional year of accumulated depreciation offset by several purchases this year including four new City vehicles. The business-type activities capital assets increased due to the completion of the wastewater treatment plant improvements and the purchase of a utility vehicle and trailer camera which was offset by an additional year of accumulated depreciation.
- A review of the enterprise funds reflects an operating loss for the water fund and operating income for the wastewater fund. The smaller operating loss for the water fund was due to reductions in material and supplies expenses. The operating income for the wastewater fund was due to charges for services continuing to exceed operating expenses during the year. Rates for all enterprise funds are monitored by the City to maintain the revenue needed to operate these activities.
- The City implemented GASB 68 and GASB 71, which establish standards for measuring and recognizing pension liabilities, deferred outflows/inflows of resources and expense/expenditure. The implementation of these GASB statements resulted in a significant change to the financial statements presentation of the City. The City has reported these liabilities to comply with the requirements of GASB 68 and 71.

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

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finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

Reporting on the City of Salem as a Whole

While this document contains the large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2015?" The Statement of Net Position and the Statement of Activities answer this question.

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

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

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

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

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

Reporting on the Most Significant Funds of the City of Salem

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

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

Governmental Funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide

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financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

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

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

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

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

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

The City of Salem as a Whole

The Statement of Net Position provides an overall view of the City. Table 1 shows a summary of the City's net position for 2015 as they compare to 2014.

(Table 1)
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Assets						
Current and Other Assets	\$6,551,480	\$6,019,278	\$15,686,739	\$16,591,972	\$22,238,219	\$22,611,250
Capital Assets, Net	16,172,800	16,771,119	19,033,762	18,643,508	35,206,562	35,414,627
<i>Total Assets</i>	<i>22,724,280</i>	<i>22,790,397</i>	<i>34,720,501</i>	<i>35,235,480</i>	<i>57,444,781</i>	<i>58,025,877</i>
Deferred Outflows of Resources						
Deferred Charge on Refunding	9,524	10,501	0	0	9,524	10,501
Pension	897,576	575,751	204,127	137,993	1,101,703	713,744
<i>Total Deferred Outflows of Resources</i>	<i>\$907,100</i>	<i>\$586,252</i>	<i>\$204,127</i>	<i>\$137,993</i>	<i>\$1,111,227</i>	<i>\$724,245</i>

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(Table 1)
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Liabilities						
Current Liabilities	\$1,352,474	\$584,036	\$145,724	\$195,651	\$1,498,198	\$779,687
Long-term Liabilities						
Due within One Year	501,508	467,564	69,262	62,528	570,770	530,092
Due in More than One Year						
Net Pension Liability	6,421,992	6,089,107	1,131,309	1,105,756	7,553,301	7,194,863
Other Amounts	2,400,576	2,903,887	663,706	749,871	3,064,282	3,653,758
<i>Total Liabilities</i>	<u>10,676,550</u>	<u>10,044,594</u>	<u>2,010,001</u>	<u>2,113,806</u>	<u>12,686,551</u>	<u>12,158,400</u>
Deferred Inflows of Resources						
Property Taxes	866,290	840,066	0	0	866,290	840,066
Payments in Lieu of Taxes	186,369	118,553	0	0	186,369	118,553
Pension	24,291	0	19,875	0	44,166	0
<i>Total Deferred Inflows of Resources</i>	<u>1,076,950</u>	<u>958,619</u>	<u>19,875</u>	<u>0</u>	<u>1,096,825</u>	<u>958,619</u>
Net Position						
Net Investment in Capital Assets	13,711,965	13,807,839	18,452,923	17,981,375	32,164,888	31,789,214
Restricted for:						
Capital Projects	0	20,948	0	0	0	20,948
Debt Service	42,494	148,090	0	0	42,494	148,090
Streets	511,932	450,898	0	0	511,932	450,898
Parks	169,951	220,577	0	0	169,951	220,577
Law Enforcement	57,940	71,323	0	0	57,940	71,323
Community Environment	89,193	79,003	0	0	89,193	79,003
Other Purposes	23,450	38,753	0	0	23,450	38,753
Unrestricted	(2,729,045)	(2,463,995)	14,441,829	15,278,292	11,712,784	12,814,297
<i>Total Net Position</i>	<u>\$11,877,880</u>	<u>\$12,373,436</u>	<u>\$32,894,752</u>	<u>\$33,259,667</u>	<u>\$44,772,632</u>	<u>\$45,633,103</u>

During 2015, the City adopted GASB Statement 68, “Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27,” which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City’s actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan’s *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio’s statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the City’s proportionate share of each plan’s collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees’ past service
2. Minus plan assets available to pay these benefits

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GASB notes that pension 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. 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 this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and 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 employee enters the employment exchange with the knowledge that the employer’s promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, 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 pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the City’s statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan’s *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the City is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation had the effect of restating net position at December 31, 2014, from \$17,886,792 to \$12,373,436 for governmental activities and from \$34,227,430 to \$33,259,667 for business-type activities.

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 decreased from the prior year. The City had a decrease in total assets this year which can be attributed to an additional year of depreciation on the City’s capital assets. Current governmental assets increased which offset a large portion of the governmental capital asset decrease. Cash and cash equivalents increased as the City is increasing cash reserves in the income tax capital projects fund. The income tax receivable increased due to the increase in collections over the prior year. The City paid off the loan from the prior year from the wastewater fund that was used to purchase a fire truck. A new loan for \$100,000 was entered into between wastewater and income tax capital projects fund to purchase a dump truck. A portion of this loan was paid off during the year. Total liabilities increased this year due to the increase in the net pension liability offset by the continued pay-down of outstanding debt issues. During the year the City was able to use available cash to pay off two of the City’s OPWC Loans early. 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.

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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 2015 and 2014.

(Table 2)
Changes in Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Program Revenues						
Charges for Services and Assessments	\$340,798	\$363,367	\$4,078,390	\$4,163,778	\$4,419,188	\$4,527,145
Operating Grants and Contributions	789,178	683,848	0	18,862	789,178	702,710
Capital Grants and Contributions	13,250	0	0	0	13,250	0
<i>Total Program Revenues</i>	<u>1,143,226</u>	<u>1,047,215</u>	<u>4,078,390</u>	<u>4,182,640</u>	<u>5,221,616</u>	<u>5,229,855</u>
General Revenues						
Property Taxes	846,665	896,253	0	0	846,665	896,253
Municipal Income Tax	5,107,261	4,703,070	0	0	5,107,261	4,703,070
Grants and Entitlements not Restricted to Specific Programs	244,176	267,762	0	0	244,176	267,762
Payments in Lieu of Taxes	186,369	118,554	0	0	186,369	118,554
Interest	68,111	64,884	18,419	13,785	86,530	78,669
Other	674,822	848,659	122,470	192,317	797,292	1,040,976
<i>Total General Revenues</i>	<u>7,127,404</u>	<u>6,899,182</u>	<u>140,889</u>	<u>206,102</u>	<u>7,268,293</u>	<u>7,105,284</u>
<i>Total Revenues</i>	<u>8,270,630</u>	<u>7,946,397</u>	<u>4,219,279</u>	<u>4,388,742</u>	<u>12,489,909</u>	<u>12,335,139</u>
Program Expenses						
General Government	1,558,849	1,424,964	0	0	1,558,849	1,424,964
Security of Persons and Property	4,271,861	3,817,333	0	0	4,271,861	3,817,333
Public Health Services	95,750	92,737	0	0	95,750	92,737
Transportation	2,099,604	1,872,970	0	0	2,099,604	1,872,970
Community Development	189,320	429,402	0	0	189,320	429,402
Leisure Time Activities	482,310	513,440	0	0	482,310	513,440
Interest and Fiscal Charges	76,592	111,832	0	0	76,592	111,832
Water	0	0	2,188,108	2,338,372	2,188,108	2,338,372
Wastewater	0	0	2,387,986	2,440,949	2,387,986	2,440,949
<i>Total Program Expenses</i>	<u>8,774,286</u>	<u>8,262,678</u>	<u>4,576,094</u>	<u>4,779,321</u>	<u>13,350,380</u>	<u>13,041,999</u>
Transfers	8,100	6,000	(8,100)	(6,000)	0	0
<i>Change in Net Position</i>	<u>(495,556)</u>	<u>(310,281)</u>	<u>(364,915)</u>	<u>(396,579)</u>	<u>(860,471)</u>	<u>(706,860)</u>
Net Position Beginning of Year - Restated	12,373,436	N/A	33,259,667	N/A	45,633,103	N/A
<i>Net Position End of the Year</i>	<u>\$11,877,880</u>	<u>\$12,373,436</u>	<u>\$32,894,752</u>	<u>\$33,259,667</u>	<u>\$44,772,632</u>	<u>\$45,633,103</u>

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The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$713,744 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$765,020. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

	Governmental Activities	Business-type Activities	Total
Total 2015 program expenses under GASB 68	\$8,774,286	\$4,576,094	\$13,350,380
Pension expense under GASB 68	(641,962)	(123,058)	(765,020)
2015 contractually required contribution	606,611	143,764	750,375
Adjusted 2015 program expenses	8,738,935	4,596,800	13,335,735
Total 2014 program expenses under GASB 27	8,262,678	4,779,321	13,041,999
Increase/Decrease in program expenses not related to pension	\$476,257	(\$182,521)	\$293,736

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 percent. Residents of the City who work in another community receive a 100 percent credit on income earned outside the City and paid to another municipality.

General revenues from grants and entitlements, such as local government funds, are also revenue generators. The City monitors its source of revenues very closely for fluctuations. Local government funding has slowly been reduced for the past several years and is anticipated to be stagnant in the future. This is a direct result of the planned State budget reduction. The increase in governmental activities operating grants and contributions was due to the receipt of the brownfield grant from the United States Environmental Protection Agency. The increase in municipal income tax can be attributed to an increase in collections during 2015. The decrease in other revenue can be attributed to the recognition of a smaller portion of the oil and gas lease payment the City received. The oil and gas lease covers a three year period so the City will recognize a portion of the payment over the three years as it is earned. The City recognized the final portion of the original lease payment from 2012 this year as well as a portion of the new oil and gas lease payment.

General government expenses increased from 2014, mainly due to wage increases. City employees received a 2 percent wage increase during the year. The transportation department had increases in costs from 2014, due to an increase in spending for the summer street maintenance program. The summer street maintenance program expenses were lower in prior years due to lack of funding.

Business-Type Activities

The City operates two business-type activities, the water and wastewater treatment facilities. These two activities generated operating revenues of \$1,704,827 from water and \$2,496,033 from the wastewater facility. The largest sources of revenue for both water and wastewater treatment facilities in 2015 were

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charges for services. Water and wastewater expenses for 2015 amounted to \$2,188,108 and \$2,387,986, respectively. The largest expenses are for payroll and employee benefits for both operations.

The City's Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year. Information about the City's governmental funds begins with the balance sheet. The funds are accounted for using the modified accrual method of accounting.

As of the end of 2015, the City of Salem's governmental funds reported a positive combined ending fund balance. The City's major governmental funds are the general fund and the income tax capital projects fund. Revenues exceeded expenditures for the year in the general fund due to increases in revenues outpacing the increases in expenditures. The general fund showed increases in income tax revenue due to an increase in collections. The increase in expenditures is due to wage increases during the year of 2 percent. The decrease in the income tax capital projects fund can be attributed to an increase in capital outlay expenditures.

The proprietary funds are accounted for on an accrual basis.

Enterprise funds are handled in the same manner as governmental funds, with the intent to ensure the strength of these funds. These funds had total operating revenue of \$4,200,860 and total operating expenses of \$4,576,094. If expenses were to exceed revenue and dramatically affect net position, the City has the power to increase revenue through rate increases.

General Fund Budgeting Highlights

Budgeting for the operations of the City is done as prescribed by Ohio Revised Code. Essentially the budget is the City's appropriations, which is restricted by the amounts of the anticipated revenues certified by the County Budget Commission in accordance with the Ohio Revised Code. In 2015, actual revenues for the general fund were more than final estimated revenues due to more income taxes collections than originally expected. City Council's actual expenditures were less than final appropriations due to management keeping costs low while still providing the services the citizens expect.

The original revenue and expenditure budget is designed to be very conservative requiring additional spending requests to be approved by Council throughout the year. During the course of 2015, the City amended its general fund budget numerous times, in response to conservative revenue projections being surpassed.

Capital Assets and Debt Administration

Capital Assets

Total capital assets for the governmental activities, net of accumulated depreciation decreased. This decrease can be attributed to an additional year of accumulated depreciation being taken. The decrease was partly offset by several purchases this year. The City purchased land downtown as well as two new police cruisers, a fire department vehicle and a truck for the street department.

City of Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2015
Unaudited

Total capital assets for the business-type activities, net of accumulated depreciation increased due to the completion of the wastewater treatment plant improvements, the purchase of a new utility vehicle, trailer camera, and the completion of some of the City's infrastructure projects. The increase was slightly offset by an additional year of accumulated depreciation being taken. See Note 10 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	
	2015	2014	2015	2014	2015	2014
Land	\$4,606,592	\$4,586,123	\$564,419	\$564,419	\$5,171,011	\$5,150,542
Construction in Progress	0	0	873,012	3,420,653	873,012	3,420,653
Buildings	816,534	865,548	7,768,996	8,206,396	8,585,530	9,071,944
Improvements Other than Buildings	33,747	55,225	7,016	8,015	40,763	63,240
Land Improvements	348,715	359,499	0	0	348,715	359,499
Machinery and Equipment	1,564,102	1,662,940	654,058	617,726	2,218,160	2,280,666
Infrastructure	8,803,110	9,241,784	9,166,261	5,826,299	17,969,371	15,068,083
Total Capital Assets	<u>\$16,172,800</u>	<u>\$16,771,119</u>	<u>\$19,033,762</u>	<u>\$18,643,508</u>	<u>\$35,206,562</u>	<u>\$35,414,627</u>

Long-term Obligations

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

(Table 4)

Outstanding Long-term Obligations at Year End

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
General Obligation Bonds	\$2,151,273	\$2,465,841	\$0	\$0	\$2,151,273	\$2,465,841
OPWC Loans	326,022	518,564	580,839	662,133	906,861	1,180,697
Compensated Absences	424,789	387,046	152,129	150,266	576,918	537,312
Net Pension Liability	6,421,992	6,089,107	1,131,309	1,105,756	7,553,301	7,194,863
Total	<u>\$9,324,076</u>	<u>\$9,460,558</u>	<u>\$1,864,277</u>	<u>\$1,918,155</u>	<u>\$11,188,353</u>	<u>\$11,378,713</u>

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

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

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

The City of Salem's overall legal debt margin was \$19,006,992 on December 31, 2015. For more information about the City's long-term obligations, see Note 13 to the basic financial statements.

City of Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2015
Unaudited

Current Financial Issues

The Administration provided strong fiscal management, holding general operating expenses in check while maintaining City services at a high level in 2015. But with the continuing decreasing revenues from Federal and State sources, holding expenses down is a constant challenge.

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

Contacting the City of Salem's Financial Management

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

City of Salem, Ohio
Statement of Net Position
December 31, 2015

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$3,165,142	\$14,332,674	\$17,497,816
Accrued Interest Receivable	58,290	0	58,290
Accounts Receivable	22,769	529,180	551,949
Intergovernmental Receivable	423,995	0	423,995
Internal Balances	(75,000)	75,000	0
Property Taxes Receivable	913,703	0	913,703
Income Taxes Receivable	1,648,986	0	1,648,986
Special Assessments Receivable	0	317,152	317,152
Materials and Supplies Inventory	188,919	412,190	601,109
Prepaid Items	18,307	20,543	38,850
Payments in Lieu of Taxes Receivable	186,369	0	186,369
Nondepreciable Capital Assets	4,606,592	1,437,431	6,044,023
Depreciable Capital Assets, Net	11,566,208	17,596,331	29,162,539
<i>Total Assets</i>	<u>22,724,280</u>	<u>34,720,501</u>	<u>57,444,781</u>
Deferred Outflows of Resources			
Deferred Charge on Refunding Pension	9,524	0	9,524
	897,576	204,127	1,101,703
<i>Total Deferred Outflows of Resources</i>	<u>907,100</u>	<u>204,127</u>	<u>1,111,227</u>
Liabilities			
Accounts Payable	129,146	98,784	227,930
Accrued Wages	69,021	21,003	90,024
Intergovernmental Payable	105,064	25,937	131,001
Accrued Interest Payable	5,156	0	5,156
Unearned Revenue	1,044,087	0	1,044,087
Long-Term Liabilities:			
Due Within One Year	501,508	69,262	570,770
Due In More Than One Year			
Net Pension Liability (See Note 15)	6,421,992	1,131,309	7,553,301
Other Amounts Due in More than One Year	2,400,576	663,706	3,064,282
<i>Total Liabilities</i>	<u>10,676,550</u>	<u>2,010,001</u>	<u>12,686,551</u>
Deferred Inflows of Resources			
Property Taxes	866,290	0	866,290
Payments in Lieu of Taxes	186,369	0	186,369
Pension	24,291	19,875	44,166
<i>Total Deferred Inflows of Resources</i>	<u>1,076,950</u>	<u>19,875</u>	<u>1,096,825</u>
Net Position			
Net Investment in Capital Assets	13,711,965	18,452,923	32,164,888
Restricted for:			
Debt Service	42,494	0	42,494
Streets	511,932	0	511,932
Parks	169,951	0	169,951
Law Enforcement	57,940	0	57,940
Community Environment	89,193	0	89,193
Other Purposes	23,450	0	23,450
Unrestricted	(2,729,045)	14,441,829	11,712,784
<i>Total Net Position</i>	<u>\$11,877,880</u>	<u>\$32,894,752</u>	<u>\$44,772,632</u>

See accompanying notes to the basic financial statements

City of Salem, Ohio
Statement of Activities
For the Year Ended December 31, 2015

	Program Revenues			
	Expenses	Charges for Services and Assessments	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$1,558,849	\$55,384	\$116,911	\$0
Security of Persons and Property	4,271,861	145,234	32,543	0
Public Health Services	95,750	59,653	4,079	0
Transportation	2,099,604	804	596,504	13,250
Community Development	189,320	57,806	0	0
Leisure Time Activities	482,310	21,917	39,141	0
Interest and Fiscal Charges	76,592	0	0	0
<i>Total Governmental Activities</i>	<u>8,774,286</u>	<u>340,798</u>	<u>789,178</u>	<u>13,250</u>
Business-Type Activities:				
Water	2,188,108	1,601,860	0	0
Wastewater	2,387,986	2,476,530	0	0
<i>Total Business-Type Activities</i>	<u>4,576,094</u>	<u>4,078,390</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u>\$13,350,380</u>	<u>\$4,419,188</u>	<u>\$789,178</u>	<u>\$13,250</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

Other

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

*Net Position Beginning
of Year - Restated (See Note 18)*

Net Position End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
(\$1,386,554)	\$0	(\$1,386,554)
(4,094,084)	0	(4,094,084)
(32,018)	0	(32,018)
(1,489,046)	0	(1,489,046)
(131,514)	0	(131,514)
(421,252)	0	(421,252)
(76,592)	0	(76,592)
<u>(7,631,060)</u>	<u>0</u>	<u>(7,631,060)</u>
0	(586,248)	(586,248)
<u>0</u>	<u>88,544</u>	<u>88,544</u>
0	(497,704)	(497,704)
<u>(7,631,060)</u>	<u>(497,704)</u>	<u>(8,128,764)</u>
466,949	0	466,949
282,654	0	282,654
48,531	0	48,531
48,531	0	48,531
4,404,497	0	4,404,497
211,600	0	211,600
491,164	0	491,164
244,176	0	244,176
186,369	0	186,369
68,111	18,419	86,530
674,822	122,470	797,292
<u>7,127,404</u>	<u>140,889</u>	<u>7,268,293</u>
<u>8,100</u>	<u>(8,100)</u>	<u>0</u>
<u>7,135,504</u>	<u>132,789</u>	<u>7,268,293</u>
(495,556)	(364,915)	(860,471)
<u>12,373,436</u>	<u>33,259,667</u>	<u>45,633,103</u>
<u>\$11,877,880</u>	<u>\$32,894,752</u>	<u>\$44,772,632</u>

City of Salem, Ohio

Balance Sheet

Governmental Funds

December 31, 2015

	General	Income Tax Capital	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$1,677,560	\$617,182	\$863,720	\$3,158,462
Receivables:				
Property Taxes	496,484	0	417,219	913,703
Income Taxes	1,648,986	0	0	1,648,986
Accounts	21,305	732	732	22,769
Intergovernmental	98,326	0	325,669	423,995
Accrued Interest	58,290	0	0	58,290
Materials and Supplies Inventory	90,858	0	98,061	188,919
Prepaid Items	16,888	0	1,419	18,307
Payments in Lieu of Taxes Receivable	0	0	186,369	186,369
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	6,680	0	0	6,680
<i>Total Assets</i>	<u>\$4,115,377</u>	<u>\$617,914</u>	<u>\$1,893,189</u>	<u>\$6,626,480</u>
Liabilities				
Accounts Payable	\$13,933	\$66,717	\$48,496	\$129,146
Accrued Wages	59,182	0	9,839	69,021
Intergovernmental Payable	41,315	0	63,749	105,064
Interfund Payable	0	75,000	0	75,000
Unearned Revenue	85,753	732,292	226,042	1,044,087
<i>Total Liabilities</i>	<u>200,183</u>	<u>874,009</u>	<u>348,126</u>	<u>1,422,318</u>
Deferred Inflows of Resources				
Property Taxes	470,450	0	395,840	866,290
Payments in Lieu of Taxes	0	0	186,369	186,369
Unavailable Revenue	986,624	0	245,908	1,232,532
<i>Total Deferred Inflows of Resources</i>	<u>1,457,074</u>	<u>0</u>	<u>828,117</u>	<u>2,285,191</u>
Fund Balances				
Nonspendable	114,426	0	99,480	213,906
Restricted	0	0	622,051	622,051
Committed	11,219	0	149,703	160,922
Assigned	597,942	0	0	597,942
Unassigned (Deficit)	1,734,533	(256,095)	(154,288)	1,324,150
<i>Total Fund Balances</i>	<u>2,458,120</u>	<u>(256,095)</u>	<u>716,946</u>	<u>2,918,971</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$4,115,377</u>	<u>\$617,914</u>	<u>\$1,893,189</u>	<u>\$6,626,480</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, 2015*

Total Governmental Fund Balances	\$2,918,971
 <i>Amounts reported for governmental activities in the statement of net position are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	16,172,800
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	47,413
Income Taxes	889,872
Intergovernmental	295,247
	1,232,532
 Total	 1,232,532
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:	
Deferred Outflows - Pension	897,576
Deferred Inflows - Pension	(24,291)
Net Pension Liability	(6,421,992)
	(5,548,707)
 Total	 (5,548,707)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(5,156)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(2,151,273)
OPWC Loans Payable	(326,022)
Compensated Absences	(424,789)
Deferred Charge on Refunding	9,524
	(2,892,560)
 Total	 (2,892,560)
 <i>Net Position of Governmental Activities</i>	 <u><u>\$11,877,880</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, 2015

	General	Income Tax Capital	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$523,912	\$0	\$430,071	\$953,983
Municipal Income Taxes	4,308,600	491,164	211,600	5,011,364
Special Assessments	219	0	0	219
Charges for Services	60,109	0	51,282	111,391
Fees, Licenses and Permits	112,282	0	85,638	197,920
Fines and Forfeitures	31,268	0	0	31,268
Intergovernmental	248,776	13,250	786,736	1,048,762
Interest	66,354	0	1,757	68,111
Payments in Lieu of Taxes	0	0	186,369	186,369
Other	96,677	283,147	294,998	674,822
<i>Total Revenues</i>	<u>5,448,197</u>	<u>787,561</u>	<u>2,048,451</u>	<u>8,284,209</u>
Expenditures				
Current:				
General Government	1,301,420	0	244,351	1,545,771
Security of Persons and Property	3,388,979	0	497,148	3,886,127
Public Health Services	0	0	96,941	96,941
Transportation	18,946	0	725,923	744,869
Community Development	68,605	0	61,249	129,854
Leisure Time Activities	0	0	484,194	484,194
Capital Outlay	0	1,089,019	49,506	1,138,525
Debt Service:				
Principal Retirement	0	0	503,422	503,422
Interest and Fiscal Charges	0	5,585	81,179	86,764
<i>Total Expenditures</i>	<u>4,777,950</u>	<u>1,094,604</u>	<u>2,743,913</u>	<u>8,616,467</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>670,247</u>	<u>(307,043)</u>	<u>(695,462)</u>	<u>(332,258)</u>
Other Financing Sources (Uses)				
Transfers In	8,100	30,000	526,586	564,686
Transfers Out	(556,586)	0	0	(556,586)
<i>Total Other Financing Sources (Uses)</i>	<u>(548,486)</u>	<u>30,000</u>	<u>526,586</u>	<u>8,100</u>
<i>Net Change in Fund Balances</i>	121,761	(277,043)	(168,876)	(324,158)
<i>Fund Balances Beginning of Year</i>	<u>2,336,359</u>	<u>20,948</u>	<u>885,822</u>	<u>3,243,129</u>
<i>Fund Balances End of Year</i>	<u>\$2,458,120</u>	<u>(\$256,095)</u>	<u>\$716,946</u>	<u>\$2,918,971</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, 2015*

Net Change in Fund Balances - Total Governmental Funds (\$324,158)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period:

Capital Asset Additions	322,619
Current Year Depreciation	<u>(908,098)</u>

Total (585,479)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities of activities, a gain or loss is reported for each disposal. (12,840)

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

Delinquent Property Taxes	(107,318)
Income Taxes	95,897
Intergovernmental	<u>(2,158)</u>

Total (13,579)

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: 503,422

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	7,461
Amortization of Premium	3,688
Amortization of Loss on Refunding	<u>(977)</u>

Total 10,172

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. (37,743)

Contractually required contributions are reported as expenditures in governmental funds: however, the statement of net position reports these amounts as deferred outflows. 606,611

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (641,962)

Change in Net Position of Governmental Activities (\$495,556)

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, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$530,000	\$530,000	\$523,912	(\$6,088)
Municipal Income Taxes	3,879,652	4,179,652	4,223,222	43,570
Special Assessments	200	200	219	19
Charges for Services	59,500	59,500	57,529	(1,971)
Fees, Licenses and Permits	138,450	138,450	112,282	(26,168)
Fines and Forfeitures	30,000	30,000	30,267	267
Intergovernmental	236,300	236,300	259,804	23,504
Interest	55,000	55,000	43,600	(11,400)
Other	137,423	137,423	174,276	36,853
<i>Total Revenues</i>	5,066,525	5,366,525	5,425,111	58,586
Expenditures				
Current:				
General Government	1,471,574	1,732,377	1,374,931	357,446
Security of Persons and Property	3,437,005	3,578,024	3,469,245	108,779
Transportation	20,302	20,302	19,245	1,057
Community Development	71,517	83,493	72,404	11,089
<i>Total Expenditures</i>	5,000,398	5,414,196	4,935,825	478,371
<i>Excess of Revenues Over (Under) Expenditures</i>	66,127	(47,671)	489,286	536,957
Other Financing Sources (Uses)				
Advances In	0	0	18,800	18,800
Transfers In	0	0	8,100	8,100
Transfers Out	(578,409)	(563,409)	(556,586)	6,823
<i>Total Other Financing Sources (Uses)</i>	(578,409)	(563,409)	(529,686)	33,723
<i>Net Change in Fund Balance</i>	(512,282)	(611,080)	(40,400)	570,680
<i>Fund Balance Beginning of Year</i>	1,645,600	1,645,600	1,645,600	0
Prior Year Encumbrances Appropriated	33,329	33,329	33,329	0
<i>Fund Balance End of Year</i>	\$1,166,647	\$1,067,849	\$1,638,529	\$570,680

See accompanying notes to the basic financial statements

City of Salem, Ohio
Statement of Fund Net Position
Proprietary Funds
December 31, 2015

	Enterprise		
	Water	Wastewater	Total
Assets			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$2,809,660	\$11,523,014	\$14,332,674
Accounts Receivable	241,350	287,830	529,180
Special Assessments Receivable	0	317,152	317,152
Materials and Supplies Inventory	394,619	17,571	412,190
Prepaid Items	10,810	9,733	20,543
Interfund Receivable	0	101,835	101,835
<i>Total Current Assets</i>	<u>3,456,439</u>	<u>12,257,135</u>	<u>15,713,574</u>
<i>Noncurrent Assets:</i>			
Nondepreciable Capital Assets	535,761	901,670	1,437,431
Depreciable Capital Assets, Net	7,206,593	10,389,738	17,596,331
<i>Total Noncurrent Assets</i>	<u>7,742,354</u>	<u>11,291,408</u>	<u>19,033,762</u>
<i>Total Assets</i>	<u>11,198,793</u>	<u>23,548,543</u>	<u>34,747,336</u>
Deferred Outflows of Resources			
Pension	95,259	108,868	204,127
Liabilities			
<i>Current Liabilities:</i>			
Accounts Payable	30,184	68,600	98,784
Accrued Wages	9,667	11,336	21,003
Intergovernmental Payable	12,059	13,878	25,937
Interfund Payable	26,835	0	26,835
OPWC Loans Payable	54,196	0	54,196
Compensated Absences Payable	7,021	8,045	15,066
<i>Total Current Liabilities</i>	<u>139,962</u>	<u>101,859</u>	<u>241,821</u>
<i>Long-Term Liabilities (net of current portion):</i>			
OPWC Loans Payable	526,643	0	526,643
Compensated Absences Payable	67,206	69,857	137,063
Net Pension Liability	527,944	603,365	1,131,309
<i>Total Long-Term Liabilities</i>	<u>1,121,793</u>	<u>673,222</u>	<u>1,795,015</u>
<i>Total Liabilities</i>	<u>1,261,755</u>	<u>775,081</u>	<u>2,036,836</u>
Deferred Inflows of Resources			
Pension	9,275	10,600	19,875
Net Position			
Net Investment in Capital Assets	7,161,515	11,291,408	18,452,923
Unrestricted	2,861,507	11,580,322	14,441,829
<i>Total Net Position</i>	<u>\$10,023,022</u>	<u>\$22,871,730</u>	<u>\$32,894,752</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, 2015*

	Enterprise		
	Water	Wastewater	Total
Operating Revenues			
Charges for Services	\$1,601,860	\$2,476,530	\$4,078,390
Other	102,967	19,503	122,470
<i>Total Operating Revenues</i>	<u>1,704,827</u>	<u>2,496,033</u>	<u>4,200,860</u>
Operating Expenses			
Personal Services	804,493	931,709	1,736,202
Materials and Supplies	563,230	381,878	945,108
Contractual Services	305,394	695,859	1,001,253
Depreciation	513,047	377,899	890,946
Other	1,944	641	2,585
<i>Total Operating Expenses</i>	<u>2,188,108</u>	<u>2,387,986</u>	<u>4,576,094</u>
<i>Operating Income (Loss)</i>	(483,281)	108,047	(375,234)
Non-Operating Revenue (Expenses)			
Interest	0	18,419	18,419
<i>Income (Loss) before Transfers</i>	(483,281)	126,466	(356,815)
Transfers Out	0	(8,100)	(8,100)
<i>Change in Net Position</i>	(483,281)	118,366	(364,915)
<i>Net Position Beginning of Year - Restated (See Note 18)</i>	<u>10,506,303</u>	<u>22,753,364</u>	<u>33,259,667</u>
<i>Net Position End of Year</i>	<u><u>\$10,023,022</u></u>	<u><u>\$22,871,730</u></u>	<u><u>\$32,894,752</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, 2015

	Enterprise		
	Water	Wastewater	Total
<i>Increase in Cash and Cash Equivalents</i>			
Cash Flows from Operating Activities			
Cash Received from Customers	\$1,591,397	\$2,489,576	\$4,080,973
Other Cash Receipts	102,967	19,503	122,470
Cash Payments to Employees for Services	(835,104)	(977,881)	(1,812,985)
Cash Payments for Goods and Services	(860,649)	(1,079,582)	(1,940,231)
Other Cash Payments	(1,944)	(641)	(2,585)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>(3,333)</u>	<u>450,975</u>	<u>447,642</u>
Cash Flows from Noncapital Financing Activities			
Financing Activities			
Interfund Activity	26,835	275,000	301,835
Transfers Out	0	(8,100)	(8,100)
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>26,835</u>	<u>266,900</u>	<u>293,735</u>
Cash Flows from Capital and Related Financing Activities			
Payments for Capital Acquisitions	(161,598)	(1,119,602)	(1,281,200)
Principal Paid on OWPC Loans	(81,294)	0	(81,294)
<i>Net Cash Provided by (Used for) Capital and Related Financing Activities</i>	<u>(242,892)</u>	<u>(1,119,602)</u>	<u>(1,362,494)</u>
Cash Flows from Investing Activities			
Interest on Investments	0	16,584	16,584
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	<u>(219,390)</u>	<u>(385,143)</u>	<u>(604,533)</u>
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>3,029,050</u>	<u>11,908,157</u>	<u>14,937,207</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$2,809,660</u></u>	<u><u>\$11,523,014</u></u>	<u><u>\$14,332,674</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities			
Operating Income (Loss)	<u>(\$483,281)</u>	<u>\$108,047</u>	<u>(\$375,234)</u>
Adjustments:			
Depreciation	513,047	377,899	890,946
(Increase) Decrease in Assets:			
Accounts Receivable	(10,463)	(11,269)	(21,732)
Special Assessments Receivable	0	24,315	24,315
Materials and Supplies Inventory	(640)	3,263	2,623
Prepaid Items	(2,074)	(2,432)	(4,506)
(Increase) Decrease in Deferred Outflows - Pension	4,350	4,970	9,320
Increase (Decrease) in Liabilities:			
Accounts Payable	10,441	(2,924)	7,517
Accrued Wages	(19,212)	(24,342)	(43,554)
Compensated Absences Payable	4,976	(3,113)	1,863
Intergovernmental Payable	(6,464)	(7,426)	(13,890)
Net Pension Liability	(9,734)	(11,122)	(20,856)
Increase (Decrease) in Deferred Inflows - Pension	(4,279)	(4,891)	(9,170)
<i>Total Adjustments</i>	<u>479,948</u>	<u>342,928</u>	<u>822,876</u>
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u><u>(\$3,333)</u></u>	<u><u>\$450,975</u></u>	<u><u>\$447,642</u></u>

See accompanying notes to the basic financial statements

City of Salem, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2015

Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$74,768</u>
Liabilities	
Undistributed Monies	<u>\$74,768</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, 2015

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, departments, boards and agencies that are not legally separate from the City. For the City of Salem, this includes the agencies and departments that provide the following services: police and fire protection, parks and recreation, planning, zoning, street maintenance, health and other governmental services. In addition, the City owns and operates a water treatment and distribution system and a wastewater treatment and collection system which are reported as enterprise funds. The operation of each of these activities is directly controlled by City Council through the budgetary process.

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

The City participates in the Ohio Municipal League Joint Self-Insurance Pool a Public Entity Risk Pool. This organization is presented in Note 11 to the basic financial statements.

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

Note 2 – Summary of Significant Accounting Policies

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

Basis of Presentation

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

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

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2015

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

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

Fund Accounting

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

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

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

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

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

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.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2015

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

Fiduciary Funds

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

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

Measurement Focus

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

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

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

Basis of Accounting

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

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2015

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges on refunding and pension. 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 are explained in Note 15.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, pension and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2015, but which were levied to finance fiscal year 2016 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, special assessments and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the reconciliation of total governmental fund balance to net position of governmental activities found on page 17. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 15)

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2015

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.

Pensions

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

Cash and Cash Equivalents

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

During 2015, investments were limited to a repurchase agreement, negotiable certificates of deposits and corporate bonds.

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

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2015 amount to \$66,354, of which \$58,025 is assigned from other City funds.

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

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2015, 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.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2015

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 fair market values as of the date received. The City maintains a capitalization threshold of \$1,000 with the exception of land as land was included regardless of cost. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life or not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

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

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

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

Interfund Balances

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

Compensated Absences

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

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2015

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

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund(s) from which the employees who have resigned or retired will be paid.

Accrued Liabilities and Long-term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences and net pension liability 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.

Fund Balance

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

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

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

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

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance or resolution, as both are equally binding) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution, as both are equally binding) it employed to previously commit those amounts. In contrast to fund balance that is restricted by

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2015

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 2016'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 health services, elderly bus fare, the community block grant program and cemetery maintenance.

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

Operating Revenues and Expenses

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

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2015

Bond Premiums

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

Internal Activity

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Estimates

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

Budgetary Process

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

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

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

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2015

Note 3 - 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	Income Tax Capital	Other Governmental Funds	Total
<i>Nonspendable</i>				
Prepays	\$16,888	\$0	\$1,419	\$18,307
Inventory	90,858	0	98,061	188,919
Unclaimed Monies	6,680	0	0	6,680
<i>Total Nonspendable</i>	114,426	0	99,480	213,906
<i>Restricted for</i>				
Park Operations	0	0	156,392	156,392
Public Safety	0	0	57,940	57,940
Community Development	0	0	108,240	108,240
Street Maintenance	0	0	244,893	244,893
Debt Service Payments	0	0	54,586	54,586
<i>Total Restricted</i>	0	0	622,051	622,051
<i>Committed to</i>				
Municipal Events	0	0	22,648	22,648
Storm Water Study	0	0	51,867	51,867
Capital Improvements	0	0	53,069	53,069
Health Department	0	0	22,119	22,119
Accrued Personal Benefits	11,219	0	0	11,219
<i>Total Committed</i>	11,219	0	149,703	160,922
<i>Assigned to</i>				
Shade Tree Program	624	0	0	624
2016 Appropriations	554,780	0	0	554,780
Purchases on Order:				
Personal Services	30,948	0	0	30,948
Materials and Supplies	3,075	0	0	3,075
Purchased Services	3,810	0	0	3,810
Capital Outlay	4,705	0	0	4,705
<i>Total Assigned</i>	597,942	0	0	597,942
<i>Unassigned (Deficit)</i>	1,734,533	(256,095)	(154,288)	1,324,150
<i>Total Fund Balances</i>	\$2,458,120	(\$256,095)	\$716,946	\$2,918,971

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2015

Note 4 - Accountability

Fund balances at December 31, 2015, included the following individual fund deficits:

	<u>Deficit Fund Balances</u>
<i>Special Revenue Funds:</i>	
Police Pension	\$9,288
Fire Pension	12,316
Brownfield Grant	43,929
<i>Debt Service Fund</i>	
General Obligation Bond Retirement	88,755
<i>Capital Projects Fund:</i>	
Income Tax Capital Improvement	256,095

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

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

Note 5 - Budgetary Basis of Accounting

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

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

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

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2015

Net Change in Fund Balances	General
GAAP Basis	\$121,761
Net Adjustment for Revenue Accruals	11,052
Beginning Unrecorded Cash	1,725
Ending Unrecorded Cash	(36,638)
Advance In	18,800
Net Adjustment for Expenditures Accruals	(106,828)
Excess of Revenues Under Expenditures	
Shade Tree	620
Encumbrances	(50,892)
Budget Basis	(\$40,400)

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.

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days;

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2015

4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

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

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

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

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

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that, in the event of failure of the counterparty, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$9,456,513 of the City's bank balance of \$13,243,136 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

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

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2015

Investments

Investments are reported at fair value. As of December 31, 2015, the City had the following investments:

	Fair Value	Maturity	Moody Rating	Percent of Total Investments
Negotiable Certificates of Deposit	\$3,917,714	Less than Five Years	N/A	88.38%
Corporate Bonds	497,340	Less than Five Years	N/A	11.22%
Repurchase Agreement				
Federal Home Loan Mortgage Corporate Bonds	17,878	Daily	Aaa	0.40%
Total Portfolio	\$4,432,932			

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

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

Custodial Credit Risk For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal Home Loan Mortgage Corporate Bonds underlying the repurchase agreement, the Negotiable CDS, and the Corporate Bonds are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty. The City has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

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

Note 7 - Receivables

Receivables at December 31, 2015, 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.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2015

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2015 for real and public utility property taxes represents collections of 2014 taxes.

2015 real property taxes were levied after October 1, 2015, on the assessed value as of January 1, 2015, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2015 real property taxes are collected in and intended to finance 2016.

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. 2015 public utility property taxes which became a lien December 31, 2014, are levied after October 1, 2015, and are collected in 2016 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2015, was \$5.40 per \$1,000 of assessed value. The assessed values of real and public utility tangible property upon which 2015 property tax receipts were based are as follows:

Real Property	\$196,891,070
Public Utility Personal Property	<u>7,721,190</u>
Total	<u><u>\$204,612,260</u></u>

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, 2015, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2015 operations is offset to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

Income Taxes

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

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. All income tax proceeds are received by the general fund, the income tax capital improvement fund, general obligation bond retirement fund and tax increment financing debt service fund. Effective January 1, 2016, the income tax rate will increase an additional .25 percent and these funds will be received by the capital projects fund. The new income tax proceeds will be restricted for streets, alleys, sidewalks, curbs and storm sewers.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2015

Intergovernmental Receivables

A summary of intergovernmental receivables follows:

	Amounts
Governmental Activities	
Gasoline and Municipal Cents per Gallon	\$199,755
Local Government	57,650
Homestead and Rollback	60,485
Motor Vehicle License Tax	51,817
Permissive Tax	44,277
Columbiana County	6,645
DEA Equity Share	3,366
Total	\$423,995

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 – Other Employee Benefits

Compensated Absences

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

Insurance

The City provides medical, prescription, dental, and vision insurances for all full-time employees as well as the Mayor, Auditor and Law Director. Medical/surgical and prescription insurance is provided through United Health Care. Dental and vision insurance is provided through United Health Care. 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 United Health Care. Full-time employees receive \$25,000 term life coverage. The City pays the total monthly premium.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2015

Note 9 - 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, 2015

Note 10 - Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

	Balance 12/31/2014	Additions	Deductions	Balance 12/31/2015
Governmental Activities				
<i>Capital Assets not being Depreciated:</i>				
Land	\$4,586,123	\$20,469	\$0	\$4,606,592
<i>Capital Assets being Depreciated:</i>				
Buildings	2,274,772	0	0	2,274,772
Improvements Other Than Buildings	481,581	0	0	481,581
Land Improvements	639,229	0	0	639,229
Machinery and Equipment	3,885,789	302,150	(103,607)	4,084,332
Infrastructure	22,945,976	0	0	22,945,976
Total Capital Assets being Depreciated	30,227,347	302,150	(103,607)	30,425,890
<i>Less Accumulated Depreciation:</i>				
Buildings	(1,409,224)	(49,014)	0	(1,458,238)
Improvements Other Than Buildings	(426,356)	(21,478)	0	(447,834)
Land Improvements	(279,730)	(10,784)	0	(290,514)
Machinery and Equipment	(2,222,849)	(388,148)	90,767	(2,520,230)
Infrastructure	(13,704,192)	(438,674)	0	(14,142,866)
Total Accumulated Depreciation	(18,042,351)	(908,098) *	90,767	(18,859,682)
Total Capital Assets being Depreciated, Net	12,184,996	(605,948)	(12,840)	11,566,208
Governmental Activities Capital Assets, Net	\$16,771,119	(\$585,479)	(\$12,840)	\$16,172,800

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2015

*Depreciation expense was charged to governmental activities as follows:

General Government	\$14,570
Security of Persons and Property	289,013
Public Health Services	254
Transportation	544,398
Leisure Time Activities	59,863
Total Depreciation Expense	\$908,098

	Balance 12/31/2014	Additions	Deductions	Balance 12/31/2015
Business Type Activities:				
<i>Capital Assets not being Depreciated:</i>				
Land	\$564,419	\$0	\$0	\$564,419
Construction in Progress	3,420,653	1,088,652	(3,636,293)	873,012
<i>Total Capital Assets not being Depreciated</i>	3,985,072	1,088,652	(3,636,293)	1,437,431
<i>Capital Assets being Depreciated:</i>				
Buildings	20,740,386	0	0	20,740,386
Improvements Other Than Buildings	102,073	0	0	102,073
Machinery and Equipment	7,984,048	192,548	(46,311)	8,130,285
Infrastructure	10,466,088	3,636,293	0	14,102,381
Total Capital Assets being Depreciated	39,292,595	3,828,841	(46,311)	43,075,125
<i>Less Accumulated Depreciation:</i>				
Buildings	(12,533,990)	(437,400)	0	(12,971,390)
Improvements Other Than Buildings	(94,058)	(999)	0	(95,057)
Machinery and Equipment	(7,366,322)	(156,216)	46,311	(7,476,227)
Infrastructure	(4,639,789)	(296,331)	0	(4,936,120)
<i>Total Accumulated Depreciation</i>	(24,634,159)	(890,946)	46,311	(25,478,794)
Total Capital Assets being Depreciated, Net	14,658,436	2,937,895	0	17,596,331
Business Type Activities Capital Assets, Net	\$18,643,508	\$4,026,547	(\$3,636,293)	\$19,033,762

Note 11 - Public Entity Risk Pool

Risk Sharing Authority

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

City of Salem, Ohio
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For The Year Ended December 31, 2015

The Pool's general objectives are to formulate, develop and administer a program of insurance, to obtain lower costs for that coverage, and to develop a comprehensive loss control program on behalf of the member political subdivisions. Political subdivisions joining the Pool may withdraw at the end of any coverage period upon 60 days prior written notice to the Pool. Under agreement, members who terminate participation in the Pool, as well as current members, are subject to a supplemental assessment or a refund, at the discretion of the Board of Trustees, depending on the ultimate loss experience of all the entities it insures of each coverage year. To date there have been no assessments or refunds due to the limited period of time that the Pool has been in existence and the nature of the coverage that is afforded to the participants. The City contributed \$121,623 to the Pool in 2015.

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

In ordinary course of business, the Pool cedes a portion of its expenses to other insurers. These arrangements limit the Pool's maximum net loss on individual risks. Treaty basis casualty excess of loss contracts in force at March 31, 2015 generally protects the Pool against losses subject to a deductible of lesser of \$100,000 per location or \$100,000 per occurrence. The Pool is, and the participants are, contingently liable should any reinsurer become unable to meet its obligation under the reinsurance agreements.

Note 12 – Interfund Transfers and Balances

Interfund Transfers

Interfund transfers for the year ended December 31, 2015, consisted of the following:

<u>Transfer To</u>	<u>Transfer From</u>		
	General	Wastewater	Total
Governmental Funds			
Major Fund:			
General Fund	\$0	\$8,100	\$8,100
Income Tax Capital Fund	30,000	0	30,000
Nonmajor Funds:			
Police Pension Fund	144,400	0	144,400
Fire Pension Fund	154,750	0	154,750
Community Housing Improvement	5,527	0	5,527
Municipal Permissive License Tax	50,000	0	50,000
Street Construction			
Maintenance and Repair Fund	135,000	0	135,000
Health Fund	36,909	0	36,909
Grand Total	<u>\$556,586</u>	<u>\$8,100</u>	<u>\$564,686</u>

The transfer to the income tax capital improvement fund moves unassigned balance to finance capital improvements. The transfers to the police pension, fire pension, community housing improvement, street construction maintenance and repair, municipal permissive license tax and health special revenue funds were to move unassigned balances to support programs and projects accounted for in other funds. The wastewater enterprise fund transferred revenue to the general fund to cover the future payment of accrued personnel benefits.

City of Salem, Ohio
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For The Year Ended December 31, 2015

Interfund Balances

The income tax capital improvement interfund balance of \$75,000 represents a manuscript bond that was issued on July 15, 2015 for \$100,000, at 1.75 percent and purchased from the wastewater enterprise fund. This bond is due on July 15, 2018 and was used to purchase a dump truck. The interfund balance of \$26,836 between the water and wastewater enterprise fund represents the first payment on the dump truck manuscript bond. This payment was mistakenly posted to the water enterprise fund.

Note 13 - 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
Business-Type Activities:			
<i>Ohio Public Works Commission Loan</i>			
Stewart Road Water Tank	0.00 %	\$410,000	2020
Roosevelt Ave Water Tank	0.00	673,917	2030
Governmental Activities:			
<i>General Obligation Bonds:</i>			
Various Purpose Improvement Bonds	3.10 - 4.15	\$2,380,000	2015
Street Improvement TIF Bonds	4.00 - 5.12	985,000	2020
Various Purpose Bonds, Series A	2.59	328,000	2023
Various Purpose Bonds, Series B	2.52	55,000	2020
Various Purpose Refunding Bonds	2.45	1,540,000	2025
<i>Ohio Public Works Commission Loan</i>			
South East Boulevard Improvement	0.00	261,838	2015
Cunningham Road & Bentley Drive Improvement	0.00	259,936	2015
East Pershing Street Improvement	0.00	376,179	2042

A schedule of changes in bonds and other long-term obligations of the City during 2015 follows:

	Amount Outstanding 12/31/2014	Additions	Deletions	Amount Outstanding 12/31/2015	Amounts Due In One Year
Business-Type Activities:					
<i>Ohio Public Works Commission</i>					
Stewart Road Water Tank	\$123,000	\$0	(\$30,750)	\$92,250	\$20,500
Roosevelt Ave Water Tank	539,133	0	(50,544)	488,589	33,696
Total Ohio Public Works Commission	662,133	0	(81,294)	580,839	54,196
<i>Other Long-term Liabilities:</i>					
Net Pension Liability - OPERS:					
Water	516,020	11,924	0	527,944	0
Sewer	589,736	13,629	0	603,365	0
Total Net Pension Liability - OPERS	1,105,756	25,553	0	1,131,309	0
Compensated Absences	150,266	10,196	(8,333)	152,129	15,066
Total Long-term Liabilities	1,256,022	35,749	(8,333)	1,283,438	15,066
<i>Total Business-Type Activities Obligations</i>	<u>\$1,918,155</u>	<u>\$35,749</u>	<u>(\$89,627)</u>	<u>\$1,864,277</u>	<u>\$69,262</u>

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2015

	Amount Outstanding 12/31/2014	Additions	Deletions	Amount Outstanding 12/31/2015	Amounts Due In One Year
Governmental Activities Obligations:					
<i>General Obligation Bonds</i>					
Various Purpose Improvement	\$105,000	\$0	(\$105,000)	\$0	\$0
Premium on Various Purpose Improvement	220	0	(220)	0	0
Street Improvement TIF	480,000	0	(150,000)	330,000	160,000
Premium on Street Improvement TIF	10,404	0	(3,468)	6,936	0
Various Purpose Bonds, Series A	283,636	0	(32,869)	250,767	29,109
Various Purpose Bonds, Series B	46,581	0	(7,876)	38,705	7,470
Various Purpose Refunding Bonds, Series 2014	1,540,000	0	(15,135)	1,524,865	135,000
Total General Obligation Bonds	2,465,841	0	(314,568)	2,151,273	331,579
<i>Ohio Public Works Commission Loan</i>					
South East Boulevard Improvement	61,094	0	(61,094)	0	0
Cunningham Road & Bentley Drive Improvement	112,639	0	(112,639)	0	0
East Pershing Street Improvement	344,831	0	(18,809)	326,022	12,538
Total Ohio Public Works Commission Loan	518,564	0	(192,542)	326,022	12,538
<i>Other Long-term Liabilities:</i>					
Net Pension Liability					
OPERS	1,351,480	31,230	0	1,382,710	0
OP&F	4,737,627	301,655	0	5,039,282	0
Total Net Pension Liability:	6,089,107	332,885	0	6,421,992	0
Compensated Absences	387,046	174,589	(136,846)	424,789	157,391
Total Governmental Activities Obligations	\$9,460,558	\$507,474	(\$643,956)	\$9,324,076	\$501,508

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

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

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

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

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

The bonds were sold at par value. The proceeds of the refunding bonds were deposited in an irrevocable trust with an escrow agent to provide for the optional redemption on September 30, 2014 of \$1,540,000 of the outstanding 2005 various purpose improvement bonds so as to discharge and satisfy the obligations of the City.

City of Salem, Ohio
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The City decreased its aggregated debt service payments by \$114,164 over the next 11 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$99,237.

OPWC loans will be paid from water and wastewater enterprise fund user service charges and monies from the general obligation bond retirement fund. Compensated absences will be paid from the following funds: the general fund, the street construction maintenance and repair and the parks special revenue funds and the water and wastewater enterprise funds. The City pays obligations related to employee compensation from the fund benefitting from their service.

The City has pledged future revenues, net of operating expenses, to repay OPWC loans in the water fund. The debt is payable solely from net revenues and are payable through 2030. Annual principal and interest payments on the debt issues required less than 100 percent of net revenues. The total principal remaining to be paid on the loans is \$580,839. Principal paid for the current year and total net revenues were \$81,294 and \$29,766 respectively.

The City's overall legal debt margin was \$19,006,992 at December 31, 2015. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2015, are as follows:

Business-Type Activities:

	OPWC Loans
2016	\$54,196
2017	54,196
2018	54,196
2019	54,196
2020	43,946
2021-2025	168,480
2026-2030	151,629
Total	<u>\$580,839</u>

Governmental Activities:

	General Obligation Bonds		OPWC Loan
	Principal	Interest	Principal
2016	\$331,579	\$61,642	\$12,538
2017	347,528	49,186	\$12,539
2018	178,501	36,072	\$12,539
2019	189,499	31,643	\$12,539
2020	189,933	26,942	\$12,539
2021-2025	907,297	65,062	62,695
2026-2030	0	0	62,695
2031-2035	0	0	62,697
2036-2040	0	0	62,700
2041	0	0	12,541
Total	<u>\$2,144,337</u>	<u>\$270,547</u>	<u>\$326,022</u>

City of Salem, Ohio
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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, 2015, the outstanding bonds have a principal amount outstanding of \$54,855,000. 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 14 - 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 2015, the City contracted with the Ohio Municipal League Joint Self-Insurance Pool for various types of insurance as follows:

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

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

Workers' Compensation

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

Note 15 - Defined Benefit Pension Plans

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions 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.

City of Salem, Ohio
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The net pension liability represents the City's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability 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 this estimate annually.

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

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. 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 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 plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

City of Salem, Ohio
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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
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	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	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

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.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

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

	<u>State and Local</u>
2015 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2015 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0
Total Employer	<u>14.0 %</u>
Employee	<u>10.0 %</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$319,475 for 2015. Of this amount, \$25,050 is reported as an intergovernmental payable.

City of Salem, Ohio
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Plan Description – Ohio Police & Fire Pension Fund (OPF)

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan administered by OPF. OPF 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. OPF issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OPF fiduciary net position. The report that may be obtained by visiting the OPF 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 OPF may retire and receive a lifetime monthly pension. OPF 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.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OPF 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 and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

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

City of Salem, Ohio
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	Police	Firefighters
2015 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee:		
January 1, 2015 through July 1, 2015	11.50 %	11.50 %
July 2, 2015 through December 31, 2015	12.25 %	12.25 %
 2015 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:		
January 1, 2015 through July 1, 2015	11.50 %	11.50 %
July 2, 2015 through December 31, 2015	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OPF was \$430,900 for 2015. Of this amount \$45,136 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 for OPERS was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF's total pension liability was measured as of December 31, 2014, and was determined by rolling forward the total pension liability as of January 1, 2014, to December 31, 2014. The City's proportion of the net pension liability 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:

	OPERS	OP&F	Total
Proportionate Share of the Net Pension Liability	\$2,514,019	\$5,039,282	\$7,553,301
Proportion of the Net Pension Liability	0.028440%	0.0972756%	
Pension Expense	\$273,461	\$491,559	\$765,020

At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	OPERS	OP&F	Total
Deferred Outflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$134,140	\$217,188	\$351,328
City contributions subsequent to the measurement date	319,475	430,900	750,375
Total Deferred Outflows of Resources	\$453,615	\$648,088	\$1,101,703
Deferred Inflows of Resources			
Differences between expected and actual experience	\$44,166	\$0	\$44,166

\$750,375 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 in the year ending December 31, 2016. 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	OP&F	Total
Year Ending December 31:			
2016	\$13,157	\$54,297	\$67,454
2017	13,157	54,297	67,454
2018	30,126	54,297	84,423
2019	33,534	54,297	87,831
Total	\$89,974	\$217,188	\$307,162

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA	3 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates were 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.

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The most recent experience study was completed for the five year period ended December 31, 2010.

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

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95 percent for 2014.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.31 %
Domestic Equities	19.90	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	19.10	7.40
Other investments	18.00	4.59
Total	<u>100.00 %</u>	<u>5.28 %</u>

Discount Rate The discount rate used to measure the total pension liability was 8 percent. 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 statutorily required rates. 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 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 to Changes in the Discount Rate The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

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	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$4,625,075	\$2,514,019	\$736,002

Actuarial Assumptions – OPF

OPF's total pension liability as of December 31, 2014 is based on the results of an actuarial valuation date of January 1, 2014, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OPF's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2014, are presented below:

Valuation Date	January 1, 2014
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent

Rates of death are 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.

The most recent experience study was completed January 1, 2012.

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 expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF's target asset allocation as of December 31, 2014 are summarized below:

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	- %	(0.25) %
Domestic Equity	16.00	4.47
Non-US Equity	16.00	4.47
Core Fixed Income *	20.00	1.62
Global Inflation Protected *	20.00	1.33
High Yield	15.00	3.39
Real Estate	12.00	3.93
Private Markets	8.00	6.98
Timber	5.00	4.92
Master Limited Partnerships	8.00	7.03
Total	<u>120.00 %</u>	

* levered 2x

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

Discount Rate The total pension liability was calculated using the discount rate of 8.25 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 8.25 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 8.25 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 (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

	1% Decrease	Current	1% Increase
	(7.25%)	Discount Rate (8.25%)	(9.25%)
City's proportionate share of the net pension liability	\$6,970,089	\$5,039,282	\$3,404,475

City of Salem, Ohio
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Note 16 – Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional 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 two cost-sharing, multiple-employer defined benefit postemployment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a health reimbursement arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the traditional pension and combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

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. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. See OPERS' CAFR referenced below for additional information.

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

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 requiring public employers to fund postemployment health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of postemployment health care.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2015, state and local employers contributed at a rate of 14.0 percent of earnable salary. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

OPERS maintains three health care trusts. The two cost-sharing, multiple employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2015. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0 percent for both plans. The 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 to the VEBA for participants in the Member-Directed Plan for 2015 was 4.5 percent.

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Substantially all of the City's contribution allocated to fund postemployment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2015, 2014 and 2013 was \$56,720, \$54,564 and \$25,066, respectively. For 2015, 92.64 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2014 and 2013.

Police and Firemen's Disability and Pension Fund

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

OPF provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check, or is a spouse or eligible dependent child of such person. The health care coverage provided by OPF meets the definition of an Other Postemployment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 45.

The Ohio Revised Code allows, but does not mandate, OPF to provide OPEB benefits. Authority for the OPF 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.

OPF 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 OPF website at www.opf.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 OPF defined benefit pension plan. Participating employers are required by the Ohio Revised Code to contribute to the pension plan at rates expressed as a percentage of payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and firefighters, respectively. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contribution made to the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2014, the employer contribution allocated to the health care plan was .5 percent of covered payroll. The amount of employer contribution allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OPF 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.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2015

The City's contributions to OPF which were allocated to fund postemployment health care benefits for police and firefighters were \$5,580 and \$4,657 for the year ended December 31, 2015, \$5,276 and \$4,395 for the year ended December 31, 2014, and \$35,950 and \$29,666 for the year ended December 31, 2013. For 2015, 89.73 percent has been contributed for police and 89.32 percent has been contributed for firefighters with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2014 and 2013.

Note 17 – 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	\$50,892	Water	\$250,761
Income Tax Capital	85,366	Wastewater	<u>2,631,501</u>
Other Government Funds	<u>291,135</u>		<u>\$2,882,262</u>
Total Governemntal Funds	<u><u>\$427,393</u></u>		
		Agency Funds	<u><u>\$9,479</u></u>

Note 18 – Change in Accounting Principle and Restatement of Net Position

For 2015, the City implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68". GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported at December 31, 2014:

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>
Net Position December 31, 2014	\$17,886,792	\$34,227,430
Adjustments:		
Net Pension Liability	(6,089,107)	(1,105,756)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>575,751</u>	<u>137,993</u>
Restated Net Position December 31, 2014	<u><u>\$12,373,436</u></u>	<u><u>\$33,259,667</u></u>

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2015

	Water	Wastewater	Total Enterprise
Net Position December 31, 2014	\$10,957,926	\$23,269,504	\$34,227,430
Adjustments:			
Net Pension Liability	(516,020)	(589,736)	(1,105,756)
Deferred Outflow - Payments Subsequent to Measurement Date	64,397	73,596	137,993
Restated Net Position December 31, 2014	<u>\$10,506,303</u>	<u>\$22,753,364</u>	<u>\$33,259,667</u>

Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

Note 19 – Subsequent Event

On April 18, 2016, the City issued \$3,200,000 in Industrial Improvement Notes with an interest rate of 1.4 percent and maturity date of April 18, 2017. The notes were issued in anticipation of the issuance of bonds to pay the cost of constructing, reconstructing and installing roadway and street improvements in the City.

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 Two Years (1)

	2014	2013
City's Proportion of the Net Pension Liability	0.020844%	0.020844%
City's Proportionate Share of the Net Pension Liability	\$2,514,019	\$2,457,236
City's Covered-Employee Payroll	\$2,555,433	\$2,389,663
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	98.38%	102.83%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.45%	86.36%

(1) Information prior to 2013 is not available.

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

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 Two Years (1)

	2014	2013
City's Proportion of the Net Pension Liability	0.0972756%	0.0972756%
City's Proportionate Share of the Net Pension Liability	\$5,039,282	\$4,737,627
City's Covered-Employee Payroll	\$1,934,895	\$1,828,582
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	260.44%	259.09%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.20%	73.00%

(1) Information prior to 2013 is not available.

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

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$319,475	\$306,652	\$310,656
Contributions in Relation to the Contractually Required Contribution	<u>(319,475)</u>	<u>(306,652)</u>	<u>(310,656)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered-Employee Payroll	\$2,662,293	\$2,555,433	\$2,389,663
Contributions as a Percentage of Covered-Employee Payroll	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available.

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$430,900	\$407,092	\$327,489	\$265,348
Contributions in Relation to the Contractually Required Contribution	<u>(430,900)</u>	<u>(407,092)</u>	<u>(327,489)</u>	<u>(265,348)</u>
Contribution Deficiency (Excess)	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>
City Covered-Employee Payroll	\$2,047,305	\$1,934,895	\$1,828,582	\$1,799,399
Contributions as a Percentage of Covered-Employee Payroll	21.05%	21.04%	17.91%	14.75%

2011	2010	2009	2008	2007	2006
\$255,073	\$258,492	\$245,393	\$249,520	\$372,207	\$356,063
(255,073)	(258,492)	(245,393)	(249,520)	(372,207)	(356,063)
\$0	\$0	\$0	\$0	\$0	\$0
\$1,723,989	\$1,745,815	\$1,681,829	\$1,706,317	\$2,556,171	\$2,642,120
14.80%	14.81%	14.59%	14.62%	14.56%	13.48%

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Dave Yost • Auditor of State

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

City of Salem
Columbiana County
231 South Broadway Avenue
Salem, Ohio 44460

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salem, Columbiana County, (the City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 12, 2016, wherein we noted the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

August 12, 2016