



Dave Yost • Auditor of State

**CITY OF SALEM
COLUMBIANA COUNTY
DECEMBER 31, 2017**

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COLUMBIANA COUNTY
DECEMBER 31, 2017**

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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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salem, Columbiana County, Ohio, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the 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.

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 10, 2018 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 10, 2018

City of Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2017
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, 2017. 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 2017 are as follows:

- Governmental net position increased in 2017. This increase relates to the increase in capital assets due to current year additions exceeding an additional year of accumulated depreciation. This increase was slightly offset by an increase in current year liabilities and the Net Pension Liability.
- City income tax receipts have been on an upswing over the last several years with the largest increase this year due to the new .25 percent income tax levy that went into effect January 1, 2016 as well as the improving economy. The voters passed the new income tax levy at the November 2015 election. The income tax levy is to be used for transportation purposes. The voters passed the new income tax levy for a 5 year period with 2017 as the first full year of collections on the new income tax levy.
- Total governmental capital assets increased due to several purchases this year including five new City vehicles and infrastructure projects offset by an additional year of accumulated depreciation. The business-type activities capital assets increased due to the completion of the Highland Avenue Water Storage Tank Rehabilitation, the Water Main Replacement and Phase 1 of the Wastewater Treatment Plant Headworks Improvements projects, the purchase of two new vehicles, and a video surveillance system, which was offset by an additional year of accumulated depreciation.
- A review of the enterprise funds reflects an operating income for the water fund and for the wastewater fund. The operating income for the water fund was due to increases in charges for services. 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.

Using this Annual Financial Report

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

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

City of Salem
Management's Discussion and Analysis
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Reporting on the City of Salem as a Whole

While this document contains the large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2017?" 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, street improvement and income tax capital projects funds.

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

City of Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

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

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

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

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

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

The City of Salem as a Whole

The Statement of Net Position provides an overall view of the City. Table 1 shows a summary of the City's net position for 2017 as they compare to 2016.

(Table 1)
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current and Other Assets	\$8,891,011	\$8,511,626	\$15,187,677	\$13,423,890	\$24,078,688	\$21,935,516
Capital Assets, Net	19,380,900	18,761,608	23,197,892	21,531,506	42,578,792	40,293,114
<i>Total Assets</i>	<u>28,271,911</u>	<u>27,273,234</u>	<u>38,385,569</u>	<u>34,955,396</u>	<u>66,657,480</u>	<u>62,228,630</u>
Deferred Outflows of Resources						
Deferred Charge on Refunding Pension	7,570	8,547	0	0	7,570	8,547
	2,188,242	2,451,852	788,326	627,264	2,976,568	3,079,116
<i>Total Deferred Outflows of Resources</i>	<u>\$2,195,812</u>	<u>\$2,460,399</u>	<u>\$788,326</u>	<u>\$627,264</u>	<u>\$2,984,138</u>	<u>\$3,087,663</u>

City of Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

(Table 1)
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Liabilities						
Current Liabilities	\$1,298,549	\$1,366,503	\$175,442	\$310,418	\$1,473,991	\$1,676,921
Long-term Liabilities						
Due within One Year	338,790	524,362	371,999	75,058	710,789	599,420
Due in More than One Year						
Net Pension Liability	8,724,121	8,536,540	2,033,600	1,630,285	10,757,721	10,166,825
Other Amounts	5,416,689	4,746,371	3,249,351	604,654	8,666,040	5,351,025
<i>Total Liabilities</i>	<u>15,778,149</u>	<u>15,173,776</u>	<u>5,830,392</u>	<u>2,620,415</u>	<u>21,608,541</u>	<u>17,794,191</u>
Deferred Inflows of Resources						
Property Taxes	930,490	1,003,217	0	0	930,490	1,003,217
Payments in Lieu of Taxes	103,287	122,605	0	0	103,287	122,605
Pension	240,192	58,235	50,891	38,075	291,083	96,310
<i>Total Deferred Inflows of Resources</i>	<u>1,273,969</u>	<u>1,184,057</u>	<u>50,891</u>	<u>38,075</u>	<u>1,324,860</u>	<u>1,222,132</u>
Net Position						
Net Investment in Capital Assets	14,032,385	13,449,216	19,725,445	21,004,863	33,757,830	34,454,079
Restricted for:						
Capital Projects	1,972,433	1,759,361	0	0	1,972,433	1,759,361
Debt Service	0	82,422	0	0	0	82,422
Streets	494,924	520,810	0	0	494,924	520,810
Parks	186,938	180,790	0	0	186,938	180,790
Law Enforcement	81,162	80,490	0	0	81,162	80,490
Community Environment	168,076	125,115	0	0	168,076	125,115
Other Purposes	56,598	49,055	0	0	56,598	49,055
Unrestricted	(3,576,911)	(2,871,459)	13,567,167	11,919,307	9,990,256	9,047,848
<i>Total Net Position</i>	<u>\$13,415,605</u>	<u>\$13,375,800</u>	<u>\$33,292,612</u>	<u>\$32,924,170</u>	<u>\$46,708,217</u>	<u>\$46,299,970</u>

The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2017 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." 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.

GASB 68 requires the net pension liability to equal 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.

By comparing assets and deferred outflows of resources and liabilities and deferred inflows of resources, one can see the overall position of the City has increased over the prior year. The City had an increase in total assets this year which can be attributed to current year additions exceeding an additional year of depreciation on the City’s capital assets. Current governmental assets increased due to increased cash and cash equivalents. Cash and cash equivalents increased as the City is increasing cash reserves in the capital projects funds. The income tax receivable decreased due to a decrease in expected collections as the results of the new levy become evident now that a whole year of collections has been realized. The City received a bond for the wastewater fund that was used for sanitary sewer improvements. Total liabilities increased this year due to the issuance of the \$3.6 million note as well as the increase in the net pension liability offset by the continued pay-down of outstanding debt issues. Management continues to diligently plan expenses, staying carefully within the City’s revenues in an effort to maintain excellent levels of service within the constraints of the budget.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for the current year. Table 2 shows total revenues, expenses and changes in net position for the fiscal years 2017 and 2016.

City of Salem
Management's Discussion and Analysis
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(Table 2)
Changes in Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Program Revenues						
Charges for Services and Assessments	\$345,194	\$328,523	\$4,933,661	\$4,415,577	\$5,278,855	\$4,744,100
Operating Grants and Contributions	765,820	770,179	1,320	0	767,140	770,179
<i>Total Program Revenues</i>	<u>1,111,014</u>	<u>1,098,702</u>	<u>4,934,981</u>	<u>4,415,577</u>	<u>6,045,995</u>	<u>5,514,279</u>
General Revenues						
Property Taxes	1,016,215	975,609	0	0	1,016,215	975,609
Municipal Income Tax	6,400,697	6,373,597	0	0	6,400,697	6,373,597
Grants and Entitlements not Restricted to Specific Programs	190,290	188,763	0	0	190,290	188,763
Gain on Sale of Capital Assets	4,026	0	0	0	4,026	0
Payments in Lieu of Taxes	73,463	152,429	0	0	73,463	152,429
Interest	78,420	216,657	16,444	13,693	94,864	230,350
Other	680,186	667,877	154,680	157,583	834,866	825,460
<i>Total General Revenues</i>	<u>8,443,297</u>	<u>8,574,932</u>	<u>171,124</u>	<u>171,276</u>	<u>8,614,421</u>	<u>8,746,208</u>
<i>Total Revenues</i>	<u>9,554,311</u>	<u>9,673,634</u>	<u>5,106,105</u>	<u>4,586,853</u>	<u>14,660,416</u>	<u>14,260,487</u>
Program Expenses						
General Government	1,503,570	1,467,429	0	0	1,503,570	1,467,429
Security of Persons and Property	4,660,093	4,596,208	0	0	4,660,093	4,596,208
Public Health Services	134,672	99,292	0	0	134,672	99,292
Transportation	2,460,585	1,237,943	0	0	2,460,585	1,237,943
Community Development	157,615	131,760	0	0	157,615	131,760
Leisure Time Activities	504,607	508,869	0	0	504,607	508,869
Interest and Fiscal Charges	100,241	143,828	0	0	100,241	143,828
Water	0	0	2,168,750	2,119,420	2,168,750	2,119,420
Wastewater	0	0	2,562,036	2,428,400	2,562,036	2,428,400
<i>Total Program Expenses</i>	<u>9,521,383</u>	<u>8,185,329</u>	<u>4,730,786</u>	<u>4,547,820</u>	<u>14,252,169</u>	<u>12,733,149</u>
Transfers	6,877	9,615	(6,877)	(9,615)	0	0
<i>Change in Net Position</i>	<u>39,805</u>	<u>1,497,920</u>	<u>368,442</u>	<u>29,418</u>	<u>408,247</u>	<u>1,527,338</u>
Net Position Beginning of Year	13,375,800	11,877,880	32,924,170	32,894,752	46,299,970	44,772,632
Net Position End of the Year	<u>\$13,415,605</u>	<u>\$13,375,800</u>	<u>\$33,292,612</u>	<u>\$32,924,170</u>	<u>\$46,708,217</u>	<u>\$46,299,970</u>

Governmental Activities

Funding for governmental activities is derived from several sources, the largest of which is the City's municipal income tax. The City's income tax rate is currently 1.25 percent. Residents of the City who work in another community receive a 100 percent credit on income earned outside the City and paid to another municipality.

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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 has been further reduced for 2017. This is a direct result of the planned State budget reduction. The decrease in governmental activities operating grants and contributions was due to fewer grant monies received in the current year. The increase in municipal income tax can be attributed to an increase in collections during 2017 due to the new income tax levy. The increase in other revenue can be attributed to slight increases in grindings from street construction and repair as well as the continued 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.

General government expenses increased over 2016, mainly due to increases in general government, security of persons and property, public health services, transportation and community development expenses.

Business-Type Activities

The City operates two business-type activities, the water and wastewater treatment facilities. These two activities generated operating revenues of \$2,293,039 from water and \$2,796,622 from the wastewater facility. The largest sources of revenue for both water and wastewater treatment facilities in 2017 were charges for services. Water and wastewater expenses for 2017 amounted to \$2,168,750 and \$2,562,036, 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 2017, the City of Salem's governmental funds reported a positive combined ending fund balance. The City's major governmental funds are the general fund, the street improvement capital projects fund and the income tax capital projects fund. Revenues exceeded expenditures for the year in the general fund. The increase in expenditures is due to wage increases during the year of 2 percent as well as continued increases from adding a canine to the police department personnel. The increase in the street improvement capital projects fund can be attributed to the new income tax levy revenue, which has leveled out. The increase in the income tax capital projects fund can be attributed to the increase in income tax levy revenue as well as a decrease 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 \$5,089,661 and total operating expenses of \$4,663,298. If expenses were to exceed revenue and dramatically affect net position, the City has the power to increase revenue through rate increases.

City of Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

General Fund Budgeting Highlights

Budgeting for the operations of the City is done as prescribed by the Ohio Revised Code. Essentially the budget is the City's appropriations, which is restricted by the amounts of the anticipated revenues certified by the County Budget Commission in accordance with the Ohio Revised Code. In 2017, actual revenues for the general fund were more than final estimated revenues due in large part to more than anticipated property tax and income tax collections, fines and forfeitures and interest revenues than originally expected. City Council's actual expenditures were less than final appropriations due to management keeping costs low while still providing the services the citizens expect.

The original revenue and expenditure budget is designed to be very conservative requiring additional spending requests to be approved by Council throughout the year. During the course of 2017, 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 increased. This increase can be attributed to current year additions to capital assets exceeding an additional year of accumulated depreciation being taken. The City purchased three new police cruisers, two trucks for the street department, a splash pad and equipment for the park department and made improvements to street lighting signals, bridges and streets.

Total capital assets for the business-type activities, net of accumulated depreciation increased due to the completion of the Highland Avenue Water Storage Tank Rehabilitation, the Water Main Replacement and Phase 1 of the Wastewater Treatment Plant Headworks Improvements projects, the purchase of two new vehicles, a video surveillance system, 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 11 to the basic financial statements for additional information on capital assets.

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

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$4,606,592	\$4,606,592	\$669,334	\$564,419	\$5,275,926	\$5,171,011
Construction in Progress	0	0	449,621	3,298,854	449,621	3,298,854
Buildings	726,218	775,193	9,632,102	7,004,705	10,358,320	7,779,898
Improvements Other than Buildings	10,292	18,233	3,277	3,942	13,569	22,175
Land Improvements	333,282	344,067	0	0	333,282	344,067
Machinery and Equipment	1,450,753	1,433,366	682,623	248,367	2,133,376	1,681,733
Infrastructure	12,253,763	11,584,157	11,760,935	10,411,219	24,014,698	21,995,376
Total Capital Assets	<u>\$19,380,900</u>	<u>\$18,761,608</u>	<u>\$23,197,892</u>	<u>\$21,531,506</u>	<u>\$42,578,792</u>	<u>\$40,293,114</u>

City of Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

Long-term Obligations

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

(Table 4)

Outstanding Long-term Obligations at Year End

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
General Obligation Bonds	\$1,455,140	\$1,810,923	\$3,000,000	\$0	\$4,455,140	\$1,810,923
OPWC Loans	300,945	313,484	472,447	526,643	773,392	840,127
Infrastructure Improvement Note	3,600,000	2,700,000	0	0	3,600,000	2,700,000
Compensated Absences	399,394	446,326	148,903	153,069	548,297	599,395
Net Pension Liability	8,724,121	8,536,540	2,033,600	1,630,285	10,757,721	10,166,825
Total	\$14,479,600	\$13,807,273	\$5,654,950	\$2,309,997	\$20,134,550	\$16,117,270

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

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

The City of Salem's overall legal debt margin was \$17,796,684 on December 31, 2017. For more information about the City's long-term obligations, see Note 15 to the basic financial statements.

Current Financial Issues

The Administration provided strong fiscal management, holding general operating expenses in check while maintaining City services at a high level in 2017. 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.

Basic Financial Statements

City of Salem, Ohio
Statement of Net Position
December 31, 2017

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$5,352,727	\$13,863,550	\$19,216,277
Accrued Interest Receivable	55,887	0	55,887
Accounts Receivable	21,674	530,293	551,967
Intergovernmental Receivable	405,910	1,320	407,230
Internal Balances	(110,000)	110,000	0
Property Taxes Receivable	970,470	0	970,470
Income Taxes Receivable	1,864,151	0	1,864,151
Special Assessments Receivable	0	258,240	258,240
Materials and Supplies Inventory	206,000	402,841	608,841
Prepaid Items	20,905	21,433	42,338
Payments in Lieu of Taxes Receivable	103,287	0	103,287
Nondepreciable Capital Assets	4,606,592	1,118,955	5,725,547
Depreciable Capital Assets, Net	14,774,308	22,078,937	36,853,245
<i>Total Assets</i>	<u>28,271,911</u>	<u>38,385,569</u>	<u>66,657,480</u>
Deferred Outflows of Resources			
Deferred Charge on Refunding	7,570	0	7,570
Pension	2,188,242	788,326	2,976,568
<i>Total Deferred Outflows of Resources</i>	<u>2,195,812</u>	<u>788,326</u>	<u>2,984,138</u>
Liabilities			
Accounts Payable	98,787	99,393	198,180
Accrued Wages	108,552	33,661	142,213
Contracts Payable	753,884	0	753,884
Intergovernmental Payable	83,763	18,355	102,118
Accrued Interest Payable	44,746	24,033	68,779
Unearned Revenue	208,817	0	208,817
Long-Term Liabilities:			
Due Within One Year	338,790	371,999	710,789
Due In More Than One Year			
Net Pension Liability (See Note 17)	8,724,121	2,033,600	10,757,721
Other Amounts Due in More than One Year	5,416,689	3,249,351	8,666,040
<i>Total Liabilities</i>	<u>15,778,149</u>	<u>5,830,392</u>	<u>21,608,541</u>
Deferred Inflows of Resources			
Property Taxes	930,490	0	930,490
Payments in Lieu of Taxes	103,287	0	103,287
Pension	240,192	50,891	291,083
<i>Total Deferred Inflows of Resources</i>	<u>1,273,969</u>	<u>50,891</u>	<u>1,324,860</u>
Net Position			
Net Investment in Capital Assets	14,032,385	19,725,445	33,757,830
Restricted for:			
Capital Projects	1,972,433	0	1,972,433
Debt Service	0	0	0
Streets	494,924	0	494,924
Parks	186,938	0	186,938
Law Enforcement	81,162	0	81,162
Community Environment	168,076	0	168,076
Other Purposes	56,598	0	56,598
Unrestricted	(3,576,911)	13,567,167	9,990,256
<i>Total Net Position</i>	<u>\$13,415,605</u>	<u>\$33,292,612</u>	<u>\$46,708,217</u>

See accompanying notes to the basic financial statement:

City of Salem, Ohio
Statement of Activities
For the Year Ended December 31, 2017

	Expenses	Program Revenues	
		Charges for Services and Assessments	Operating Grants and Contributions
Governmental Activities:			
General Government	\$1,503,570	\$49,903	\$67,449
Security of Persons and Property	4,660,093	144,103	49,392
Public Health Services	134,672	60,726	4,184
Transportation	2,460,585	742	584,521
Community Development	157,615	63,718	37,623
Leisure Time Activities	504,607	26,002	22,651
Interest and Fiscal Charges	100,241	0	0
<i>Total Governmental Activities</i>	<u>9,521,383</u>	<u>345,194</u>	<u>765,820</u>
Business-Type Activities:			
Water	2,168,750	2,227,949	610
Wastewater	2,562,036	2,705,712	710
<i>Total Business-Type Activities</i>	<u>4,730,786</u>	<u>4,933,661</u>	<u>1,320</u>
<i>Total</i>	<u>\$14,252,169</u>	<u>\$5,278,855</u>	<u>\$767,140</u>

General Revenues

Property Taxes Levied for:

General Purposes

Park

Fire

Police

Income Taxes Levied for:

General Purposes

Debt Service

Capital Projects

Grants and Entitlements not Restricted
to Specific Programs

Payments in Lieu of Taxes

Interest

Gain on Disposal of Capital Assets

Other

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
(\$1,386,218)	\$0	(\$1,386,218)
(4,466,598)	0	(4,466,598)
(69,762)	0	(69,762)
(1,875,322)	0	(1,875,322)
(56,274)	0	(56,274)
(455,954)	0	(455,954)
(100,241)	0	(100,241)
(8,410,369)	0	(8,410,369)
0	59,809	59,809
0	144,386	144,386
0	204,195	204,195
(8,410,369)	204,195	(8,206,174)
558,510	0	558,510
343,665	0	343,665
57,020	0	57,020
57,020	0	57,020
4,266,764	0	4,266,764
198,000	0	198,000
1,935,933	0	1,935,933
190,290	0	190,290
73,463	0	73,463
78,420	16,444	94,864
4,026	0	4,026
680,186	154,680	834,866
8,443,297	171,124	8,614,421
6,877	(6,877)	0
8,450,174	164,247	8,614,421
39,805	368,442	408,247
13,375,800	32,924,170	46,299,970
<u>\$13,415,605</u>	<u>\$33,292,612</u>	<u>\$46,708,217</u>

City of Salem, Ohio

Balance Sheet

Governmental Funds

December 31, 2017

	General	Street Improvement	Income Tax Capital	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and					
Cash Equivalents	\$1,860,941	\$1,720,222	\$852,972	\$910,572	\$5,344,707
Receivables:					
Property Taxes	503,394	0	0	467,076	970,470
Income Taxes	1,530,191	333,960	0	0	1,864,151
Accounts	2,969	0	956	17,749	21,674
Intergovernmental	92,224	0	0	313,686	405,910
Accrued Interest	55,887	0	0	0	55,887
Materials and Supplies Inventory	85,780	0	0	120,220	206,000
Prepaid Items	17,158	0	0	3,747	20,905
Payments in Lieu of Taxes Receivable	0	0	0	103,287	103,287
Restricted Assets:					
Equity in Pooled Cash and					
Cash Equivalents	8,020	0	0	0	8,020
Total Assets	\$4,156,564	\$2,054,182	\$853,928	\$1,936,337	\$9,001,011
Liabilities					
Accounts Payable	\$35,486	\$0	\$35,335	\$27,966	\$98,787
Contracts Payable	0	753,884	0	0	753,884
Accrued Wages	89,992	0	0	18,560	108,552
Intergovernmental Payable	19,811	0	0	63,952	83,763
Interfund Payable	0	0	0	110,000	110,000
Unearned Revenue	17,151	0	146,458	45,208	208,817
Total Liabilities	162,440	753,884	181,793	265,686	1,363,803
Deferred Inflows of Resources					
Property Taxes	482,411	0	0	448,079	930,490
Payments in Lieu of Taxes	0	0	0	103,287	103,287
Unavailable Revenue	1,010,230	182,709	0	225,553	1,418,492
Total Deferred Inflows of Resources	1,492,641	182,709	0	776,919	2,452,269
Fund Balances					
Nonspendable	110,958	0	0	123,967	234,925
Restricted	0	1,117,589	672,135	716,599	2,506,323
Committed	2,838	0	0	168,436	171,274
Assigned	889,303	0	0	0	889,303
Unassigned (Deficit)	1,498,384	0	0	(115,270)	1,383,114
Total Fund Balances	2,501,483	1,117,589	672,135	893,732	5,184,939
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$4,156,564	\$2,054,182	\$853,928	\$1,936,337	\$9,001,011

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, 2017*

Total Governmental Fund Balances	\$5,184,939
 <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.	19,380,900
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	39,980
Income Taxes	1,107,896
Intergovernmental	<u>270,616</u>
Total	1,418,492
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	2,188,242
Deferred Inflows - Pension	(240,192)
Net Pension Liability	<u>(8,724,121)</u>
Total	(6,776,071)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(44,746)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(1,455,140)
OPWC Loans Payable	(300,945)
Compensated Absences	(399,394)
Notes Payable	(3,600,000)
Deferred Charge on Refunding	<u>7,570</u>
Total	<u>(5,747,909)</u>
 <i>Net Position of Governmental Activities</i>	 <u><u>\$13,415,605</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, 2017

	General	Street Improvement	Income Tax Capital	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$559,279	\$0	\$0	\$456,274	\$1,015,553
Municipal Income Taxes	4,437,001	1,308,002	676,983	198,000	6,619,986
Charges for Services	52,309	0	0	51,694	104,003
Fees, Licenses and Permits	111,747	0	0	95,964	207,711
Fines and Forfeitures	31,560	0	0	0	31,560
Intergovernmental	190,871	0	0	745,546	936,417
Interest	73,233	5,187	0	0	78,420
Rentals	1,920	0	0	0	1,920
Contributions and Donations	20,000	0	0	0	20,000
Payments in Lieu of Taxes	0	0	0	73,463	73,463
Other	46,564	0	375,337	258,285	680,186
<i>Total Revenues</i>	<u>5,524,484</u>	<u>1,313,189</u>	<u>1,052,320</u>	<u>1,879,226</u>	<u>9,769,219</u>
Expenditures					
Current:					
General Government	1,239,043	0	0	157,648	1,396,691
Security of Persons and Property	3,631,569	0	0	493,441	4,125,010
Public Health Services	0	0	0	111,711	111,711
Transportation	18,293	0	0	763,433	781,726
Community Development	74,064	0	0	60,617	134,681
Leisure Time Activities	2,921	0	0	433,938	436,859
Capital Outlay	0	2,119,733	347,807	0	2,467,540
Debt Service:					
Principal Retirement	0	2,700,000	0	364,854	3,064,854
Interest and Fiscal Charges	0	37,800	2,071	48,849	88,720
<i>Total Expenditures</i>	<u>4,965,890</u>	<u>4,857,533</u>	<u>349,878</u>	<u>2,434,491</u>	<u>12,607,792</u>
<i>Excess of Revenues</i>					
<i>Over (Under) Expenditures</i>	<u>558,594</u>	<u>(3,544,344)</u>	<u>702,442</u>	<u>(555,265)</u>	<u>(2,838,573)</u>
Other Financing Sources (Uses)					
Sale of Capital Assets	0	0	4,026	0	4,026
General Obligation Notes Issued	0	3,600,000	0	0	3,600,000
Transfers In	24,313	0	0	446,369	470,682
Transfers Out	(446,369)	0	0	(17,436)	(463,805)
<i>Total Other Financing Sources (Uses)</i>	<u>(422,056)</u>	<u>3,600,000</u>	<u>4,026</u>	<u>428,933</u>	<u>3,610,903</u>
<i>Net Change in Fund Balances</i>	136,538	55,656	706,468	(126,332)	772,330
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>2,364,945</u>	<u>1,061,933</u>	<u>(34,333)</u>	<u>1,020,064</u>	<u>4,412,609</u>
<i>Fund Balances End of Year</i>	<u>\$2,501,483</u>	<u>\$1,117,589</u>	<u>\$672,135</u>	<u>\$893,732</u>	<u>\$5,184,939</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, 2017*

Net Change in Fund Balances - Total Governmental Funds	\$772,330
 <i>Amounts reported for governmental activities in the statement of activities are different because</i>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period:	
Capital Asset Additions	1,490,685
Current Year Depreciation	<u>(871,393)</u>
Total	619,292
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Delinquent Property Taxes	662
Income Taxes	(219,289)
Intergovernmental	<u>(307)</u>
Total	(218,934)
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:	3,064,854
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	(14,012)
Amortization of Premium	3,468
Amortization of Loss on Refunding	<u>(977)</u>
Total	(11,521)
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.	46,932
Contractually required contributions are reported as expenditures in governmental funds: however, the statement of net position reports these amounts as deferred outflows.	661,963
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.	(1,295,111)
Other financing sources, such as note proceeds in the governmental funds increase long-term liabilities in the statement of net position.	<u>(3,600,000)</u>
<i>Change in Net Position of Governmental Activities</i>	<u><u>\$39,805</u></u>

See accompanying notes to the basic financial statements

City of Salem, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	\$545,000	\$545,000	\$559,279	\$14,279
Municipal Income Taxes	4,179,844	4,244,844	4,366,328	121,484
Special Assessments	200	200	0	(200)
Charges for Services	58,100	58,100	52,845	(5,255)
Fees, Licenses and Permits	120,450	120,450	111,747	(8,703)
Fines and Forfeitures	21,000	21,000	29,787	8,787
Intergovernmental	196,300	196,300	187,908	(8,392)
Interest	125,000	125,000	169,707	44,707
Rentals	1,920	1,920	1,920	0
Contributions and Donations	0	0	20,000	20,000
Other	51,000	51,000	10,861	(40,139)
<i>Total Revenues</i>	5,298,814	5,363,814	5,510,382	146,568
Expenditures				
Current:				
General Government	1,598,730	1,595,818	1,225,316	370,502
Security of Persons and Property	3,785,373	3,834,578	3,650,374	184,204
Transportation	20,000	20,000	18,293	1,707
Community Development	86,596	85,473	74,254	11,219
Leisure Time Activities	5,000	2,921	2,921	0
<i>Total Expenditures</i>	5,495,699	5,538,790	4,971,158	567,632
<i>Excess of Revenues Over (Under) Expenditures</i>	(196,885)	(174,976)	539,224	714,200
Other Financing Sources (Uses)				
Transfers In	25,000	25,000	24,313	(687)
Transfers Out	(483,910)	(483,910)	(446,369)	37,541
<i>Total Other Financing Sources (Uses)</i>	(458,910)	(458,910)	(422,056)	36,854
<i>Net Change in Fund Balance</i>	(655,795)	(633,886)	117,168	751,054
<i>Fund Balance Beginning of Year</i>	1,698,993	1,698,993	1,698,993	0
Prior Year Encumbrances Appropriated	34,483	34,483	34,483	0
<i>Fund Balance End of Year</i>	\$1,077,681	\$1,099,590	\$1,850,644	\$751,054

See accompanying notes to the basic financial statements

City of Salem, Ohio
Statement of Fund Net Position
Proprietary Funds
December 31, 2017

	Enterprise		
	Water	Wastewater	Total (1)
Assets			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$2,376,360	\$11,487,190	\$13,863,550
Accounts Receivable	288,382	241,911	530,293
Intergovernmental Receivable	610	710	1,320
Special Assessments Receivable	0	258,240	258,240
Materials and Supplies Inventory	380,809	22,032	402,841
Prepaid Items	11,000	10,433	21,433
Interfund Receivable	0	1,410,000	1,410,000
<i>Total Current Assets</i>	<u>3,057,161</u>	<u>13,430,516</u>	<u>16,487,677</u>
<i>Noncurrent Assets:</i>			
Nondepreciable Capital Assets	552,356	566,599	1,118,955
Depreciable Capital Assets, Net	<u>8,710,451</u>	<u>13,368,486</u>	<u>22,078,937</u>
<i>Total Noncurrent Assets</i>	<u>9,262,807</u>	<u>13,935,085</u>	<u>23,197,892</u>
<i>Total Assets</i>	<u>12,319,968</u>	<u>27,365,601</u>	<u>39,685,569</u>
Deferred Outflows of Resources			
Pension	<u>362,624</u>	<u>429,242</u>	<u>788,326</u>
Liabilities			
<i>Current Liabilities:</i>			
Accounts Payable	26,750	72,643	99,393
Accrued Wages	15,368	18,293	33,661
Intergovernmental Payable	8,645	9,710	18,355
Interfund Payable	1,300,000	0	1,300,000
Accrued Interest Payable	0	24,033	24,033
OPWC Loans Payable	54,196	0	54,196
Compensated Absences Payable	8,784	9,019	17,803
General Obligation Bonds Payable	<u>0</u>	<u>300,000</u>	<u>300,000</u>
<i>Total Current Liabilities</i>	<u>1,413,743</u>	<u>433,698</u>	<u>1,847,441</u>
<i>Long-Term Liabilities (net of current portion):</i>			
OPWC Loans Payable	418,251	0	418,251
Compensated Absences Payable	61,075	70,025	131,100
General Obligation Bonds Payable	0	2,700,000	2,700,000
Net Pension Liability	<u>924,364</u>	<u>1,109,236</u>	<u>2,033,600</u>
<i>Total Long-Term Liabilities</i>	<u>1,403,690</u>	<u>3,879,261</u>	<u>5,282,951</u>
<i>Total Liabilities</i>	<u>2,817,433</u>	<u>4,312,959</u>	<u>7,130,392</u>
Deferred Inflows of Resources			
Pension	<u>41,299</u>	<u>13,132</u>	<u>50,891</u>
Net Position			
Net Investment in Capital Assets	5,790,360	13,935,085	19,725,445
Unrestricted	<u>4,033,500</u>	<u>9,533,667</u>	<u>13,567,167</u>
<i>Total Net Position</i>	<u>\$9,823,860</u>	<u>\$23,468,752</u>	<u>\$33,292,612</u>

1) After internal Deferred Outflows and Inflows have been eliminated.

See accompanying notes to the basic financial statements

City of Salem, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2017*

	Enterprise		
	Water	Wastewater	Total
Operating Revenues			
Charges for Services	\$2,227,949	\$2,705,712	\$4,933,661
Intergovernmental	610	710	1,320
Other	64,480	90,200	154,680
<i>Total Operating Revenues</i>	<u>2,293,039</u>	<u>2,796,622</u>	<u>5,089,661</u>
Operating Expenses			
Personal Services	933,154	1,064,213	1,997,367
Materials and Supplies	430,095	331,190	761,285
Contractual Services	415,951	631,960	1,047,911
Depreciation	384,506	466,635	851,141
Other	5,044	550	5,594
<i>Total Operating Expenses</i>	<u>2,168,750</u>	<u>2,494,548</u>	<u>4,663,298</u>
<i>Operating Income (Loss)</i>	<u>124,289</u>	<u>302,074</u>	<u>426,363</u>
Non-Operating Revenue			
Interest	0	16,444	16,444
Interest and Fiscal Charges	0	(67,488)	(67,488)
<i>Total Non-Operating Revenue (Expenses)</i>	<u>0</u>	<u>(51,044)</u>	<u>(51,044)</u>
<i>Income (Loss) before Transfers</i>	124,289	251,030	375,319
Transfers Out	(3,438)	(3,439)	(6,877)
<i>Change in Net Position</i>	120,851	247,591	368,442
<i>Net Position Beginning of Year</i>	<u>9,703,009</u>	<u>23,221,161</u>	<u>32,924,170</u>
<i>Net Position End of Year</i>	<u>\$9,823,860</u>	<u>\$23,468,752</u>	<u>\$33,292,612</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, 2017

	Enterprise		
	Water	Wastewater	Total
<i>Increase in Cash and Cash Equivalents</i>			
Cash Flows from Operating Activities			
Cash Received from Customers	\$2,229,329	\$2,729,847	\$4,959,176
Other Cash Receipts	64,480	90,200	154,680
Cash Payments to Employees for Services	(823,697)	(917,799)	(1,741,496)
Cash Payments for Goods and Services	(839,357)	(1,128,987)	(1,968,344)
Other Cash Payments	(5,044)	(550)	(5,594)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>625,711</u>	<u>772,711</u>	<u>1,398,422</u>
Cash Flows from Noncapital Financing Activities			
Financing Activities			
Interfund Activity	1,300,000	(1,410,000)	(110,000)
Transfers Out	(3,438)	(3,439)	(6,877)
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>1,296,562</u>	<u>(1,413,439)</u>	<u>(116,877)</u>
Cash Flows from Capital and Related Financing Activities			
Proceeds from Sale of Revenue Bonds	0	3,000,000	3,000,000
Interest Paid on Revenue Bonds	0	(43,455)	(43,455)
Payments for Capital Acquisitions	(1,730,174)	(787,353)	(2,517,527)
Principal Paid on OWPC Loans	(54,196)	0	(54,196)
<i>Net Cash Provided by (Used for) Capital and Related Financing Activities</i>	<u>(1,784,370)</u>	<u>2,169,192</u>	<u>384,822</u>
Cash Flows from Investing Activities			
Interest on Investments	0	16,444	16,444
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	137,903	1,544,908	1,682,811
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>2,238,457</u>	<u>9,942,282</u>	<u>12,180,739</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$2,376,360</u>	<u>\$11,487,190</u>	<u>\$13,863,550</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities			
Operating Income (Loss)	<u>\$124,289</u>	<u>\$302,074</u>	<u>\$426,363</u>
Adjustments:			
Depreciation	384,506	466,635	851,141
(Increase) Decrease in Assets:			
Accounts Receivable	1,380	(4,655)	(3,275)
Special Assessments Receivable	0	28,790	28,790
Intergovernmental Receivable	(610)	(710)	(1,320)
Materials and Supplies Inventory	6,671	(44)	6,627
Prepaid Items	(900)	(898)	(1,798)
(Increase) Decrease in Deferred Outflows - Pension	122,696	135,228	257,924
Increase (Decrease) in Liabilities:			
Accounts Payable	(1,040)	(166,730)	(167,770)
Accrued Wages	2,378	3,145	5,523
Compensated Absences Payable	(6,556)	2,390	(4,166)
Intergovernmental Payable	1,525	1,713	3,238
Net Pension Liability	20,692	24,831	45,523
Increase (Decrease) in Deferred Inflows - Pension	(29,320)	(19,058)	(48,378)
<i>Total Adjustments</i>	<u>501,422</u>	<u>470,637</u>	<u>972,059</u>
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>\$625,711</u>	<u>\$772,711</u>	<u>\$1,398,422</u>

See accompanying notes to the basic financial statements

City of Salem, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2017

Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$38,544</u></u>
Liabilities	
Undistributed Monies	<u><u>\$38,544</u></u>

See accompanying notes to the basic financial statements

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

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 12 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, 2017

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.

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

Income Tax 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.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

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

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

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

Fiduciary Funds

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

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

Measurement Focus

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

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

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

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

Basis of Accounting

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 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 17.

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, 2017, but which were levied to finance fiscal year 2018 operations. These amounts have been recorded as a deferred inflow on both the

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

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 17)

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

Cash and Cash Equivalents

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

During 2017, investments were limited to 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 2017 amount to \$73,233, of which \$64,007 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, 2017, 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, 2017

Capital Assets

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

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

Compensated Absences

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

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

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

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

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.

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.

Fund Balance

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

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

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

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

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

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

binding) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by the City Council. In the general fund, assigned amounts represent intended uses established by policies of the Council or a City official delegated that authority by ordinance, or by State Statute. State statute authorizes the City Auditor to assign balance for purchases on order provided such amounts have been lawfully appropriated. City Council assigned fund balance to cover a gap between estimated revenue and appropriations in 2018'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, 2017

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

Internal Activity

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

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

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, 2017

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	Street Improvement	Income Tax Capital	Other Governmental Funds	Total
<i>Nonspendable</i>					
Prepays	\$17,158	\$0	\$0	\$3,747	\$20,905
Inventory	85,780	0	0	120,220	206,000
Unclaimed Monies	8,020	0	0	0	8,020
<i>Total Nonspendable</i>	110,958	0	0	123,967	234,925
<i>Restricted for</i>					
Park Operations	0	0	0	182,221	182,221
Public Safety	0	0	0	159,325	159,325
Community Development	0	0	0	138,771	138,771
Street Maintenance	0	1,117,589	0	217,738	1,335,327
Capital Improvements	0	0	672,135	0	672,135
Debt Service Payments	0	0	0	18,544	18,544
<i>Total Restricted</i>	0	1,117,589	672,135	716,599	2,506,323
<i>Committed to</i>					
Municipal Events	0	0	0	27,775	27,775
Storm Water Study	0	0	0	51,867	51,867
Capital Improvements	0	0	0	52,310	52,310
Health Department	0	0	0	36,484	36,484
Accrued Personal Benefits	2,838	0	0	0	2,838
<i>Total Committed</i>	2,838	0	0	168,436	171,274
<i>Assigned to</i>					
Shade Tree Program	624	0	0	0	624
2018 Appropriations	861,477	0	0	0	861,477
Purchases on Order:					
Personal Services	1,975		0	0	1,975
Materials and Supplies	21,273	0	0	0	21,273
Purchased Services	3,954		0	0	3,954
<i>Total Assigned</i>	889,303	0	0	0	889,303
<i>Unassigned (Deficit)</i>	1,498,384	0	0	(115,270)	1,383,114
<i>Total Fund Balances</i>	\$2,501,483	\$1,117,589	\$672,135	\$893,732	\$5,184,939

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

Note 4 - Accountability

Fund balances at December 31, 2017, included the following individual fund deficits:

	<u>Deficit Fund Balances</u>
<i>Special Revenue Funds:</i>	
Police Pension	\$18,649
Fire Pension	17,002
Brownfield Grant	9,641
<i>Debt Service Fund</i>	
Tax Increment Financing Bond Retirement	69,978

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 tax increment financing bond retirement debt service 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.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

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

Net Change in Fund Balances	General
GAAP Basis	\$136,538
Net Adjustment for Revenue Accruals	(96,667)
Ending GASB 31 Adjustment	37,503
Beginning Unrecorded Cash	65,191
Ending Unrecorded Cash	(20,129)
Net Adjustment for Expenditures Accruals	29,799
Encumbrances	(35,067)
Budget Basis	\$117,168

Note 6 - Deposits and Investments

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

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

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

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

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

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

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

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.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

Investments

Investments are reported at fair value. As of December 31, 2017, the City had the following investments:

Measurement/Investment	Measurement Amount	Maturity	Moody Rating	Percent of Total Investments
Negotiable Certificates of Deposit	<u>\$5,108,140</u>	Less than Five Years	N/A	100.00%

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the City's recurring fair value measurements as of December 31, 2017. All of the City's investments are valued using quoted market prices (Level 1 inputs).

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

Credit Risk The Moody's ratings of the City's investments are listed in the table above. The City 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 Negotiable CDS 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, 2017, 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, 2017

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2017 for real and public utility property taxes represents collections of 2016 taxes.

2017 real property taxes were levied after October 1, 2017, on the assessed value as of January 1, 2017, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2017 real property taxes are collected in and intended to finance 2018.

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. 2017 public utility property taxes which became a lien December 31, 2016, are levied after October 1, 2017, and are collected in 2018 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2017, was \$5.70 per \$1,000 of assessed value. The assessed values of real and public utility tangible property upon which 2017 property tax receipts were based are as follows:

Real Property	\$210,975,710
Public Utility Personal Property	<u>9,526,850</u>
Total	<u><u>\$220,502,560</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, 2017, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2017 operations is offset to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

Income Taxes

The City levies a municipal income tax of 1.25 percent on gross salaries, wages, commissions and other personal service compensation earned by residents of the City and on the earnings of nonresidents working within the City. This tax also applies to the net income of businesses operating within the City. Residents of the City are granted a credit up to the amount owed for taxes paid to other municipalities.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. One percent of the income tax proceeds is received by the general fund, the income tax capital improvement fund, general obligation bond retirement fund and tax increment financing debt service fund. The additional .25 percent income tax will be received by the street improvement capital projects fund for a five year period that started January 1, 2016 and ending December 31, 2020. The new income tax proceeds will be restricted for streets, alleys, sidewalks, curbs and storm sewers.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

Intergovernmental Receivables

A summary of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities	
Gasoline and Municipal Cents per Gallon	\$195,957
Homestead and Rollback	52,241
Local Government	48,135
Motor Vehicle License Tax	45,800
Permissive Tax	42,707
Ohio Attorney General	9,940
Ohio Bureau of Worker's Compensation	3,622
Columbiana County	3,403
Ohio Department of Treasury	2,905
Ohio Department of Public Safety	<u>1,200</u>
Total Governmental Activities	<u><u>\$405,910</u></u>
Business Type Activities	
Ohio Bureau of Worker's Compensation	<u><u>\$1,320</u></u>

Payments in Lieu of Taxes

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

Note 8 – Tax Abatements

As of December 31, 2017, the City of Salem provides tax incentives under the Community Reinvestment Area (CRA).

Real Estate Tax Abatements

In 1981, the City established a Community Reinvestment Area comprised of the Central and Northwest Industrial Area. In 2017, an ordinance was passed that opened up the Community Reinvestment Area to the rest of the City of Salem that had not been covered under the previous resolutions. Under this program, the City of Salem authorizes incentives through passage of public resolutions, based upon each business' investment and job creation commitment. To qualify for abatement, the work must be done in an abated area, a Salem City Zoning Permit must be obtained, a Community Reinvestment Tax Abatement application must be completed and filed with the Zoning Office before December 15th of the year the project is completed. The abatement equals an agreed upon percentage of the additional property tax resulting from the increase in

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

assessed value as a result of the improvements. The amount of the abatement is deducted from the recipient's property tax bill. The establishment of the Community Reinvestment Area gave the City the ability to maintain and expand business located in the City and create new jobs.

Current Tax Abatement Activity

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

Below is the information relevant to the disclosure of those programs for the year ended December 31, 2017.

Tax Abatement Program	Total Amount of Taxes Abated (Incentives Abated) For the year 2017 (In Actual Dollars)
<i>Community Reinvestment Area (CRA)</i>	
- Commercial/Industrial	\$369,800

Note 9 – Other Employee Benefits

Compensated Absences

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

Insurance

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

Life insurance is provided to full-time employees through Lincoln National Life Insurance. 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, 2017

Note 10 - Contingencies

Litigation

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

Grants

The City received financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2017.

Note 11 - Capital Assets

Capital asset activity for the year ended December 31, 2017, was as follows:

	Balance 12/31/2016	Additions	Deductions	Balance 12/31/2017
Governmental Activities				
<i>Capital Assets not being Depreciated:</i>				
Land	\$4,606,592	\$0	\$0	\$4,606,592
<i>Capital Assets being Depreciated:</i>				
Buildings	2,274,772	0	(1,326)	2,273,446
Improvements Other Than Buildings	473,448	0	0	473,448
Land Improvements	639,229	0	0	639,229
Machinery and Equipment	3,983,312	274,571	(83,629)	4,174,254
Infrastructure	26,142,541	1,216,114	0	27,358,655
Total Capital Assets being Depreciated	<u>33,513,302</u>	<u>1,490,685</u>	<u>(84,955)</u>	<u>34,919,032</u>
<i>Less Accumulated Depreciation:</i>				
Buildings	(1,499,579)	(48,975)	1,326	(1,547,228)
Improvements Other Than Buildings	(455,215)	(7,941)	0	(463,156)
Land Improvements	(295,162)	(10,785)	0	(305,947)
Machinery and Equipment	(2,549,946)	(257,184)	83,629	(2,723,501)
Infrastructure	(14,558,384)	(546,508)	0	(15,104,892)
Total Accumulated Depreciation	<u>(19,358,286)</u>	<u>(871,393) *</u>	<u>84,955</u>	<u>(20,144,724)</u>
Total Capital Assets being Depreciated, Net	<u>14,155,016</u>	<u>619,292</u>	<u>0</u>	<u>14,774,308</u>
Governmental Activities Capital Assets, Net	<u>\$18,761,608</u>	<u>\$619,292</u>	<u>\$0</u>	<u>\$19,380,900</u>

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

*Depreciation expense was charged to governmental activities as follows:

General Government	\$16,456
Security of Persons and Property	209,744
Public Health Services	741
Transportation	608,648
Leisure Time Activities	35,804
Total Depreciation Expense	\$871,393

	Balance 12/31/2016	Additions	Deductions	Balance 12/31/2017
Business Type Activities:				
<i>Capital Assets not being Depreciated:</i>				
Land	\$564,419	\$104,915	\$0	\$669,334
Construction in Progress	3,298,854	1,257,720	(4,106,953)	449,621
<i>Total Capital Assets not being Depreciated</i>	3,863,273	1,362,635	(4,106,953)	1,118,955
<i>Capital Assets being Depreciated:</i>				
Buildings	19,062,883	3,064,616	0	22,127,499
Improvements Other Than Buildings	100,073	0	0	100,073
Machinery and Equipment	8,401,745	498,838	(20,370)	8,880,213
Infrastructure	16,287,346	1,698,391	0	17,985,737
Total Capital Assets being Depreciated	43,852,047	5,261,845	(20,370)	49,093,522
<i>Less Accumulated Depreciation:</i>				
Buildings	(12,058,178)	(437,219)	0	(12,495,397)
Improvements Other Than Buildings	(96,131)	(665)	0	(96,796)
Machinery and Equipment	(8,153,378)	(64,582)	20,370	(8,197,590)
Infrastructure	(5,876,127)	(348,675)	0	(6,224,802)
<i>Total Accumulated Depreciation</i>	(26,183,814)	(851,141)	20,370	(27,014,585)
Total Capital Assets being Depreciated, Net	17,668,233	4,410,704	0	22,078,937
Business Type Activities Capital Assets, Net	\$21,531,506	\$5,773,339	(\$4,106,953)	\$23,197,892

Note 12 - 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.

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

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

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 \$119,475 to the Pool in 2017.

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, 2017 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 13 – Interfund Transfers and Balances

Interfund Transfers

Interfund transfers for the year ended December 31, 2017, consisted of the following:

<u>Transfer To</u>	<u>Transfer From</u>					
	General	Other Governmental	Total Governmental	Water	Wastewater	Total
Governmental Funds						
Major Fund:						
General Fund	\$0	\$17,436	\$17,436	\$3,438	\$3,439	\$24,313
Nonmajor Funds:						
Police Pension Fund	165,930	0	165,930	0	0	165,930
Fire Pension Fund	143,530	0	143,530	0	0	143,530
Street Construction						
Maintenance and Repair Fund	100,000	0	100,000	0	0	100,000
Health Fund	36,909	0	36,909	0	0	36,909
Grand Total	<u>\$446,369</u>	<u>\$17,436</u>	<u>\$463,805</u>	<u>\$3,438</u>	<u>\$3,439</u>	<u>\$470,682</u>

The transfers to the police pension, fire pension, street construction maintenance and repair, and health special revenue funds were to move unassigned balances to support programs and projects accounted for in other funds. The park special revenue fund transferred revenue to the general fund to assist with park related projects. The economic development loan and the central business district special revenue funds transferred revenue to the general fund to close out the funds. The water and wastewater enterprise funds 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, 2017

Interfund Balances

The tax increment financing debt service interfund balance of \$110,000 represents a manuscript note that was issued on February 10, 2017 for \$110,000, at 1.00 percent and purchased from the wastewater enterprise fund. This note is due on February 9, 2018 and was used for construction and installation of sanitary sewer improvements. The interfund balance of \$1,300,000 between the water and wastewater enterprise funds represents a manuscript note that was issued on May 30, 2017 at a rate of 1.70 percent. This note is due on May 30, 2018 and was used for waterline improvements.

Note 14 – Note Debt

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

	Balance 12/31/2016	Additions	Reductions	Balance 12/31/2017
Infrastructure Improvement Note, Series 2016	\$500,000	\$0	\$500,000	\$0

In 2016, the City issued \$500,000 in Infrastructure Improvement notes. These notes were issued at an interest rate of 1.4 percent and were retired on April 18, 2017.

The notes are backed by the full faith and credit of the City of Salem and matured within one year. The note liability is reflected in the funds which received the proceeds.

Note 15 - Long-Term Obligations

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

Debt Issue	Interest Rate	Original Issue	Year of Maturity
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
Wastewater System Improvement Bond	2.90	3,000,000	2027
Governmental Activities:			
<i>General Obligation Bonds:</i>			
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>			
East Pershing Street Improvement	0.00	376,179	2042
<i>Long Term Note</i>			
Infrastructure Improvement Note	1.70	3,600,000	2018

City of Salem, Ohio
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For The Year Ended December 31, 2017

A schedule of changes in bonds and other long-term obligations of the City during 2017 follows:

	Amount Outstanding 12/31/2016	Additions	Deletions	Amount Outstanding 12/31/2017	Amounts Due In One Year
Business-Type Activities:					
<i>Ohio Public Works Commission</i>					
Stewart Road Water Tank	\$71,750	\$0	(\$20,500)	\$51,250	\$20,500
Roosevelt Ave Water Tank	454,893	0	(33,696)	421,197	33,696
Total Ohio Public Works Commission	526,643	0	(54,196)	472,447	54,196
Wastewater System Improvement Bond	0	3,000,000	0	3,000,000	300,000
<i>Other Long-term Liabilities:</i>					
Net Pension Liability - OPERS:					
Water	778,091	146,273	0	924,364	0
Sewer	852,194	257,042	0	1,109,236	0
Total Net Pension Liability - OPERS	1,630,285	403,315	0	2,033,600	0
Compensated Absences	153,069	16,696	(20,862)	148,903	17,803
Total Other Long-term Liabilities	1,783,354	420,011	(20,862)	2,182,503	17,803
Total Business-Type Activities Obligations	\$2,309,997	\$3,420,011	(\$75,058)	\$5,654,950	\$371,999
	Amount Outstanding 12/31/2016	Additions	Deletions	Amount Outstanding 12/31/2017	Amounts Due In One Year
Governmental Activities Obligations:					
<i>General Obligation Bonds</i>					
Street Improvement TIF	\$170,000	\$0	(\$170,000)	\$0	\$0
Premium on Street Improvement TIF	3,468	0	(3,468)	0	0
Various Purpose Bonds, Series A	217,024	0	(33,939)	183,085	30,647
Various Purpose Bonds, Series B	30,431	0	(8,178)	22,253	7,854
Various Purpose Refunding Bonds, Series 2014	1,390,000	0	(140,198)	1,249,802	140,000
Total General Obligation Bonds	1,810,923	0	(355,783)	1,455,140	178,501
<i>Ohio Public Works Commission Loan</i>					
East Pershing Street Improvement	313,484	0	(12,539)	300,945	12,539
<i>Other Long-term Liabilities:</i>					
Net Pension Liability					
OPERS	2,074,907	513,314	0	2,588,221	0
OP&F	6,461,633	0	(325,733)	6,135,900	0
Total Net Pension Liability:	8,536,540	513,314	(325,733)	8,724,121	0
Infrastructure Improvement Notes	2,700,000	3,600,000	(2,700,000)	3,600,000	0
Compensated Absences	446,326	117,363	(164,295)	399,394	147,750
Total Governmental Activities Obligations	\$13,807,273	\$4,230,677	(\$3,558,350)	\$14,479,600	\$338,790

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

In 2017, the City issued \$3,600,000 in long term Infrastructure Improvement notes. These notes were issued at an interest rate of 1.7 percent and mature on April 30, 2018.

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In 2016, the City issued \$2,700,000 in long term Infrastructure Improvement notes. These notes were issued at an interest rate of 1.4 percent and matured on April 18, 2017.

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.

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. There is no repayment schedule for the net pension liability. However, employer pension contributions are made from the following funds; the general fund, the police pension, fire pension, street construction maintenance and repair, municipal income tax, health and park special revenue funds, and the water and wastewater funds.

The City has pledged future revenues, net of operating expenses, to repay OPWC loans in the water fund. The debt is payable solely from net revenues and are payable through 2030. Annual principal and interest payments on the debt issues required less than 100 percent of net revenues. The total principal remaining to be paid on the loans is \$472,447. Principal paid for the current year and total net revenues were \$54,196 and \$508,795 respectively.

The City's overall legal debt margin was \$17,796,684 at December 31, 2017. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2017, are as follows:

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Business-Type Activities:

	Wastewater System Improvement Bonds		OPWC
	<u>Principal</u>	<u>Interest</u>	<u>Loans</u>
2018	\$300,000	\$83,675	\$54,196
2019	300,000	74,863	54,196
2020	300,000	66,245	43,946
2021	300,000	57,240	33,696
2022	300,000	48,428	33,696
2023-2027	1,500,000	110,062	168,480
2028-2030	<u>0</u>	<u>0</u>	<u>84,237</u>
Total	<u>\$3,000,000</u>	<u>\$440,513</u>	<u>\$472,447</u>

Governmental Activities:

	General Obligation Bonds		OPWC
	<u>Principal</u>	<u>Interest</u>	<u>Loan</u>
2018	\$178,501	\$36,071	\$12,539
2019	189,499	31,643	12,539
2020	188,612	26,941	12,539
2021	188,106	22,272	12,539
2022	193,969	17,612	12,539
2023-2027	516,453	25,179	62,695
2028-2032	0	0	62,695
2033-2037	0	0	62,699
2038-2041	<u>0</u>	<u>0</u>	<u>50,161</u>
Total	<u>\$1,455,140</u>	<u>\$159,718</u>	<u>\$300,945</u>

Conduit Debt

The City has issued Revenue Bonds to provide financial assistance to the City's hospital facilities. The monies are used primarily for upgrades to these facilities. In addition, the City has issued bonds to provide the necessary funds for the construction of a community recreation center. During 2013, the hospital revenue bonds were refunded. At December 31, 2017, the outstanding bonds have a principal amount outstanding of \$50,840,000. The City is not obligated in any way to pay debt charges on the bonds from any of its funds, and therefore they have been excluded entirely for the City's debt presentation. There has not been any condition of default under the bonds or the related financing documents.

Note 16 - Risk Management

Property and Liability

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2017, the City contracted with the Ohio Municipal League Joint Self-Insurance Pool for various types of insurance as follows:

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Type	Coverage
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
Canine	20,000
Abuse/Molestation	150,000

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

Workers' Compensation

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

Note 17 - Defined Benefit Pension Plans

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.

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

City of Salem, Ohio
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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, including requirements for reduced and unreduced benefits):

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	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.

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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:

	State and Local
2017 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
 2017 Actual Contribution Rates	
Employer:	
Pension	13.0 %
Post-employment Health Care Benefits	1.0
Total Employer	14.0 %
 Employee	 10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$360,870 for 2017. Of this amount, \$29,783 is reported as an intergovernmental payable.

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

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

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

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

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit. (See OP&F CAFR referenced above for additional information, including requirements for Deferred Retirement Option Plan provisions and reduced and unreduced benefits.)

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

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, and members whose pension benefit became effective on or after July 1, 2013, will receive a COLA equal to a percentage of the member's base pension benefit where the percentage is the lesser of three percent or the percentage increase in the consumer price index, if any, over the 12 month period that ends on the thirtieth day of September of the immediately preceding year, rounded to the nearest one-tenth of one percent.

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

	Police	Firefighters
2017 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 2017 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$459,876 for 2017. Of this amount, \$54,376 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, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2016, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. The City's proportion of the net pension

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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:

	<u>OPERS</u>	<u>OP&F</u>	
Proportion of the Net Pension Liability:			
Current Measurement Date	0.020353%	0.0968740%	
Prior Measurement Date	<u>0.021391%</u>	<u>0.1004440%</u>	
Change in Proportionate Share	<u>-0.0010380%</u>	<u>-0.0035700%</u>	
			<u>Total</u>
Proportionate Share of the Net Pension Liability	\$4,621,821	\$6,135,900	\$10,757,721
Pension Expense	\$957,968	\$750,995	\$1,708,963

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$6,265	\$1,736	\$8,001
Changes of assumptions	733,077	0	733,077
Net difference between projected and actual earnings on pension plan investments	688,295	596,689	1,284,984
Changes in proportion and differences between City contributions and proportionate share of contributions	23,445	106,315	129,760
City contributions subsequent to the measurement date	<u>360,870</u>	<u>459,876</u>	<u>820,746</u>
Total Deferred Outflows of Resources	<u>\$1,811,952</u>	<u>\$1,164,616</u>	<u>\$2,976,568</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$27,507	\$14,127	\$41,634
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>88,152</u>	<u>161,297</u>	<u>249,449</u>
Total Deferred Inflows of Resources	<u>\$115,659</u>	<u>\$175,424</u>	<u>\$291,083</u>

\$820,746 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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Year Ending December 31:	OPERS	OP&F	Total
2018	\$555,345	\$220,180	\$775,525
2019	559,198	220,180	779,378
2020	241,056	166,107	407,163
2021	(20,176)	(46,920)	(67,096)
2022	0	(27,104)	(27,104)
Thereafter	0	(3,127)	(3,127)
Total	\$1,335,423	\$529,316	\$1,864,739

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. In 2016, the OPERS' actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0 percent down to 7.5 percent, for the defined benefit investments. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2016, compared with December 31, 2015, are presented below.

	December 31, 2016	December 31, 2015
Wage Inflation	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.05 percent including wage inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	7.5 percent	8 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

For 2016, mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on

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the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

For 2015, 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.

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

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3 percent for 2016.

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 2016 and the long-term expected real rates of return:

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Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.75 %
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other investments	18.00	4.92
Total	100.00 %	5.66 %

Discount Rate The discount rate used to measure the total pension liability for 2016 was 7.5 percent. The discount rate for 2015 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 contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments 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 7.5 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 (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$7,060,863	\$4,621,821	\$2,589,309

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2016, is based on the results of an actuarial valuation date of January 1, 2016, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2016, are presented below:

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Valuation Date	January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016
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
	plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	3.00 percent simple; 2.6 percent simple for increases based on the lesser of the increase in CPI and 3 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 OP&F's target asset allocation as of December 31, 2016, are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	- %	0.00 %
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income *	20.00	2.37
Global Inflation Protected Securities*	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Timber	5.00	6.87
Master Limited Partnerships	8.00	7.36
Total	<u>120.00 %</u>	

Note: Assumptions are geometric.

* levered 2x

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

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

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 (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$8,172,294	\$6,135,900	\$4,410,032

Changes between Measurement Date and Report Date

In October 2017, the OP&F Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of January 1, 2017. The most significant change is a reduction in the discount rate from 8.25 percent to 8 percent. Although the exact amount of these changes is not known, it has the potential to impact to the City's net pension liability.

Note 18 – Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. 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.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

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 to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2017 was 4.0 percent.

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, 2017, 2016, and 2015 was \$58,391, \$56,066, and \$56,720, respectively. For 2017, 92.15 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2016 and 2015.

Ohio Police and Fire Pension Fund

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

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

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

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements 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 OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2017, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contribution to OP&F for the years ended December 31, 2017, 2016, and 2015 were \$470,855, \$451,293, and \$441,136, respectively, of which \$523, \$10,499, and \$10,237, respectively, was allocated to the healthcare plan. For 2017, 88.17 percent has been contributed for both police and firefighters with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2016 and 2015.

Note 19 – Encumbrances

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

Governmental Funds		Proprietary Funds	
General	\$35,067	Water	\$368,284
Other Government Funds	286,231	Wastewater	969,145
Total Governemntal Funds	<u>\$321,298</u>		<u>\$1,337,429</u>
		Agency Funds	<u>\$8,393</u>

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

Note 20 – Change in Accounting Principle

For 2017, the City implemented the Governmental Accounting Standards Board's (GASB) *Implementation Guide No. 2016-1*. These changes were incorporated in the City's 2017 financial statements; however, there was no effect on beginning net position/fund balance.

Note 21 – Subsequent Events

On April 30, 2018, the City's water fund repaid \$200,000 of the manuscript note. The City rolled \$1,100,000 of the manuscript debt between the wastewater enterprise fund and the water enterprise fund at a rate of 2.5 percent. The notes will mature April 30, 2023.

On April 30, 2018, the City repaid \$600,000 of the infrastructure improvement note. The City rolled \$3,000,000 of the infrastructure improvement note at a rate of 2.5 percent. The notes will mature April 30, 2019.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

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

	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.020353%	0.021391%	0.020844%	0.020844%
City's Proportionate Share of the Net Pension Liability	\$4,621,821	\$3,705,192	\$2,514,019	\$2,457,236
City's Covered Payroll	\$2,631,075	\$2,662,293	\$2,555,433	\$2,389,663
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	175.66%	139.17%	98.38%	102.83%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.25%	81.08%	86.45%	86.36%

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

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

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 Four Years (1)

	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.0968740%	0.1004440%	0.0972756%	0.0972756%
City's Proportionate Share of the Net Pension Liability	\$6,135,900	\$6,461,633	\$5,039,282	\$4,737,627
City's Covered Payroll	\$2,099,783	\$2,047,305	\$1,934,895	\$1,828,582
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	292.22%	315.62%	260.44%	259.09%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.36%	66.77%	71.71%	73.00%

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

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$360,870	\$315,729	\$319,475	\$306,652	\$310,656
Contributions in Relation to the Contractually Required Contribution	<u>(360,870)</u>	<u>(315,729)</u>	<u>(319,475)</u>	<u>(306,652)</u>	<u>(310,656)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$2,775,923	\$2,631,075	\$2,662,293	\$2,555,433	\$2,389,663
Contributions as a Percentage of Covered Payroll	13.00%	12.00%	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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$459,876	\$440,794	\$430,900	\$407,092
Contributions in Relation to the Contractually Required Contribution	<u>(459,876)</u>	<u>(440,794)</u>	<u>(430,900)</u>	<u>(407,092)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$2,195,764	\$2,099,783	\$2,047,305	\$1,934,895
Contributions as a Percentage of Covered Payroll	20.94%	20.99%	21.05%	21.04%

2013	2012	2011	2010	2009	2008
\$327,489	\$265,348	\$255,073	\$258,492	\$245,393	\$249,520
(327,489)	(265,348)	(255,073)	(258,492)	(245,393)	(249,520)
\$0	\$0	\$0	\$0	\$0	\$0
\$1,828,582	\$1,799,399	\$1,723,989	\$1,745,815	\$1,681,829	\$1,706,317
17.91%	14.75%	14.80%	14.81%	14.59%	14.62%

City of Salem, Ohio
Notes To The Required Supplementary Information
For The Year Ended December 31, 2017

Changes in Assumptions - OPERS

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

	December 31, 2017	December 31, 2016 and Prior
Wage Inflation	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.05 percent including wage inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	7.5 percent	8 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

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

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



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, 2017, 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 10, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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 10, 2018



Dave Yost • Auditor of State

CITY OF SALEM

COLUMBIANA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
SEPTEMBER, 6 2018