



Dave Yost • Auditor of State



**CITY OF SALEM  
COLUMBIANA COUNTY  
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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the City Council:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salem, Columbiana County, Ohio (the "City"), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salem, Columbiana County, Ohio, as of December 31, 2012, 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.

**Emphasis of Matter**

As discussed in Note 3 to the financial statements, during the year ended December 31, 2012, the City adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

**Other Matters**

*Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2013, 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

October 8, 2013

**City of Salem**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2012*  
*Unaudited*

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The discussion and analysis of the City of Salem's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2012. 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 2012 are as follows:

- City income tax receipts have been on an upswing over the last four years. The 2009 receipts were \$3.7 million, climbed to 4.0 million in 2010, 4.2 million in 2011 and 4.4 million in 2012.
- Total governmental capital assets decreased due to an additional year of depreciation which was offset by the purchase of several pieces of equipment and construction in progress during the year. The City purchased a computer server, an air compressor, street roller and power washer. The business-type activities capital assets decreased due to an additional year of depreciation expense which was offset by the continuation of several wastewater construction projects.
- A review of the enterprise funds reflects operating losses for the wastewater and water fund. The operating loss for the wastewater fund can be attributed to City Council committing a portion of wastewater charges for services to finance a storm water study being mandated by the EPA. The smaller operating loss for the water fund was due to reductions in material and supplies expenses. Rates for all enterprise funds are monitored by the City to maintain the revenue needed to operate these activities.

**Using this Annual Financial Report**

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

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

**Reporting on the City of Salem as a Whole**

While this document contains the large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012?" 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.

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

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

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

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

**Reporting on the Most Significant Funds of the City of Salem**

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

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

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

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

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

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



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

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

**The City of Salem as a Whole**

The Statement of Net Position provides an overall view of the City. Table 1 shows a summary of the City's net position for 2012 as they compare to 2011.

(Table 1)  
*Net Position*

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Assets</b>						
Current and Other Assets	\$7,394,193	\$5,799,665	\$18,647,863	\$18,314,004	26,042,056	\$24,113,669
Capital Assets, Net	16,973,790	17,564,537	16,822,037	17,391,824	33,795,827	34,956,361
<i>Total Assets</i>	<u>24,367,983</u>	<u>23,364,202</u>	<u>35,469,900</u>	<u>35,705,828</u>	<u>59,837,883</u>	<u>59,070,030</u>
<b>Liabilities</b>						
Current Liabilities	2,554,156	1,411,076	239,408	224,171	2,793,564	1,635,247
Long-term Liabilities						
Due within one Year	390,014	361,514	58,964	36,687	448,978	398,201
Due in More than one Year	3,119,825	3,384,970	869,395	910,404	3,989,220	4,295,374
<i>Total Liabilities</i>	<u>6,063,995</u>	<u>5,157,560</u>	<u>1,167,767</u>	<u>1,171,262</u>	<u>7,231,762</u>	<u>6,328,822</u>
<b>Deferred Inflows of Resources</b>						
Property Taxes	973,360	1,070,176	0	0	973,360	1,070,176
Payments in Lieu of Taxes	114,009	85,961	0	0	114,009	85,961
<i>Total Deferred Inflows of Resources</i>	<u>1,087,369</u>	<u>1,156,137</u>	<u>0</u>	<u>0</u>	<u>1,087,369</u>	<u>1,156,137</u>
<b>Net Position</b>						
Net Investment in Capital Assets	12,937,078	13,304,163	16,051,512	16,594,201	28,988,590	29,898,364
Restricted for:						
Capital Projects	508,866	313,240	0	0	508,866	313,240
Streets	354,637	349,330	0	0	354,637	349,330
Parks	291,446	296,907	0	0	291,446	296,907
Law Enforcement	222,359	394,571	0	0	222,359	394,571
Community Environment	600,043	554,266	0	0	600,043	554,266
Other Purposes	48,977	37,458	0	0	48,977	37,458
Unrestricted	2,253,213	1,800,570	18,250,621	17,940,365	20,503,834	19,740,935
<i>Total Net Position</i>	<u>\$17,216,619</u>	<u>\$17,050,505</u>	<u>\$34,302,133</u>	<u>\$34,534,566</u>	<u>\$51,518,752</u>	<u>\$51,585,071</u>

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

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In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for the current year. Table 2 shows total revenues, expenses and changes in net position for the fiscal years 2012 and 2011.

(Table 2)  
*Changes in Net Position*

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
<b>Program Revenues</b>						
Charges for Services and Assessments	\$657,549	\$294,513	\$3,873,000	\$4,369,686	\$4,530,549	\$4,664,199
Operating Grants and Contributions	1,200,551	1,044,156	0	0	1,200,551	1,044,156
Capital Grants and Contributions	68,954	79,341	0	0	68,954	79,341
<i>Total Program Revenues</i>	<u>1,927,054</u>	<u>1,418,010</u>	<u>3,873,000</u>	<u>4,369,686</u>	<u>5,800,054</u>	<u>5,787,696</u>
<b>General Revenues</b>						
Property Taxes	959,646	1,022,506	0	0	959,646	1,022,506
Municipal Income Tax	4,373,510	4,245,821	0	0	4,373,510	4,245,821
Grants and Entitlements not Restricted to Specific Programs	488,477	434,837	0	0	488,477	434,837
Gain on Sale of Capital Assets	2,622	9,026	0	0	2,622	9,026
Payments in Lieu of Taxes	100,411	85,961	0	0	100,411	85,961
Interest	108,514	150,992	0	16,579	108,514	167,571
Other	398,562	116,938	52,987	76,740	451,549	193,678
<i>Total General Revenues</i>	<u>6,431,742</u>	<u>6,066,081</u>	<u>52,987</u>	<u>93,319</u>	<u>6,484,729</u>	<u>6,159,400</u>
<i>Total Revenues</i>	<u>8,358,796</u>	<u>7,484,091</u>	<u>3,925,987</u>	<u>4,463,005</u>	<u>12,284,783</u>	<u>11,947,096</u>
<b>Program Expenses</b>						
General Government	1,375,653	1,328,436	0	0	1,375,653	1,328,436
Security of Persons and Property	3,649,178	3,447,065	0	0	3,649,178	3,447,065
Public Health Services	105,688	113,515	0	0	105,688	113,515
Transportation	1,867,848	1,838,374	0	0	1,867,848	1,838,374
Community Development	575,718	337,489	0	0	575,718	337,489
Leisure Time Activities	477,411	509,663	0	0	477,411	509,663
Interest and Fiscal Charges	141,186	140,361	0	0	141,186	140,361
Water	0	0	1,759,997	1,822,081	1,759,997	1,822,081
Wastewater	0	0	2,398,423	2,398,074	2,398,423	2,398,074
<i>Total Program Expenses</i>	<u>8,192,682</u>	<u>7,714,903</u>	<u>4,158,420</u>	<u>4,220,155</u>	<u>12,351,102</u>	<u>11,935,058</u>
<i>Change in Net Position</i>	166,114	(230,812)	(232,433)	242,850	(66,319)	12,038
Net Position Beginning of Year	17,050,505	17,281,317	34,534,566	34,291,716	51,585,071	51,573,033
Net Position End of the Year	<u>\$17,216,619</u>	<u>\$17,050,505</u>	<u>\$34,302,133</u>	<u>\$34,534,566</u>	<u>\$51,518,752</u>	<u>\$51,585,071</u>

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*Management's Discussion and Analysis*  
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**Governmental Activities**

Funding for governmental activities is derived from several sources, the largest of which is the City's municipal income tax. There was an increase in income tax collections in 2012, mainly due to the recovering economy. The City's income tax rate is currently 1 percent. Residents of the City who work in another community receive a 100 percent credit on income earned outside the City and paid to another municipality.

General revenues from grants and entitlements, such as local government funds, are also revenue generators. The City monitors its source of revenues very closely for fluctuations. Local government funding has slowly been reduced for the past several years and is anticipated to be stagnant in the future. This is a direct result of the planned State budget reduction. Governmental charges for services increased due to City Council committing a portion of wastewater charges from City residents to finance a storm water study which will be paid out of a special revenue fund. The study is being conducted to meet Federal and State Environmental Protection agency requirements. The increase in governmental activities operating grants and contributions was due to the City receiving additional community housing improvement grant monies compared to 2011. The increase in other revenue can be contributed to the recognition of a portion of the oil and gas lease payment the City received during 2012. 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 from 2012, mainly due to wage increases which were offset by increases in the percentages employees pay for benefits and increases in transportation expenses. The largest governmental activities expenses are for the police and fire departments. Effective January 1, 2012 non bargaining employees received a 3 percent pay increase. Effective July 1, 2012, bargaining employees of the City received a 3 percent pay increase. The pay increase was offset by increases in the percentage employees pay toward their pension. Police and fire departments now pay 7 percent of their pension, other bargaining employees pay 7.5 percent and non-bargaining employees pay 5 percent. The transportation department had increases in costs from 2011, due to an increase in spending for the summer street maintenance program. The summer street maintenance program expenses were scaled back in prior years due to lack of funding.

**Business-Type Activities**

The City operates two business-type activities, the water and wastewater treatment facilities. These two activities generated operating revenues of \$1,645,028 from water and \$2,280,959 from the wastewater facility. The largest sources of revenue for both water and wastewater treatment facilities in 2012 were charges for services. Water and wastewater expenses for 2012 amounted to \$1,759,997 and \$2,398,423, respectively. The largest expenses are for payroll and employee benefits for both operations.

**The City's Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year. Information about the City's governmental funds begins on page 14. The funds are accounted for using the modified accrual method of accounting.

As of the end of 2012, the City of Salem's governmental funds reported a positive combined ending fund balance. The City's major governmental funds are the general fund, tax increment financing and the income tax capital projects funds. Revenues exceeded expenditures for the year in the general fund due to an increase in municipal income taxes and other revenue. Other revenue increased due to the receipt of oil and

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gas lease revenue. The revenue increase was offset by an increase in expenditures due to wage increases which was offset by increases the portion employees pay for pension costs. The tax increment financing capital projects fund ended the year with a negative fund balance due to the issuance of short-term notes for road construction. The increase in the income tax capital projects fund can be contributed to a transfer from the general fund to cover street improvements within the City offset by the increase in street maintenance expenditures.

Information about the proprietary funds starts on page 19. These funds are accounted for on an accrual basis.

Enterprise funds are handled in the same manner as governmental funds, with the intent to ensure the strength of these funds. These funds had total operating revenue of \$3,925,987 and total operating expenses of \$4,158,420. If expenses were to exceed revenue and dramatically affect net position, the City has the power to increase revenue through rate increases.

### **General Fund Budgeting Highlights**

Budgeting for the operations of the City is done as prescribed by Ohio Revised Code. Essentially the budget is the City's appropriations, which is restricted by the amounts of the anticipated revenues certified by the Budget Commission in accordance with Ohio Revised Code. In 2012, actual revenues for the general fund were more than final estimated revenues due to more income taxes collections than actually expected as well as the receipt for the oil and gas lease payment. 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 2012, the City amended its general fund budget numerous times, in response to conservative revenue projections being surpassed.

### **Capital Assets and Debt Administration**

#### ***Capital Assets***

Total capital assets for the governmental activities, net of accumulated depreciation decreased. This decrease can be contributed to an additional year of accumulated depreciation being taken. The decrease was partly offset by the purchase of several pieces of equipment for the street department and the police and fire departments. The City also began the Lexington Avenue Drainage Repairs project which is being partly financed through a loan from Ohio Public Works Commission.

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

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$4,586,123	\$4,586,123	\$564,419	\$564,419	\$5,150,542	\$5,150,542
Construction in Progress	89,803	0	680,959	876,071	770,762	876,071
Buildings	969,019	1,021,661	9,081,727	9,523,096	10,050,746	10,544,757
Improvements Other than Buildings	98,775	121,107	10,011	11,009	108,786	132,116
Land Improvements	381,071	391,858	0	0	381,071	391,858
Machinery and Equipment	903,617	877,745	578,097	602,799	1,481,714	1,480,544
Infrastructure	9,945,382	10,566,043	5,906,824	5,814,430	15,852,206	16,380,473
Total Capital Assets	<u>\$16,973,790</u>	<u>\$17,564,537</u>	<u>\$16,822,037</u>	<u>\$17,391,824</u>	<u>\$33,795,827</u>	<u>\$34,956,361</u>

**Long-term Obligations**

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

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds	\$2,552,475	\$2,760,954	\$0	\$0	\$2,552,475	\$2,760,954
OPWC Loans	613,212	636,874	770,525	797,623	1,383,737	1,434,497
Compensated Absences	344,152	348,656	157,834	149,468	501,986	498,124
Total	<u>\$3,509,839</u>	<u>\$3,746,484</u>	<u>\$928,359</u>	<u>\$947,091</u>	<u>\$4,438,198</u>	<u>\$4,693,575</u>

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

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

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

The City of Salem's overall legal debt margin was \$17,916,626 on December 31, 2012. For more information about the City's long-term obligations, see Note 14 to the basic financial statements.

**Current Financial Issues**

The Administration provided strong fiscal management, holding general operating expenses in check while maintaining City services at a high level in 2012. But with decreasing revenues from Federal and State sources and increasing expenses, the City is going to see some tougher times in the coming years.

**City of Salem**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2012*  
*Unaudited*

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

**Contacting the City of Salem's Financial Management**

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

**City of Salem, Ohio**  
*Statement of Net Position*  
*December 31, 2012*

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$4,023,964	\$17,407,144	\$21,431,108
Accrued Interest Receivable	25,651	0	25,651
Accounts Receivable	23,370	508,927	532,297
Intergovernmental Receivable	1,126,518	0	1,126,518
Property Taxes Receivable	1,147,679	0	1,147,679
Income Taxes Receivable	794,829	0	794,829
Special Assessments Receivable	0	255,897	255,897
Materials and Supplies Inventory	120,608	459,438	580,046
Prepaid Items	17,565	16,457	34,022
Payments in Lieu of Taxes Receivable	114,009	0	114,009
Nondepreciable Capital Assets	4,675,926	1,245,378	5,921,304
Depreciable Capital Assets, Net	12,297,864	15,576,659	27,874,523
<i>Total Assets</i>	<u>24,367,983</u>	<u>35,469,900</u>	<u>59,837,883</u>
<b>Liabilities</b>			
Accounts Payable	66,068	140,309	206,377
Accrued Wages	147,891	51,993	199,884
Intergovernmental Payable	241,982	47,106	289,088
Matured Compensated Absences Payable	4,014	0	4,014
Accrued Interest Payable	13,990	0	13,990
Notes Payable	953,500	0	953,500
Unearned Revenue	1,126,711	0	1,126,711
Long-Term Liabilities:			
Due Within One Year	390,014	58,964	448,978
Due In More Than One Year	3,119,825	869,395	3,989,220
<i>Total Liabilities</i>	<u>6,063,995</u>	<u>1,167,767</u>	<u>7,231,762</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	973,360	0	973,360
Payments in Lieu of Taxes	114,009	0	114,009
<i>Total Deferred Inflows of Resources</i>	<u>1,087,369</u>	<u>0</u>	<u>1,087,369</u>
<b>Net Position</b>			
Net Investment in Capital Assets	12,937,078	16,051,512	28,988,590
Restricted for:			
Capital Projects	508,866	0	508,866
Streets	354,637	0	354,637
Parks	291,446	0	291,446
Law Enforcement	222,359	0	222,359
Community Environment	600,043	0	600,043
Other Purposes	48,977	0	48,977
Unrestricted	2,253,213	18,250,621	20,503,834
<i>Total Net Position</i>	<u>\$17,216,619</u>	<u>\$34,302,133</u>	<u>\$51,518,752</u>

See accompanying notes to the basic financial statements

**City of Salem, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2012

	Program Revenues			
	Expenses	Charges for Services and Assessments	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
General Government	\$1,375,653	\$387,358	\$0	\$0
Security of Persons and Property	3,649,178	184,627	84,015	0
Public Health Services	105,688	43,340	3,430	0
Transportation	1,867,848	947	575,053	68,954
Community Development	575,718	7,163	498,999	0
Leisure Time Activities	477,411	34,114	39,054	0
Interest and Fiscal Charges	141,186	0	0	0
<i>Total Governmental Activities</i>	<u>8,192,682</u>	<u>657,549</u>	<u>1,200,551</u>	<u>68,954</u>
<b>Business-Type Activities:</b>				
Water	1,759,997	1,599,605	0	0
Wastewater	2,398,423	2,273,395	0	0
<i>Total Business-Type Activities</i>	<u>4,158,420</u>	<u>3,873,000</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u><u>\$12,351,102</u></u>	<u><u>\$4,530,549</u></u>	<u><u>\$1,200,551</u></u>	<u><u>\$68,954</u></u>

**General Revenues**

Property Taxes Levied for:

General Purposes

Park

Fire

Police

Income Taxes Levied for:

General Purposes

Debt Service

Capital Projects

Grants and Entitlements not Restricted  
to Specific Programs

Gain on Sale of Capital Asset

Payment in Lieu of Taxes

Interest

Other

*Total General Revenues*

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
(\$988,295)	\$0	(\$988,295)
(3,380,536)	0	(3,380,536)
(58,918)	0	(58,918)
(1,222,894)	0	(1,222,894)
(69,556)	0	(69,556)
(404,243)	0	(404,243)
(141,186)	0	(141,186)
<u>(6,265,628)</u>	<u>0</u>	<u>(6,265,628)</u>
0	(160,392)	(160,392)
<u>0</u>	<u>(125,028)</u>	<u>(125,028)</u>
<u>0</u>	<u>(285,420)</u>	<u>(285,420)</u>
<u>(6,265,628)</u>	<u>(285,420)</u>	<u>(6,551,048)</u>
531,664	0	531,664
301,830	0	301,830
63,076	0	63,076
63,076	0	63,076
3,723,723	0	3,723,723
288,934	0	288,934
360,853	0	360,853
488,477	0	488,477
2,622	0	2,622
100,411	0	100,411
108,514	0	108,514
398,562	52,987	451,549
<u>6,431,742</u>	<u>52,987</u>	<u>6,484,729</u>
166,114	(232,433)	(66,319)
<u>17,050,505</u>	<u>34,534,566</u>	<u>51,585,071</u>
<u>\$17,216,619</u>	<u>\$34,302,133</u>	<u>\$51,518,752</u>

**City of Salem, Ohio**  
*Balance Sheet*  
*Governmental Funds*  
*December 31, 2012*

	General	Tax Increment Financing	Income Tax Capital	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$2,650,014	\$0	\$374,065	\$998,455	\$4,022,534
Receivables:					
Property Taxes	672,133	0	0	475,546	1,147,679
Income Taxes	794,829	0	0	0	794,829
Accounts	23,370	0	0	0	23,370
Intergovernmental	159,151	0	0	967,367	1,126,518
Accrued Interest	25,651	0	0	0	25,651
Interfund Receivable	0	0	0	7,891	7,891
Materials and Supplies Inventory	83,379	0	0	37,229	120,608
Prepaid Items	16,336	0	0	1,229	17,565
Payments in Lieu of Taxes Receivable	0	0	0	114,009	114,009
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	1,430	0	0	0	1,430
<b>Total Assets</b>	<b>\$4,426,293</b>	<b>\$0</b>	<b>\$374,065</b>	<b>\$2,601,726</b>	<b>\$7,402,084</b>
<b>Liabilities</b>					
Accounts Payable	\$19,774	\$0	\$1,564	\$44,730	\$66,068
Accrued Wages	113,737	0	0	34,154	147,891
Intergovernmental Payable	97,234	0	0	144,748	241,982
Interfund Payable	0	0	0	7,891	7,891
Matured Compensated Absences Payable	4,014	0	0	0	4,014
Accrued Interest Payable	0	4,186	0	0	4,186
Unearned Revenue	1,126,711	0	0	0	1,126,711
Notes Payable	0	953,500	0	0	953,500
<b>Total Liabilities</b>	<b>1,361,470</b>	<b>957,686</b>	<b>1,564</b>	<b>231,523</b>	<b>2,552,243</b>
<b>Deferred Inflows of Resources</b>					
Property Taxes	577,768	0	0	395,592	973,360
Payments in Lieu of Taxes	0	0	0	114,009	114,009
Unavailable Revenue	413,252	0	0	914,171	1,327,423
<b>Total Deferred Inflows of Resources</b>	<b>991,020</b>	<b>0</b>	<b>0</b>	<b>1,423,772</b>	<b>2,414,792</b>
<b>Fund Balances</b>					
Nonspendable	101,145	0	0	38,458	139,603
Restricted	0	0	372,501	639,954	1,012,455
Committed	3,050	0	0	401,069	404,119
Assigned	2,929	0	0	0	2,929
Unassigned (Deficit)	1,966,679	(957,686)	0	(133,050)	875,943
<b>Total Fund Balances (Deficit)</b>	<b>2,073,803</b>	<b>(957,686)</b>	<b>372,501</b>	<b>946,431</b>	<b>2,435,049</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$4,426,293</b>	<b>\$0</b>	<b>\$374,065</b>	<b>\$2,601,726</b>	<b>\$7,402,084</b>

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, 2012*

<b>Total Governmental Fund Balances</b>	<b>\$2,435,049</b>
 <i>Amounts reported for governmental activities in the statement of net position are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	16,973,790
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	174,319
Income Taxes	227,716
Intergovernmental	<u>925,388</u>
Total	1,327,423
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(9,804)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
OPWC Loans Payable	(613,212)
General Obligation Bonds	(2,552,475)
Compensated Absences	<u>(344,152)</u>
Total	<u>(3,509,839)</u>
<i>Net Position of Governmental Activities</i>	<u><u>\$17,216,619</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, 2012*

	General	Tax Increment Financing	Income Tax Capital	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property Taxes	\$517,618	\$0	\$0	\$423,787	\$941,405
Municipal Income Taxes	3,718,930	21,810	339,043	288,934	4,368,717
Special Assessments	7,545	0	0	0	7,545
Charges for Services	66,770	0	0	355,298	422,068
Fees, Licenses and Permits	186,144	0	0	18,904	205,048
Fines and Forfeitures	12,078	0	0	1,873	13,951
Intergovernmental	512,934	0	68,954	1,223,313	1,805,201
Interest	108,483	0	0	31	108,514
Rentals	0	0	0	8,937	8,937
Payments in Lieu of Taxes	0	0	0	100,411	100,411
Other	252,341	0	50,082	96,139	398,562
<i>Total Revenues</i>	<u>5,382,843</u>	<u>21,810</u>	<u>458,079</u>	<u>2,517,627</u>	<u>8,380,359</u>
<b>Expenditures</b>					
Current:					
General Government	1,297,727	0	0	72,215	1,369,942
Security of Persons and Property	2,870,122	0	0	640,368	3,510,490
Public Health Services	668	0	0	105,249	105,917
Transportation	16,685	0	0	638,820	655,505
Community Development	108,617	0	0	462,840	571,457
Leisure Time Activities	2,922	0	0	426,297	429,219
Capital Outlay	0	13,936	787,868	23,800	825,604
Debt Service:					
Principal Retirement	0	0	0	223,662	223,662
Interest and Fiscal Charges	0	20,487	0	129,844	150,331
<i>Total Expenditures</i>	<u>4,296,741</u>	<u>34,423</u>	<u>787,868</u>	<u>2,723,095</u>	<u>7,842,127</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,086,102</u>	<u>(12,613)</u>	<u>(329,789)</u>	<u>(205,468)</u>	<u>538,232</u>
<b>Other Financing Sources (Uses)</b>					
Sale of Capital Assets	0	0	1,657	3,846	5,503
Transfers In	0	0	400,000	323,532	723,532
Transfers Out	(723,532)	0	0	0	(723,532)
<i>Total Other Financing Sources (Uses)</i>	<u>(723,532)</u>	<u>0</u>	<u>401,657</u>	<u>327,378</u>	<u>5,503</u>
<i>Net Change in Fund Balances</i>	362,570	(12,613)	71,868	121,910	543,735
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>1,711,233</u>	<u>(945,073)</u>	<u>300,633</u>	<u>824,521</u>	<u>1,891,314</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$2,073,803</u>	<u>(\$957,686)</u>	<u>\$372,501</u>	<u>\$946,431</u>	<u>\$2,435,049</u>

See accompanying notes to the basic financial statement

**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, 2012*

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**Net Change in Fund Balances - Total Governmental Funds** \$543,735

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

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

Capital Asset Additions	308,539
Current Year Depreciation	<u>(896,405)</u>

Total (587,866)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities of activities, a gain or loss is reported for each disposal. (2,881)

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

Delinquent Property Taxes	18,241
Income Taxes	4,793
Intergovernmental	<u>(47,219)</u>

Total (24,185)

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. 223,662

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	666
Amortization of Premium	<u>8,479</u>

Total 9,145

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. 4,504

*Change in Net Position of Governmental Activities* \$166,114

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, 2012*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$538,356	\$557,007	\$517,618	(\$39,389)
Municipal Income Taxes	3,413,533	3,474,130	3,690,377	216,247
Special Assessments	1,934	2,000	7,545	5,545
Charges for Services	60,891	63,000	66,263	3,263
Fees, Licenses and Permits	137,245	142,000	186,144	44,144
Fines and Forfeitures	17,397	18,000	12,618	(5,382)
Intergovernmental	286,500	296,425	492,364	195,939
Interest	102,121	105,659	102,314	(3,345)
Other	16,164	16,184	1,381,276	1,365,092
<i>Total Revenues</i>	4,574,141	4,674,405	6,456,519	1,782,114
<b>Expenditures</b>				
Current:				
General Government	1,488,070	1,500,018	1,332,576	167,442
Security of Persons and Property	2,825,208	2,891,928	2,808,830	83,098
Public Health Services	668	668	668	0
Transportation	14,116	17,416	17,416	0
Community Development	114,075	120,041	111,397	8,644
Leisure Time Activities	2,930	2,930	2,922	8
<i>Total Expenditures</i>	4,445,067	4,533,001	4,273,809	259,192
<i>Excess of Revenues Over Expenditures</i>	129,074	141,404	2,182,710	2,041,306
<b>Other Financing Sources (Uses)</b>				
Advances In	19,330	20,000	18,604	(1,396)
Advances Out	(20,728)	(20,728)	(7,585)	13,143
Transfers Out	(813,767)	(844,879)	(723,532)	121,347
<i>Total Other Financing Sources (Uses)</i>	(815,165)	(845,607)	(712,513)	133,094
<i>Net Change in Fund Balance</i>	(686,091)	(704,203)	1,470,197	2,174,400
<i>Fund Balance Beginning of Year</i>	1,096,561	1,096,561	1,096,561	0
Prior Year Encumbrances Appropriated	69,789	69,789	69,789	0
<i>Fund Balance End of Year</i>	\$480,259	\$462,147	\$2,636,547	\$2,174,400

See accompanying notes to the basic financial statements

**City of Salem, Ohio**  
*Statement of Fund Net Position*  
*Proprietary Funds*  
*December 31, 2012*

	Enterprise		
	Water	Wastewater	Total
<b>Assets</b>			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$3,464,307	\$13,942,837	\$17,407,144
Accounts Receivable	229,917	279,010	508,927
Special Assessments Receivable	0	255,897	255,897
Materials and Supplies Inventory	421,119	38,319	459,438
Prepaid Items	8,750	7,707	16,457
<i>Total Current Assets</i>	<u>4,124,093</u>	<u>14,523,770</u>	<u>18,647,863</u>
<i>Noncurrent Assets:</i>			
Nondepreciable Capital Assets	528,786	716,592	1,245,378
Depreciable Capital Assets, Net	8,052,168	7,524,491	15,576,659
<i>Total Noncurrent Assets</i>	<u>8,580,954</u>	<u>8,241,083</u>	<u>16,822,037</u>
<i>Total Assets</i>	<u>12,705,047</u>	<u>22,764,853</u>	<u>35,469,900</u>
<b>Liabilities</b>			
<i>Current Liabilities:</i>			
Accounts Payable	17,183	123,126	140,309
Accrued Wages	23,457	28,536	51,993
Intergovernmental Payable	21,267	25,839	47,106
Compensated Absences Payable	2,985	1,783	4,768
OPWC Loans Payable	54,196	0	54,196
<i>Total Current Liabilities</i>	<u>119,088</u>	<u>179,284</u>	<u>298,372</u>
<i>Long-Term Liabilities (net of current portion):</i>			
Compensated Absences Payable	84,494	68,572	153,066
OPWC Loans Payable	716,329	0	716,329
<i>Total Long-Term Liabilities</i>	<u>800,823</u>	<u>68,572</u>	<u>869,395</u>
<i>Total Liabilities</i>	<u>919,911</u>	<u>247,856</u>	<u>1,167,767</u>
<b>Net Position</b>			
Net Investment in Capital Assets	7,810,429	8,241,083	16,051,512
Unrestricted	3,974,707	14,275,914	18,250,621
<i>Total Net Position</i>	<u>\$11,785,136</u>	<u>\$22,516,997</u>	<u>\$34,302,133</u>

See accompanying notes to the basic financial statements

**City of Salem, Ohio**  
*Statement of Revenues,  
Expenses and Changes in Fund Net Position  
Proprietary Funds  
For the Year Ended December 31, 2012*

	Enterprise		
	Water	Wastewater	Total
<b>Operating Revenues</b>			
Charges for Services	\$1,599,605	\$2,273,395	\$3,873,000
Other	45,423	7,564	52,987
<i>Total Operating Revenues</i>	<u>1,645,028</u>	<u>2,280,959</u>	<u>3,925,987</u>
<b>Operating Expenses</b>			
Personal Services	837,220	891,772	1,728,992
Materials and Supplies	200,247	282,293	482,540
Contractual Services	321,987	889,028	1,211,015
Depreciation	397,744	334,817	732,561
Other	2,799	513	3,312
<i>Total Operating Expenses</i>	<u>1,759,997</u>	<u>2,398,423</u>	<u>4,158,420</u>
<i>Change in Net Position</i>	(114,969)	(117,464)	(232,433)
<i>Net Position Beginning of Year</i>	<u>11,900,105</u>	<u>22,634,461</u>	<u>34,534,566</u>
<i>Net Position End of Year</i>	<u>\$11,785,136</u>	<u>\$22,516,997</u>	<u>\$34,302,133</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, 2012

	Enterprise		
	Water	Wastewater	Total
<b><i>Increase in Cash and Cash Equivalents</i></b>			
<b>Cash Flows from Operating Activities</b>			
Cash Received from Customers	\$1,589,654	\$2,290,692	\$3,880,346
Other Cash Receipts	45,423	7,564	52,987
Cash Payments to Employees for Services	(814,056)	(908,248)	(1,722,304)
Cash Payments for Goods and Services	(730,221)	(1,131,129)	(1,861,350)
Other Cash Payments	(2,799)	(513)	(3,312)
<i>Net Cash Provided by Operating Activities</i>	<u>88,001</u>	<u>258,366</u>	<u>346,367</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Payments for Capital Acquisitions	(14,988)	(147,786)	(162,774)
Principal Paid on OWPC Loans	(27,098)	0	(27,098)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(42,086)</u>	<u>(147,786)</u>	<u>(189,872)</u>
<i>Net Increase in Cash and Cash Equivalents</i>	45,915	110,580	156,495
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>3,418,392</u>	<u>13,832,257</u>	<u>17,250,649</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$3,464,307</u>	<u>\$13,942,837</u>	<u>\$17,407,144</u>
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>			
Operating Loss	<u>(\$114,969)</u>	<u>(\$117,464)</u>	<u>(\$232,433)</u>
Adjustments:			
Depreciation	397,744	334,817	732,561
<i>(Increase) Decrease in Assets:</i>			
Accounts Receivable	(9,951)	1,415	(8,536)
Special Assessments Receivable	0	15,882	15,882
Materials and Supplies Inventory	(178,990)	(5,396)	(184,386)
Prepaid Items	(161)	(163)	(324)
<i>Increase (Decrease) in Liabilities:</i>			
Accounts Payable	(28,783)	45,751	16,968
Accrued Wages	6,738	5,838	12,576
Compensated Absences Payable	21,541	(13,175)	8,366
Intergovernmental Payable	(5,168)	(9,139)	(14,307)
<i>Total Adjustments</i>	<u>202,970</u>	<u>375,830</u>	<u>578,800</u>
<i>Net Cash Provided by Operating Activities</i>	<u>\$88,001</u>	<u>\$258,366</u>	<u>\$346,367</u>

See accompanying notes to the basic financial statements

**City of Salem, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*December 31, 2012*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$44,210</u>
<b>Liabilities</b>	
Undistributed Monies	<u>\$44,210</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, 2012*

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**Note 1 – Description of the City and Reporting Entity**

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

***Reporting Entity***

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

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

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

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

**Note 2 – Summary of Significant Accounting Policies**

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

***Basis of Presentation***

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

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

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

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

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

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

***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.

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*Notes to the Basic Financial Statements*  
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**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, 2012*

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***Basis of Accounting***

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

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

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

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

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

***Deferred Outflows/Inflows of Resources*** In addition to assets, the statements of 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.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance year 2013 operations. The amounts have been recorded as deferred inflow on both the government-wide statement of net position and the government fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes and

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

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

***Cash and Cash Equivalents***

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

During 2012, investments were limited to STAR Ohio, federal home loan bank bonds, US treasury notes and federal farm credit bank bonds.

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

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share which is the price the investment could be sold at December 31, 2012.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2012 amount to \$108,483, of which \$95,058 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, 2012, 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**  
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***Capital Assets***

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

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

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

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

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

***Interfund Balances***

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

***Compensated Absences***

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

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



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*Notes to the Basic Financial Statements*  
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receiving payment in the future. The amount is based on accumulated sick leave and employee's wage rates at year end, taking into consideration any limits in the City's termination policy. The City records a liability for accumulated unused sick leave for all employees after five years of service.

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

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

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

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

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

***Fund Balance***

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

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

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

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

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

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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.

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

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

***Operating Revenues and Expenses***

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

***Bond Premiums***

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

***Internal Activity***

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Internal events that are allocations of overhead expenses

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

**Note 3 - Change in Accounting Principle**

For 2012, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements," Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements," Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53," Statement No. 65, "Items Previously Reported as Assets and Liabilities," and Statement No. 66 "Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62."

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GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The implementation of this statement did not result in any changes in the City's financial statements.

GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related not disclosures. These changes were incorporated in the City's 2012 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the City's 2012 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of this statement did not result in any change in the City's financial statements.

**Note 4 - Fund Balances**

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

Fund Balances	General	Tax Increment Financing	Income Tax Capital	Other Governmental Funds	Total
<b><i>Nonspendable</i></b>					
Prepays	\$16,336	\$0	\$0	\$1,229	\$17,565
Inventory	83,379	0	0	37,229	120,608
Unclaimed Monies	1,430	0	0	0	1,430
<b><i>Total Nonspendable</i></b>	<b>101,145</b>	<b>0</b>	<b>0</b>	<b>38,458</b>	<b>139,603</b>
<b><i>Restricted for</i></b>					
Park Operations	0	0	0	228,628	228,628
Public Safety	0	0	0	127,100	127,100
Community Development	0	0	0	87,856	87,856
Street Maintenance	0	0	0	157,588	157,588
Capital Improvements	0	0	372,501	0	372,501
Debt Service Payments	0	0	0	38,782	38,782
<b><i>Total Restricted</i></b>	<b>\$0</b>	<b>\$0</b>	<b>\$372,501</b>	<b>\$639,954</b>	<b>\$1,012,455</b>

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Fund Balances	General	Tax Increment Financing	Income Tax Capital	Other Governmental Funds	Total
<i>Committed to</i>					
Municipal Events	\$0	\$0	\$0	\$31,234	\$31,234
Storm Water Study	0	0	0	233,470	233,470
Capital Improvements	0	0	0	136,365	136,365
Accrued Personal Benefits	3,050	0	0	0	3,050
<i>Total Committed</i>	<u>3,050</u>	<u>0</u>	<u>0</u>	<u>401,069</u>	<u>404,119</u>
<i>Assigned to</i>					
Shade Tree Program	1	0	0	0	1
Purchases on Order	2,928	0	0	0	2,928
<i>Total Assigned</i>	<u>2,929</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,929</u>
<i>Unassigned (Deficit)</i>	<u>1,966,679</u>	<u>(957,686)</u>	<u>0</u>	<u>(133,050)</u>	<u>875,943</u>
<i>Total Fund Balances (Deficit)</i>	<u>\$2,073,803</u>	<u>(\$957,686)</u>	<u>\$372,501</u>	<u>\$946,431</u>	<u>\$2,435,049</u>

**Note 5 - Accountability**

Fund balances at December 31, 2012, included the following individual fund deficits:

<i>Major Fund:</i>	
Tax increment Financing	\$957,686
<i>Special Revenue Funds:</i>	
Police Pension	65,729
Fire Pension	62,781
Health Department	4,540

The tax increment financing capital projects fund deficit is the result of the issuance of short-term bond anticipation notes which are used to finance the project until bonds are issued. Once the notes are retired or bonds are issued, the deficit will be eliminated.

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

**Note 6 - Budgetary Basis of Accounting**

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).

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3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unrecorded cash represents amounts received but not reported by the City on the operating statements (budget), but which is reported on the GAAP basis operating statement.
5. Advances-in and Advances-out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
6. Budgetary revenues and expenditures for the shade tree fund is classified to the general fund for GAAP reporting.

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

Net Change in Fund Balances	
	General
GAAP Basis	\$362,570
Net Adjustment for Revenue Accruals	1,073,706
Beginning Unrecorded Cash	288
Ending Unrecorded Cash	(318)
Advance In	18,604
Net Adjustment for Expenditures Accruals	37,439
Excess of Revenues Under Expenditures	
Shade Tree	71
Advance Out	(7,585)
Encumbrances	(14,578)
Budget Basis	\$1,470,197

**Note 7 - Deposits and Investments**

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

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

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

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

**City of Salem, Ohio**  
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Interim monies held by the City can be deposited or invested in the following securities:

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

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.

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**Deposits**

**Custodial Credit Risk** Custodial credit risk for deposits is the risk that, in the event of failure of the counterparty, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$9,315,312 of the City's bank balance of \$17,609,582 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

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

**Investments**

Investments are reported at fair value. As of December 31, 2012, the City had the following investments:

	Fair Value	Maturity	Moody Rating	Percent of Total Investments
STAR Ohio	\$1,352,174	Average of 55 Days	NA	NA
Federal Home Loan Bank Bonds	1,257,138	Less than One Year	Aaa	30.59%
US Treasury Notes	1,001,758	More than One Year	Aaa	24.37%
Federal Farm Credit Bank Bonds	498,750	More than One Year	Aaa	12.14%
Total Portfolio	<u>\$4,109,820</u>			

**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. STAR Ohio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy that addresses credit risk.

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

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



**City of Salem, Ohio**  
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**Note 8 - Receivables**

Receivables at December 31, 2012, consisted primarily of municipal income taxes, property and other taxes, payments in lieu of taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, and accounts (billings for utility service).

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

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

***Property Taxes***

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2012 for real and public utility property taxes represents collections of 2011 taxes.

2012 real property taxes were levied after October 1, 2012, on the assessed value as of January 1, 2012, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2012 real property taxes are collected in and intended to finance 2013.

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. 2012 public utility property taxes which became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2012, was \$5.40 per \$1,000 of assessed value. The assessed values of real and public utility tangible property upon which 2012 property tax receipts were based are as follows:

Real Property	\$203,589,880
Public Utility Personal Property	<u>5,905,650</u>
Total	<u><u>\$209,495,530</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, 2012, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2012 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.

**City of Salem, Ohio**  
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***Income Taxes***

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

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

***Intergovernmental Receivables***

A summary of intergovernmental receivables follows:

	Amounts
<b>Governmental Activities</b>	
CHIPS Grant	\$407,500
Gasoline and Municipal Cents per Gallon	195,801
FEMA Grant	127,930
Ohio Housing Trust Fund Grant	78,000
Local Government	63,578
Inheritance Tax	61,192
Homestead and Rollback	61,181
Community Block Grant	51,000
Motor Vehicle License Tax	41,250
Permissive Tax	38,156
Commercial Activity Tax	930
Total	\$1,126,518

***Payments in Lieu of Taxes***

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

**Note 9 - 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 different rates depending upon length of service and type of employment. Sick leave accrual is continuous, without limit. Upon retirement or death, an employee can be paid a maximum of 320 hours of accumulated, unused sick leave.

**City of Salem, Ohio**  
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**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, 2012.

**Note 11 - Capital Assets**

Capital asset activity for the year ended December 31, 2012, was as follows:

	Balance 12/31/2011	Additions	Deductions	Balance 12/31/2012
<b>Governmental Activities</b>				
<b><i>Capital Assets not being Depreciated:</i></b>				
Land	\$4,586,123	\$0	\$0	\$4,586,123
Construction in Progress	0	89,803	0	89,803
<b>Total Capital Assets not being Depreciated</b>	<b>4,586,123</b>	<b>89,803</b>	<b>0</b>	<b>4,675,926</b>
<b><i>Capital Assets being Depreciated:</i></b>				
Buildings	2,274,772	0	0	2,274,772
Improvements Other Than Buildings	481,581	0	0	481,581
Land Improvements	639,229	0	0	639,229
Machinery and Equipment	3,191,486	218,736	(142,408)	3,267,814
Infrastructure	22,627,840	0	0	22,627,840
<b>Total Capital Assets being Depreciated</b>	<b>29,214,908</b>	<b>218,736</b>	<b>(142,408)</b>	<b>29,291,236</b>
<b><i>Less Accumulated Depreciation:</i></b>				
Buildings	(1,253,111)	(52,642)	0	(1,305,753)
Improvements Other Than Buildings	(360,474)	(22,332)	0	(382,806)
Land Improvements	(247,371)	(10,787)	0	(258,158)
Machinery and Equipment	(2,313,741)	(189,983)	139,527	(2,364,197)
Infrastructure	(12,061,797)	(620,661)	0	(12,682,458)
<b>Total Accumulated Depreciation</b>	<b>(16,236,494)</b>	<b>(896,405) *</b>	<b>139,527</b>	<b>(16,993,372)</b>
<b>Total Capital Assets being Depreciated, Net</b>	<b>12,978,414</b>	<b>(677,669)</b>	<b>(2,881)</b>	<b>12,297,864</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$17,564,537</b>	<b>(\$587,866)</b>	<b>(\$2,881)</b>	<b>\$16,973,790</b>

**City of Salem, Ohio**  
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\*Depreciation expense was charged to governmental activities as follows:

General Government	\$15,981
Security of Persons and Property	139,011
Public Health Services	254
Transportation	691,799
Leisure Time Activities	49,360
<b>Total Depreciation Expense</b>	<b><u><u>\$896,405</u></u></b>

	Balance 12/31/2011	Additions	Deductions	Balance 12/31/2012
<b>Business Type Activities:</b>				
<i>Capital Assets not being Depreciated:</i>				
Land	\$564,419	\$0	\$0	\$564,419
Construction in Progress	876,071	152,969	(348,081)	680,959
<i>Total Capital Assets not being Depreciated</i>	<u>1,440,490</u>	<u>152,969</u>	<u>(348,081)</u>	<u>1,245,378</u>
<i>Capital Assets being Depreciated:</i>				
Buildings	20,740,386	0	0	20,740,386
Improvements Other Than Buildings	102,073	0	0	102,073
Machinery and Equipment	7,875,518	9,805	0	7,885,323
Infrastructure	9,682,946	348,081	0	10,031,027
<b>Total Capital Assets being Depreciated</b>	<u>38,400,923</u>	<u>357,886</u>	<u>0</u>	<u>38,758,809</u>
<i>Less Accumulated Depreciation:</i>				
Buildings	(11,217,290)	(441,369)	0	(11,658,659)
Improvements Other Than Buildings	(91,064)	(998)	0	(92,062)
Machinery and Equipment	(7,272,719)	(34,507)	0	(7,307,226)
Infrastructure	(3,868,516)	(255,687)	0	(4,124,203)
<i>Total Accumulated Depreciation</i>	<u>(22,449,589)</u>	<u>(732,561)</u>	<u>0</u>	<u>(23,182,150)</u>
<b>Total Capital Assets being Depreciated, Net</b>	<u>15,951,334</u>	<u>(374,675)</u>	<u>0</u>	<u>15,576,659</u>
<b>Business Type Activities Capital Assets, Net</b>	<u><u>\$17,391,824</u></u>	<u><u>(\$221,706)</u></u>	<u><u>(\$348,081)</u></u>	<u><u>\$16,822,037</u></u>

**Note 12 – Notes Payable**

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

	Balance 12/31/11	Additions	Reductions	Balance 12/31/12
Street Improvement 2.25%	\$953,500	\$0	\$953,500	\$0
Street Improvement 1.70%	0	953,500	0	953,500
<b>Total</b>	<u><u>\$953,500</u></u>	<u><u>\$953,500</u></u>	<u><u>\$953,500</u></u>	<u><u>\$953,500</u></u>

During 2012, the City retired the \$953,500 Street Improvement note.

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On July 27, 2012, the City issued \$953,500 in various purpose notes to finance various street improvements within the City. The interest rates on the notes are 1.70 percent and they mature on September 27, 2013.

**Note 13 – Interfund Transfers and Balances**

***Interfund Transfers***

Interfund transfers for the year ended December 31, 2012, consisted of the following:

<b>Transfer To</b>	<b>Transfer From</b>
	General Fund
Major Fund:	
Income Tax Capital	\$400,000
Nonmajor Funds:	
Police Pension Fund	121,438
Fire Pension Fund	115,185
Street Construction Maintenance and Repair Fund	50,000
Health Fund	36,909
Grand Total	\$723,532

The transfer to the income tax capital improvement fund moves unassigned balance to finance capital improvements. The transfers to the police pension, fire pension, street construction maintenance and repair and health special revenue funds were to move unassigned balances to support programs and projects accounted for in other funds.

***Interfund Balances***

Interfund balances at December 31, 2012, consist of a rehabilitation special revenue fund advance of \$7,891 to the community housing improvement special revenue fund due to the timing of the receipt of grant monies at year end.

**Note 14 - Long-Term Obligations**

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

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

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

A schedule of changes in bonds and other long-term obligations of the City during 2012 follows:

	Amount Outstanding 12/31/2011	Additions	Deletions	Amount Outstanding 12/31/2012	Amounts Due In One Year
<b>Business-Type Activities:</b>					
<i>Ohio Public Works Commission</i>					
Stewart Road Water Tank	\$174,250	\$0	(\$10,250)	\$164,000	\$20,500
Roosevelt Ave Water Tank	623,373	0	(16,848)	606,525	33,696
Total Ohio Public Works Commission	797,623	0	(27,098)	770,525	54,196
Compensated Absences	149,468	17,955	(9,589)	157,834	4,768
<i>Total Business-Type Activities Obligations</i>	<u>\$947,091</u>	<u>\$17,955</u>	<u>(\$36,687)</u>	<u>\$928,359</u>	<u>\$58,964</u>
<b>Governmental Activities Obligations:</b>					
<i>General Obligation Bonds</i>					
Various Purpose Improvement	\$1,855,000	\$0	(\$100,000)	\$1,755,000	\$105,000
Premium on Various Purpose Improvement	70,146	0	(5,011)	65,135	0
Street Improvement TIF	815,000	0	(100,000)	715,000	110,000
Premium on Street Improvement TIF	20,808	0	(3,468)	17,340	0
Total General Obligation Bonds	2,760,954	0	(208,479)	2,552,475	215,000
<i>Ohio Public Works Commission Loan</i>					
South East Boulevard Improvement	104,734	0	(8,728)	96,006	17,456
Cunningham Road & Bentley Drive Improvement	155,961	0	(8,664)	147,297	17,330
East Pershing Street Improvement	376,179	0	(6,270)	369,909	12,539
Total Ohio Public Works Commission Loan	636,874	0	(23,662)	613,212	47,325
Compensated Absences	348,656	133,347	(137,851)	344,152	127,689
<i>Total Governmental Activities Obligations</i>	<u>\$3,746,484</u>	<u>\$133,347</u>	<u>(\$369,992)</u>	<u>\$3,509,839</u>	<u>\$390,014</u>

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

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

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

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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 \$770,525. Principal paid for the current year and total net revenues were \$27,098 and \$282,775 respectively.

The City's overall legal debt margin was \$17,916,626 at December 31, 2012. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2012, are as follows:

Business-Type Activities:

	<u>OPWC Loans</u>
2013	\$54,196
2014	54,196
2015	54,196
2016	54,196
2017	54,196
2018-2022	229,980
2023-2027	168,480
2028-2030	<u>101,085</u>
Total	<u><u>\$770,525</u></u>

Governmental Activities:

	<u>General Obligation Bonds</u>		<u>OPWC Loan</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2013	\$215,000	\$117,644	\$47,325
2014	230,000	107,806	47,324
2015	255,000	97,200	47,324
2016	275,000	85,312	47,323
2017	290,000	74,650	47,323
2018-2022	700,000	223,013	132,074
2023-2027	505,000	48,686	62,695
2028-2032	0	0	62,695
2033-2037	0	0	62,699
2038-2042	<u>0</u>	<u>0</u>	<u>56,430</u>
Total	<u><u>\$2,470,000</u></u>	<u><u>\$754,311</u></u>	<u><u>\$613,212</u></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. At December 31, 2012, the outstanding bonds have a principal amount outstanding of \$11,780,000. 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.

**City of Salem, Ohio**  
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**Note 15 - Risk Management**

***Property and Liability***

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2012, the City contracted with the Ohio Municipal League Joint Self-Insurance Pool for various types of insurance as follows:

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

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

***Workers' Compensation***

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

**Note 16 - Public Entity Risk Pool**

***Risk Sharing Authority***

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

The Pool's general objectives are to formulate, develop and administer a program of insurance, to obtain lower costs for that coverage, and to develop a comprehensive loss control program on behalf of the member political subdivisions. Political subdivisions joining the Pool may withdraw at the end of any coverage period upon 60 days prior written notice to the Pool. Under agreement, members who terminate participation in the Pool, as well as current members, are subject to a supplemental assessment or a refund, at the discretion of the Board of Trustees, depending on the ultimate loss experience of all the entities it insures of each coverage year. To date there have been no assessments or refunds due to the limited period of time that the Pool has been in existence and the nature of the coverage that is afforded to the participants. The City contributed \$114,776 to the Pool in 2012.



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

In ordinary course of business, the Pool cedes a portion of its expenses to other insurers. These arrangements limit the Pool’s maximum net loss on individual risks. Treaty basis casualty excess of loss contracts in force at December 31, 2012 generally protects the Pool against losses subject to a deductible of lesser of \$100,000 per location or \$100,000 per occurrence. The Pool is, and the participants are, contingently liable should any reinsurer become unable to meet its obligation under the reinsurance agreements.

**Note 17 - Defined Benefit Pension Plans**

***Ohio Public Employees Retirement System***

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, 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 statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll. For the year ended December 31, 2012, members in state and local divisions contributed 10 percent of covered payroll. Members in the state and local divisions may participate in all three plans. For 2012, member and employer contribution rates were consistent across all three plans.

The City’s 2012 contribution rate was 14.0 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4.00 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2012. Employer contribution rates are actuarially determined.

The City’s required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2012, 2011 and 2010 were \$245,032, \$240,458 and \$223,705, respectively. For 2012, 90.90 percent has been contributed with the balance being reported as an intergovernmental

**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
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payable. The full amount has been contributed for 2011 and 2010. Contributions to the Member-Directed Plan for 2012 were \$6,205 made by the City and \$6,205 made by plan members.

***Ohio Police and Fire Pension Fund***

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

Funding Policy – The Ohio Revised Code requires plan members to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters.

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contributions to OP&F for police and firefighters pension were \$127,637 and \$137,711 for the year ended December 31, 2012, \$119,893 and \$135,180 for the year ended December 31, 2011, and \$120,873 and \$137,619 for the year ended December 31, 2010, respectively. For 2012, 66.33 percent for police and 67.23 percent for firefighters has been contributed with the balance for both police and firefighters being report as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

***Social Security System***

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

**Note 18 – Postemployment Benefits**

***Ohio Public Employees Retirement System***

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

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

**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2012*

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

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, 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 post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local employers contributed at a rate of 14.0 percent of covered payroll. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2012. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent for both plans, as recommended by the OPERS Actuary.

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

The City’s contributions allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011 and 2010 were \$98,013, \$96,183 and \$127,533, respectively. For 2012, 90.90 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

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

***Ohio Police and Fire Pension Fund***

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

**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2012*

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

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

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2012, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$67,572 and \$53,887 for the year ended December 31, 2012, \$63,473 and \$52,897 for the year ended December 31, 2010, and \$63,991 and \$53,851 for the year ended December 31, 2010. For 2012, 66.33 percent has been contributed for police and 67.23 percent has been contributed for firefighters with the balance for both police and firefighters being report as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2012*

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**Note 19 – Encumbrances**

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

<b>Governmental Funds</b>		<b>Proprietary Funds</b>	
General	\$14,578	Water	\$116,932
Income Tax Capital	30,001	Wastewater	<u>274,534</u>
Other Government Funds	<u>252,307</u>		<u>\$391,466</u>
Total Governemntal Funds	<u><u>\$296,886</u></u>		

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# Dave Yost • Auditor of State

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

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

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salem, Columbiana County, (the "City") as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 8, 2013, wherein we noted that the City adopted the provisions of Governmental Accounting Standards Board Statement No. 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" and No. 65 "Items Previously Reported as Assets and Liabilities".

### ***Internal Control Over Financial Reporting***

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

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

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

### ***Compliance and Other Matters***

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts.

However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

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

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

**Dave Yost**  
Auditor of State

Columbus, Ohio

October 8, 2013





# 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  
OCTOBER 22, 2013**