CITY OF SALEM
COLUMBIANA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2018

OHIO AUDITOR OF STATE
KEITH FABER

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COLUMBIANA COUNTY
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OHIO AUDITOR OF STATE
KEITH FABER

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INDEPENDENT AUDITOR'S REPORT

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

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salem, Columbiana County, Ohio, as of December 31, 2018, 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 20 to the financial statements, during 2018, the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2019, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Keith Faber

Keith Faber
Auditor of State

Columbus, Ohio

September 9, 2019

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, 2018. 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 2018 are as follows:

- Governmental net position increased in 2018. This increase relates to the increase in capital assets due to current year additions exceeding an additional year of depreciation as well as the net pension asset. This increase was slightly offset by an increase in the OPEB liabilities.

- City income tax receipts have been on an upswing over the last several years due to the .25 percent income tax levy that went into effect January 1, 2016 as well as the improving economy. The voters passed the additional income tax levy at the November 2015 election. The income tax levy is to be used for transportation purposes. The voters passed the income tax levy for a 5 year period with 2016 as the first full year of collections on the income tax levy.

- Total governmental capital assets increased due to several purchases this year including three vehicles, radio upgrades, various equipment and the completion of infrastructure projects offset by an additional year of accumulated depreciation. The business-type activities capital assets decreased due to current year depreciation exceeding additions of one vehicle, a loader backhoe, various water and sewer equipment and the completion of the Cunningham, North Sanitary Sewer Extension and the Columbiana State Route 45 Sanitary Sewer.

- A review of the enterprise funds reflects an operating loss for the water fund and for the wastewater fund. The operating loss for both the water and wastewater fund was due to operating expenses exceeding charges for services. Rates for all enterprise funds are monitored by the City to maintain the revenue needed to operate these activities.

Using this Annual Financial Report

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

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

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 2018?" The Statement of Net Position and the Statement of Activities answer this question.

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

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

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

> *Governmental Activities* – Most of the City's programs and services are reported here including general government, security of persons and property, public health services, transportation, community development and leisure time activities. These services are funded primarily by taxes and intergovernmental revenues including Federal and State grants and other shared revenues.
>
> *Business-Type Activities* – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided.

Reporting on the Most Significant Funds of the City of Salem

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

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

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 City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

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

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

The City of Salem as a Whole

The Statement of Net Position provides an overall view of the City. Table 1 shows a summary of the City's net position for 2018 as they compare to 2017.

(Table 1)
Net Position

	Governmental Activites		Business-Type Activites		Total	
	2018	2017	2018	2017	2018	2017
Assets						
Current and Other Assets	$8,733,372	$8,891,011	$14,327,783	$15,187,677	$23,061,155	$24,078,688
Net Pension Asset	22,816	0	17,927	0	40,743	0
Capital Assets, Net	20,439,459	19,380,900	22,990,724	23,197,892	43,430,183	42,578,792
Total Assets	29,195,647	28,271,911	37,336,434	38,385,569	66,532,081	66,657,480
Deferred Outflows of Resources						
Deferred Charge on Refunding	6,593	7,570	0	0	6,593	7,570
Pension	1,545,918	2,188,242	393,920	788,326	1,939,838	2,976,568
OPEB	768,059	27,683	82,630	13,124	850,689	40,807
Total Deferred Outflows of Resources	$2,320,570	$2,223,495	$476,550	$801,450	$2,797,120	$3,024,945

(Table 1)
Net Position

	Governmental Activites		Business-Type Activites		Total	
	2018	2017	2018	2017	2018	2017
Liabilities						
Current Liabilities	$1,406,342	$1,298,549	$198,600	$175,442	$1,604,942	$1,473,991
Long-term Liabilities						
Due within One Year	335,719	338,790	361,468	371,999	697,187	710,789
Due in More than One Year						
Net Pension Liability	7,951,654	8,724,121	1,449,991	2,033,600	9,401,645	10,757,721
Net OPEB Liability	6,890,353	5,746,032	984,761	901,718	7,875,114	6,647,750
Other Amounts	3,619,612	5,416,689	2,890,888	3,249,351	6,510,500	8,666,040
Total Liabilities	20,203,680	21,524,181	5,885,708	6,732,110	26,089,388	28,256,291
Deferred Inflows of Resources						
Property Taxes	1,058,598	930,490	0	0	1,058,598	930,490
Payments in Lieu of Taxes	129,492	103,287	0	0	129,492	103,287
Pension	820,595	240,192	368,227	50,891	1,188,822	291,083
OPEB	158,900	0	73,359	0	232,259	0
Total Deferred Inflows of Resources	2,167,585	1,273,969	441,586	50,891	2,609,171	1,324,860
Net Position						
Net Investment in Capital Assets	15,840,582	14,032,385	19,872,473	19,725,445	35,713,055	33,757,830
Restricted for:						
Capital Projects	2,818,122	1,972,433	0	0	2,818,122	1,972,433
Streets	361,804	494,924	0	0	361,804	494,924
Parks	235,057	186,938	0	0	235,057	186,938
Law Enforcement	62,034	81,162	0	0	62,034	81,162
Community Environment	141,610	168,076	0	0	141,610	168,076
Other Purposes	59,938	56,598	0	0	59,938	56,598
Unrestricted	(10,374,195)	(9,295,260)	11,613,217	12,678,573	1,239,022	3,383,313
Total Net Position	$9,144,952	$7,697,256	$31,485,690	$32,404,018	$40,630,642	$40,101,274

The net pension liability (NPL) is one of the largest single liabilities reported by the City at December 31, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For 2018, the City adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting the net pension asset and deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability (asset) and the net OPEB liability to equal the City's proportionate share of each plan's collective:

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

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

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

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

In accordance with GASB 68 and GASB 75, the City's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability (asset) and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the City is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2018, from $13,415,605 to $7,697,256 for governmental activities and from $33,292,612 to $32,404,018 for business-type activities.

By comparing assets and deferred outflows of resources and liabilities and deferred inflows of resources, one can see the overall position of the City has increased over the prior year. The City had a slight decrease in total assets this year which can be attributed to a decrease in intergovernmental receivable and income tax receivable as less revenues are expected as well as a decrease to materials and supplies inventory due to supplies not being replenished and the City using concrete instead of asphalt for road projects during the year. Current governmental capital assets increased due to current year additions exceeding an additional year of depreciation on the City's capital assets. The City issued bonds for the wastewater fund that was used for sanitary sewer improvements. Total liabilities decreased this year due to a decrease in the net pension liability and the continued pay-down of outstanding debt issues, offset by the issuance of the $3.0 million note as well as an increase in the net OPEB liability. Management continues to diligently plan expenses, staying carefully within the City's revenues in an effort to maintain excellent levels of service within the constraints of the budget.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for the current year. Table 2 shows total revenues, expenses and changes in net position for the fiscal years 2018 and 2017.

(Table 2)
Changes in Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Program Revenues						
Charges for Services and Assessments	$353,386	$345,194	$4,897,031	$4,933,661	$5,250,417	$5,278,855
Operating Grants and Contributions	754,056	765,820	1,995	1,320	756,051	767,140
Capital Grants and Contributions	28,595	0	0	0	28,595	0
Total Program Revenues	1,136,037	1,111,014	4,899,026	4,934,981	6,035,063	6,045,995
General Revenues						
Property Taxes	1,099,125	1,016,215	0	0	1,099,125	1,016,215
Municipal Income Tax	6,733,297	6,400,697	0	0	6,733,297	6,400,697
Grants and Entitlements not Restricted to Specific Programs	239,220	190,290	0	0	239,220	190,290
Gain on Sale of Capital Assets	6,465	4,026	0	0	6,465	4,026
Payments in Lieu of Taxes	129,492	73,463	0	0	129,492	73,463
Interest	221,009	78,420	40,882	16,444	261,891	94,864
Other	524,037	680,186	78,785	154,680	602,822	834,866
Total General Revenues	8,952,645	8,443,297	119,667	171,124	9,072,312	8,614,421
Total Revenues	$10,088,682	$9,554,311	$5,018,693	$5,106,105	$15,107,375	$14,660,416

(Table 2)
Changes in Net Position (continued)

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Program Expenses						
General Government	$1,502,563	$1,503,570	$0	$0	$1,502,563	$1,503,570
Security of Persons and Property	5,282,299	4,660,093	0	0	5,282,299	4,660,093
Public Health Services	145,593	134,672	0	0	145,593	134,672
Transportation	788,845	2,460,585	0	0	788,845	2,460,585
Community Development	234,133	157,615	0	0	234,133	157,615
Leisure Time Activities	586,049	504,607	0	0	586,049	504,607
Interest and Fiscal Charges	108,314	100,241	0	0	108,314	100,241
Water	0	0	2,761,084	2,168,750	2,761,084	2,168,750
Wastewater	0	0	3,169,127	2,562,036	3,169,127	2,562,036
Total Program Expenses	8,647,796	9,521,383	5,930,211	4,730,786	14,578,007	14,252,169
Transfers	6,810	6,877	(6,810)	(6,877)	0	0
Change in Net Position	1,447,696	39,805	(918,328)	368,442	529,368	408,247
Net Position Beginning of Year	7,697,256	NA	32,404,018	NA	40,101,274	
Net Position End of the Year	$9,144,952	$7,697,256	$31,485,690	$32,404,018	$40,630,642	$40,101,274

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of $40,807 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of $662,315. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

	Governmental Activities	Business-Type Activities	Total
Total 2018 program expenses under GASB 75	$8,647,796	$5,930,211	$14,578,007
Negative OPEB expense under GASB 75	(574,878)	(87,437)	(662,315)
2018 contractually required contribution	12,033	541	12,574
Adjusted 2018 program expenses	8,084,951	5,843,315	13,928,266
Total 2017 program expenses under GASB 45	9,521,383	4,730,786	14,252,169
Increase (Decrease) in program expenses not related to OP	($1,436,432)	$1,112,529	($323,903)

Governmental Activities

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

General revenues from grants and entitlements, such as local government funds, are also revenue generators. The City monitors its source of revenues very closely for fluctuations. The decrease in governmental activities operating grants and contributions was due to fewer grant monies received in the current year. The increase in municipal income tax can be attributed to an increase in collections during 2018 due to timing of income tax collections. The decrease in other revenue can be attributed to less revenue from grindings from street construction and repair as the City used concrete for the 2018 street repairs as well as the continued recognition of a smaller portion of the oil and gas lease payment the City received. The oil and gas lease covered a three year period that expired during 2018 and was not renewed, so 2018 will be the final year the City will recognize this revenue.

Governmental expenses decreased from 2017, mainly due to a decrease in transportation expenses, partially offset by an increase in security of persons and property.

Business-Type Activities

The City operates two business-type activities, the water and wastewater treatment facilities. The largest sources of revenue for both water and wastewater treatment facilities in 2018 were charges for services. The largest expenses are for payroll and employee benefits for both operations.

The City's Funds

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

As of the end of 2018, the City of Salem's governmental funds reported a positive combined ending fund balance. The City's major governmental funds are the general fund and the street improvement capital projects fund. Revenues exceeded expenditures for the year in the general fund. The increase in expenditures is due to wage increases during the year of 2.5 percent as well as continued increases from adding a canine to the police department personnel. The decrease in the street improvement capital projects fund can be attributed to the pay down of debt.

The proprietary funds are accounted for on an accrual basis.

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. These funds had total operating revenue of $4,977,811 and total operating expenses of $5,842,462. If expenses were to exceed revenue and dramatically affect net position, the City has the power to increase revenue through rate increases. Proprietary expenses increased from 2017, mainly due to increases in materials and supplies and contractual service expenses due to continuing capital projects.

General Fund Budgeting Highlights

Budgeting for the operations of the City is done as prescribed by the Ohio Revised Code. Essentially the budget is the City's appropriations, which is restricted by the amounts of the anticipated revenues certified by the County Budget Commission in accordance with the Ohio Revised Code. In 2018, actual revenues for the general fund were more than final estimated revenues due in large part to more than anticipated property tax and income tax collections, charges for services, intergovernmental and interest revenues than originally expected. City Council's actual expenditures were less than final appropriations due to management keeping costs low while still providing the services the citizens expect.

The original revenue and expenditure budget is designed to be very conservative requiring additional spending requests to be approved by Council throughout the year. During the course of 2018, the City amended its general fund budget numerous times, in response to conservative revenue projections being surpassed.

Capital Assets and Debt Administration

Capital Assets

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

Total capital assets for the business-type activities, net of accumulated depreciation decreased due to the current year depreciation expense exceeding current year additions of one vehicle, a loader backhoe, various water and sewer equipment and the completion of the Cunningham, North Sanitary Sewer Extension and the Columbiana State Route 45 Sanitary Sewer. See Note 11 to the basic financial statements for additional information on capital assets.

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	$4,606,592	$4,606,592	$669,334	$669,334	$5,275,926	$5,275,926
Construction in Progress	0	0	785,309	449,621	785,309	449,621
Buildings	770,891	726,218	9,369,018	9,632,102	10,139,909	10,358,320
Improvements Other than Buildings	11,993	10,292	2,946	3,277	14,939	13,569
Land Improvements	326,384	333,282	0	0	326,384	333,282
Machinery and Equipment	1,447,777	1,450,753	744,352	682,623	2,192,129	2,133,376
Infrastructure	13,275,822	12,253,763	11,419,765	11,760,935	24,695,587	24,014,698
Total Capital Assets	$20,439,459	$19,380,900	$22,990,724	$23,197,892	$43,430,183	$42,578,792

Long-term Obligations

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

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
General Obligation Bonds	$1,269,564	$1,455,140	$2,700,000	$3,000,000	$3,969,564	$4,455,140
OPWC Loans	288,406	300,945	418,251	472,447	706,657	773,392
Infrastructure Improvement Note	2,000,000	3,600,000	0	0	2,000,000	3,600,000
Compensated Absences	397,361	399,394	134,105	148,903	531,466	548,297
Net Pension Liability	7,951,654	8,724,121	1,449,991	2,033,600	9,401,645	10,757,721
Net OPEB Liability	6,890,353	5,746,032	984,761	901,718	7,875,114	6,647,750
Total	$18,797,338	$20,225,632	$5,687,108	$6,556,668	$24,484,446	$26,782,300

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

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

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

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

The City of Salem's overall legal debt margin was $18,594,799 on December 31, 2018. For more information about the City's long-term obligations, see Note 15 to the basic financial statements.

Current Financial Issues

The Administration provided strong fiscal management, holding general operating expenses in check while maintaining City services at a high level in 2018. But with the continuing decreasing revenues from Federal and State sources, holding expenses down is a constant challenge.

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

Contacting the City of Salem's Financial Management

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

City of Salem, Ohio

Statement of Net Position

December 31, 2018

	Governmental Activities	Business-Type Activities (1)	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	$5,149,446	$13,005,421	$18,154,867
Accrued Interest Receivable	64,104	0	64,104
Accounts Receivable	9,856	574,593	584,449
Intergovernmental Receivable	405,090	667	405,757
Internal Balances	(92,703)	92,703	0
Property Taxes Receivable	1,100,273	0	1,100,273
Income Taxes Receivable	1,772,474	0	1,772,474
Special Assessments Receivable	0	221,138	221,138
Materials and Supplies Inventory	126,036	395,113	521,149
Prepaid Items	69,304	38,148	107,452
Payments in Lieu of Taxes Receivable	129,492	0	129,492
Net Pension Asset	22,816	17,927	40,743
Nondepreciable Capital Assets	4,606,592	1,454,643	6,061,235
Depreciable Capital Assets, Net	15,832,867	21,536,081	37,368,948
Total Assets	29,195,647	37,336,434	66,532,081
Deferred Outflows of Resources			
Deferred Charge on Refunding	6,593	0	6,593
Pension	1,545,918	393,920	1,939,838
OPEB	768,059	82,630	850,689
Total Deferred Outflows of Resources	2,320,570	476,550	2,797,120
Liabilities			
Accounts Payable	85,744	120,983	206,727
Accrued Wages	133,858	38,061	171,919
Intergovernmental Payable	85,909	17,926	103,835
Matured Compensated Absences Payable	78	0	78
Accrued Interest Payable	53,253	21,630	74,883
Notes Payable	1,047,500	0	1,047,500
Long-Term Liabilities:			
Due Within One Year	335,719	361,468	697,187
Due In More Than One Year			
Net Pension Liability (See Note 17)	7,951,654	1,449,991	9,401,645
Net OPEB Liability (See Note 18)	6,890,353	984,761	7,875,114
Other Amounts Due in More than One Year	3,619,612	2,890,888	6,510,500
Total Liabilities	20,203,680	5,885,708	26,089,388
Deferred Inflows of Resources			
Property Taxes	1,058,598	0	1,058,598
Payments in Lieu of Taxes	129,492	0	129,492
Pension	820,595	368,227	1,188,822
OPEB	158,900	73,359	232,259
Total Deferred Inflows of Resources	2,167,585	441,586	2,609,171
Net Position			
Net Investment in Capital Assets	15,840,582	19,872,473	35,713,055
Restricted for:			
Capital Projects	2,818,122	0	2,818,122
Streets	361,804	0	361,804
Parks	235,057	0	235,057
Law Enforcement	62,034	0	62,034
Community Environment	141,610	0	141,610
Other Purposes	59,938	0	59,938
Unrestricted (Deficit)	(10,374,195)	11,613,217	1,239,022
Total Net Position	$9,144,952	$31,485,690	$40,630,642

1) After internal Deferred Outflows and Inflows have been eliminated

See accompanying notes to the basic financial statements

City of Salem, Ohio
Statement of Activities
For the Year Ended December 31, 2018

		Program Revenues		
	Expenses	Charges for Services and Assessments	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	$1,502,563	$52,119	$98,595	$0
Security of Persons and Property	5,282,299	148,510	36,917	0
Public Health Services	145,593	54,429	4,304	0
Transportation	788,845	653	585,562	28,595
Community Development	234,133	71,135	2,677	0
Leisure Time Activities	586,049	26,540	26,001	0
Interest and Fiscal Charges	108,314	0	0	0
Total Governmental Activities	8,647,796	353,386	754,056	28,595
Business-Type Activities:				
Water	2,761,084	2,333,030	308	0
Wastewater	3,169,127	2,564,001	1,687	0
Total Business-Type Activities	5,930,211	4,897,031	1,995	0
Total	$14,578,007	$5,250,417	$756,051	$28,595

General Revenues
Property Taxes Levied for:
General Purposes
Park
Fire
Police
Income Taxes Levied for:
General Purposes
Debt Service
Capital Projects
Grants and Entitlements not Restricted to Specific Programs
Payments in Lieu of Taxes
Interest
Gain on Disposal of Capital Assets
Other

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position Beginning of Year (Restated See Note 20)

Net Position End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
($1,351,849)	$0	($1,351,849)
(5,096,872)	0	(5,096,872)
(86,860)	0	(86,860)
(174,035)	0	(174,035)
(160,321)	0	(160,321)
(533,508)	0	(533,508)
(108,314)	0	(108,314)
(7,511,759)	0	(7,511,759)
0	(427,746)	(427,746)
0	(603,439)	(603,439)
0	(1,031,185)	(1,031,185)
(7,511,759)	(1,031,185)	(8,542,944)
572,495	0	572,495
410,984	0	410,984
57,823	0	57,823
57,823	0	57,823
4,501,385	0	4,501,385
150,000	0	150,000
2,081,912	0	2,081,912
239,220	0	239,220
129,492	0	129,492
221,009	40,882	261,891
6,465	0	6,465
524,037	78,785	602,822
8,952,645	119,667	9,072,312
6,810	(6,810)	0
8,959,455	112,857	9,072,312
1,447,696	(918,328)	529,368
7,697,256	32,404,018	40,101,274
$9,144,952	$31,485,690	$40,630,642

City of Salem, Ohio
Balance Sheet
Governmental Funds
December 31, 2018

	General	Street Improvement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	$1,738,472	$958,437	$2,442,681	$5,139,590
Receivables:				
Property Taxes	549,626	0	550,647	1,100,273
Income Taxes	1,458,729	313,745	0	1,772,474
Accounts	4,304	0	5,552	9,856
Intergovernmental	95,649	0	309,441	405,090
Accrued Interest	64,104	0	0	64,104
Materials and Supplies Inventory	80,995	0	45,041	126,036
Prepaid Items	63,323	0	5,981	69,304
Payments in Lieu of Taxes Receivable	0	0	129,492	129,492
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	9,856	0	0	9,856
Total Assets	$4,065,058	$1,272,182	$3,488,835	$8,826,075
Liabilities				
Accounts Payable	$33,307	$0	$52,437	$85,744
Accrued Wages	115,888	0	17,970	133,858
Intergovernmental Payable	18,416	0	67,493	85,909
Interfund Payable	0	0	92,703	92,703
Matured Compensated Absences Payable	78	0	0	78
Accrued Interest Payable	0	16,781	253	17,034
Notes Payable	0	1,000,000	47,500	1,047,500
Total Liabilities	167,689	1,016,781	278,356	1,462,826
Deferred Inflows of Resources				
Property Taxes	527,698	0	530,900	1,058,598
Payments in Lieu of Taxes	0	0	129,492	129,492
Unavailable Revenue	1,017,785	181,845	232,131	1,431,761
Total Deferred Inflows of Resources	1,545,483	181,845	892,523	2,619,851
Fund Balances				
Nonspendable	154,174	0	51,022	205,196
Restricted	0	73,556	2,150,925	2,224,481
Committed	1,387	0	146,782	148,169
Assigned	754,271	0	0	754,271
Unassigned (Deficit)	1,442,054	0	(30,773)	1,411,281
Total Fund Balances	2,351,886	73,556	2,317,956	4,743,398
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$4,065,058	$1,272,182	$3,488,835	$8,826,075

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, 2018

Total Governmental Fund Balances		$4,743,398
Amounts reported for governmental activities in the statement of net position are different because		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		20,439,459
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds:		
Delinquent Property Taxes	41,675	
Income Taxes	1,112,971	
Intergovernmental	277,115	
Total		1,431,761
The net pension asset, net pension liability and net OPEB liability are not due and payable in the current period; therefore; the asset, liability and related deferred inflows/outflows are not reported in governmental funds:		
Net Pension Asset	22,816	
Deferred Outflows - Pension	1,545,918	
Deferred Inflows - Pension	(820,595)	
Net Pension Liability	(7,951,654)	
Deferred Outflows - OPEB	768,059	
Deferred Inflows - OPEB	(158,900)	
Net OPEB Liability	(6,890,353)	
Total		(13,484,709)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(36,219)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
General Obligation Bonds	(1,269,564)	
OPWC Loans Payable	(288,406)	
Compensated Absences	(397,361)	
Notes Payable	(2,000,000)	
Deferred Charge on Refunding	6,593	
Total		(3,948,738)
Net Position of Governmental Activities		$9,144,952

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, 2018

	General	Street Improvement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	$571,550	$0	$525,880	$1,097,430
Municipal Income Taxes	4,495,446	1,321,303	911,473	6,728,222
Charges for Services	63,217	0	53,202	116,419
Fees, Licenses and Permits	120,197	0	89,118	209,315
Fines and Forfeitures	18,327	0	0	18,327
Intergovernmental	238,549	0	728,110	966,659
Interest	205,544	15,465	0	221,009
Rentals	1,920	0	0	1,920
Contributions and Donations	20,000	0	335	20,335
Special Assessments	512	0	6,893	7,405
Payments in Lieu of Taxes	0	0	129,492	129,492
Other	32,627	94,901	396,509	524,037
Total Revenues	5,767,889	1,431,669	2,841,012	10,040,570
Expenditures				
Current:				
General Government	1,315,919	0	94,565	1,410,484
Security of Persons and Property	3,741,236	0	516,453	4,257,689
Public Health Services	0	0	131,326	131,326
Transportation	18,684	0	879,385	898,069
Community Development	81,142	0	124,848	205,990
Leisure Time Activities	7,350	0	516,278	523,628
Capital Outlay	0	795,681	358,540	1,154,221
Debt Service:				
Principal Retirement	0	3,600,000	198,115	3,798,115
Interest and Fiscal Charges	0	80,021	35,843	115,864
Total Expenditures	5,164,331	4,475,702	2,855,353	12,495,386
Excess of Revenues Over (Under) Expenditures	603,558	(3,044,033)	(14,341)	(2,454,816)
Other Financing Sources (Uses)				
Sale of Capital Assets	0	0	6,465	6,465
General Obligation Notes Issued	0	2,000,000	0	2,000,000
Transfers In	14,160	0	800,003	814,163
Transfers Out	(767,315)	0	(40,038)	(807,353)
Total Other Financing Sources (Uses)	(753,155)	2,000,000	766,430	2,013,275
Net Change in Fund Balances	(149,597)	(1,044,033)	752,089	(441,541)
Fund Balances Beginning of Year	2,501,483	1,117,589	1,565,867	5,184,939
Fund Balances End of Year	$2,351,886	$73,556	$2,317,956	$4,743,398

See accompanying notes to the basic financial statements

City of Salem, Ohio

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2018

Net Change in Fund Balances - Total Governmental Funds		($441,541)
Amounts reported for governmental activities in the statement of activities are different because		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period:		
Capital Asset Additions		
Capital Outlays	1,887,517	
Capital Contributions	28,378	
Current Year Depreciation	(857,336)	
Total		1,058,559
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Delinquent Property Taxes	1,695	
Income Taxes	5,075	
Intergovernmental	6,499	
Total		13,269
Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		3,798,115
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	8,527	
Amortization of Loss on Refunding	(977)	
Total		7,550
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.		2,033
Contractually required contributions are reported as expenditures in governmental funds: however, the statement of net position reports these amounts as deferred outflows:		
Pension	722,936	
OPEB	12,033	
Total		734,969
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities:		
Pension	(1,150,380)	
OPEB	(574,878)	
Total		(1,725,258)
Other financing sources, such as general obligation notes issued in the governmental funds increase long-term liabilities in the statement of net position.		(2,000,000)
Change in Net Position of Governmental Activities		$1,447,696

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, 2018

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues				
Property Taxes	$560,000	$560,000	$571,550	$11,550
Municipal Income Taxes	4,271,978	4,321,734	4,572,847	251,113
Charges for Services	53,000	53,000	58,078	5,078
Fees, Licenses and Permits	121,950	121,950	120,197	(1,753)
Fines and Forfeitures	25,000	25,000	19,014	(5,986)
Intergovernmental	181,400	181,400	242,839	61,439
Interest	130,000	130,000	221,884	91,884
Rentals	1,920	1,920	1,920	0
Contributions and Donations	0	0	20,000	20,000
Special Assessments	200	200	512	312
Other	59,884	59,884	12,909	(46,975)
Total Revenues	5,405,332	5,455,088	5,841,750	386,662
Expenditures				
Current:				
General Government	1,540,259	1,592,170	1,369,547	222,623
Security of Persons and Property	3,822,773	3,872,425	3,716,636	155,789
Transportation	28,500	30,710	18,606	12,104
Community Development	101,192	101,192	79,675	21,517
Leisure Time Activities	0	7,500	7,350	150
Total Expenditures	5,492,724	5,603,997	5,191,814	412,183
Excess of Revenues Over (Under) Expenditures	(87,392)	(148,909)	649,936	798,845
Other Financing Sources (Uses)				
Transfers In	16,116	31,116	14,160	(16,956)
Transfers Out	(557,012)	(789,191)	(767,315)	21,876
Total Other Financing Sources (Uses)	(540,896)	(758,075)	(753,155)	4,920
Net Change in Fund Balance	(628,288)	(906,984)	(103,219)	803,765
Fund Balance Beginning of Year	1,850,644	1,850,644	1,850,644	0
Prior Year Encumbrances Appropriated	35,067	35,067	35,067	0
Fund Balance End of Year	$1,257,423	$978,727	$1,782,492	$803,765

See accompanying notes to the basic financial statements

City of Salem, Ohio
Statement of Fund Net Position
Proprietary Funds
December 31, 2018

	Enterprise		
	Water	Wastewater	Total
Assets			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	$1,845,065	$11,160,356	$13,005,421
Accounts Receivable	323,832	250,761	574,593
Intergovernmental Receivable	308	359	667
Special Assessments Receivable	0	221,138	221,138
Materials and Supplies Inventory	380,360	14,753	395,113
Prepaid Items	18,639	19,509	38,148
Interfund Receivable	0	1,192,703	1,192,703
Total Current Assets	2,568,204	12,859,579	15,427,783
Noncurrent Assets:			
Net Pension Asset	8,149	9,778	17,927
Nondepreciable Capital Assets	654,307	800,336	1,454,643
Depreciable Capital Assets, Net	8,590,749	12,945,332	21,536,081
Total Noncurrent Assets	9,253,205	13,755,446	23,008,651
Total Assets	11,821,409	26,615,025	38,436,434
Deferred Outflows of Resources			
Pension	179,668	214,757	394,425
OPEB	37,559	45,071	82,630
Total Deferred Outflows of Resources	217,227	259,828	477,055
Liabilities			
Current Liabilities:			
Accounts Payable	63,340	57,643	120,983
Accrued Wages	17,629	20,432	38,061
Intergovernmental Payable	12,311	5,615	17,926
Interfund Payable	1,100,000	0	1,100,000
Accrued Interest Payable	0	21,630	21,630
OPWC Loans Payable	54,196	0	54,196
Compensated Absences Payable	3,398	3,874	7,272
General Obligation Bonds Payable	0	300,000	300,000
Total Current Liabilities	1,250,874	409,194	1,660,068
Long-Term Liabilities (net of current portion):			
OPWC Loans Payable	364,055	0	364,055
Compensated Absences Payable	55,994	70,839	126,833
General Obligation Bonds Payable	0	2,400,000	2,400,000
Net Pension Liability	659,087	790,904	1,449,991
Net OPEB Liability	447,618	537,143	984,761
Total Long-Term Liabilities	1,526,754	3,798,886	5,325,640
Total Liabilities	2,777,628	4,208,080	6,985,708
Deferred Inflows of Resources			
Pension	176,834	191,898	368,732
OPEB	33,345	40,014	73,359
Total Deferred Inflows of Resources	210,179	231,912	442,091
Net Position			
Net Investment in Capital Assets	8,826,805	11,045,668	19,872,473
Unrestricted	224,024	11,389,193	11,613,217
Total Net Position	$9,050,829	$22,434,861	$31,485,690

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, 2018

	Enterprise		
	Water	Wastewater	Total
Operating Revenues			
Charges for Services	$2,333,030	$2,564,001	$4,897,031
Intergovernmental	308	1,687	1,995
Other	62,026	16,759	78,785
Total Operating Revenues	2,395,364	2,582,447	4,977,811
Operating Expenses			
Personal Services	958,025	1,080,050	2,038,075
Materials and Supplies	896,292	420,449	1,316,741
Contractual Services	472,630	1,071,380	1,544,010
Depreciation	422,693	517,143	939,836
Other	3,760	40	3,800
Total Operating Expenses	2,753,400	3,089,062	5,842,462
Operating Income (Loss)	(358,036)	(506,615)	(864,651)
Non-Operating Revenue (Expenses)			
Interest	0	40,882	40,882
Interest and Fiscal Charges	(3,400)	(80,065)	(83,465)
Loss on Disposal of Capital Assets	(4,284)	0	(4,284)
Total Non-Operating Revenue (Expenses)	(7,684)	(39,183)	(46,867)
Income (Loss) before Transfers	(365,720)	(545,798)	(911,518)
Transfers Out	(3,405)	(3,405)	(6,810)
Change in Net Position	(369,125)	(549,203)	(918,328)
Net Position Beginning of Year Year (Restated See Note 20)	9,419,954	22,984,064	32,404,018
Net Position End of Year	$9,050,829	$22,434,861	$31,485,690

See accompanying notes to the basic financial statements

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City of Salem, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2018

	Enterprise		
	Water	Wastewater	Total
Increase in Cash and Cash Equivalents			
Cash Flows from Operating Activities			
Cash Received from Customers	$2,297,580	$2,592,253	$4,889,833
Intergovernmental Cash Receipts	610	2,038	2,648
Other Cash Receipts	62,026	16,759	78,785
Cash Payments to Employees for Services	(877,531)	(973,327)	(1,850,858)
Cash Payments for Goods and Services	(1,339,993)	(1,509,097)	(2,849,090)
Other Cash Payments	(3,760)	(40)	(3,800)
Net Cash Provided by (Used for) Operating Activities	138,932	128,586	267,518
Cash Flows from Noncapital Financing Activities			
Advances In	1,100,000	1,317,297	2,417,297
Advances Out	(1,300,000)	(1,100,000)	(2,400,000)
Transfers Out	(3,405)	(3,405)	(6,810)
Net Cash Provided by (Used for) Noncapital Financing Activities	(203,405)	213,892	10,487
Cash Flows from Capital and Related Financing Activities			
Principal Paid on Revenue Bonds	0	(300,000)	(300,000)
Interest Paid on Revenue Bonds	0	(82,468)	(82,468)
Interest Paid on Interfund Loans	(3,400)	0	(3,400)
Payments for Capital Acquisitions	(409,226)	(327,726)	(736,952)
Principal Paid on OWPC Loans	(54,196)	0	(54,196)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(466,822)	(710,194)	(1,177,016)
Cash Flows from Investing Activities			
Interest on Investments	0	40,882	40,882
Net Increase (Decrease) in Cash and Cash Equivalents	(531,295)	(326,834)	(858,129)
Cash and Cash Equivalents Beginning of Year	2,376,360	11,487,190	13,863,550
Cash and Cash Equivalents End of Year	$1,845,065	$11,160,356	$13,005,421

See accompanying notes to the basic financial statements

City of Salem, Ohio

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2018

	Enterprise		
	Water	Sewer	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities			
Operating Income (Loss)	($358,036)	($506,615)	($864,651)
Adjustments:			
Depreciation	422,693	517,143	939,836
(Increase) Decrease in Assets:			
Accounts Receivable	(35,450)	(8,850)	(44,300)
Special Assessments Receivable	0	37,102	37,102
Intergovernmental Receivable	302	351	653
Materials and Supplies Inventory	449	7,279	7,728
Prepaid Items	(7,639)	(9,076)	(16,715)
Net Pension Asset	(4,898)	(5,880)	(10,778)
(Increase) Decrease in Deferred Outflows - Pension	127,173	147,545	274,718
(Increase) Decrease in Deferred Outflows - OPEB	23,560	28,271	51,831
Increase (Decrease) in Liabilities:			
Accounts Payable	36,590	(15,000)	21,590
Accrued Wages	2,261	2,139	4,400
Compensated Absences Payable	(10,467)	(4,331)	(14,798)
Intergovernmental Payable	3,666	(4,095)	(429)
Net Pension Liability	14,335	17,202	31,537
Net OPEB Liability	24,274	29,130	53,404
Increase (Decrease) in Deferred Inflows - Pension	(91,545)	(93,726)	(185,271)
Increase (Decrease) in Deferred Inflows - OPEB	(8,336)	(10,003)	(18,339)
Total Adjustments	496,968	635,201	1,132,169
Net Cash Provided by (Used for) Operating Activities	$138,932	$128,586	$267,518

See accompanying notes to the basic financial statements

City of Salem, Ohio

Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2018

Assets	
Equity in Pooled Cash and Cash Equivalents	$56,780
Liabilities	
Undistributed Monies	$56,780

See accompanying notes to the basic financial statements

Note 1 – Description of the City and Reporting Entity

The City of Salem (the "City") was incorporated in 1887 and is a statutory municipal corporation under the laws of the State of Ohio. The City operates under a Mayor-Council form of government. The Mayor is elected for a four-year term. There are 8 Council members, 3 at-large, one for each of the 4 wards and a President of Council, all elected for four year staggered terms.

Reporting Entity

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

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

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

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

Note 2 – Summary of Significant Accounting Policies

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

Basis of Presentation

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

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

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

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

Fund Accounting

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

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

> ***General Fund*** - The general fund accounts for and reports all financial resources except those required to be accounted for and reported in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.
>
> ***Street Improvement Fund*** – The street improvement capital project fund accounts for and reports income tax receipts that are restricted for major street capital projects undertaken by the City.

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

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City reports no internal service funds.

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

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

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

Fiduciary Funds

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

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

Measurement Focus

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

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

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

Basis of Accounting

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

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

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

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

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges on refunding, pension and OPEB. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension and OPEB are explained in Notes 17 and 18.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, payments in lieu of taxes, pension, OPEB and unavailable revenue. Property taxes and payment in lieu of taxes represent amounts for which there is an enforceable legal claim as of December 31, 2018, but which were levied to finance fiscal year 2019 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City unavailable revenue includes delinquent property taxes, income taxes and intergovernmental grants.

These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the reconciliation of total governmental fund balance to net position of governmental activities found on page 17. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 17 and 18).

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

Cash and Cash Equivalents

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

During 2018, investments were limited to negotiable certificates of deposits. Investments are reported at fair value which is based on quoted market prices.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2018 amount to $205,544, of which $116,457 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, 2018, 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.

Capital Assets

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

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

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

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

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

Compensated Absences

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

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

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

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

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term loans are recognized as a liability on the governmental fund financial statements when due. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan’s fiduciary net position is not sufficient for payment of those benefits.

Pensions/Other Postemployment Benefits (OPEB)

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

Fund Balance

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

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

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

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

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

Assigned Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by the City Council. In the general fund, assigned amounts represent intended uses established by policies of the Council or a City official delegated that authority by ordinance, or by State Statute. State statute authorizes the City Auditor to assign balance for purchases on order provided such amounts have been lawfully appropriated. City Council assigned fund balance to cover a gap between estimated revenue and appropriations in 2019's budget and for the Shade Tree program.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit fund balance.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Net Position

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

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

Operating Revenues and Expenses

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

Bond Premiums

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using straight line method. Bond premiums are presented as an increase of the face amount of the general obligation bonds payable. On fund financial statements, bond premiums are receipted in the year the bonds are issued. Under Ohio law, premiums on the original issuance of debt are to be deposited to the bond retirement fund to be used for debt retirement and are precluded from being applied to the project fund.

Internal Activity

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

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

Interfund Balances

On the fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as “interfund receivables/payables”. Interfund loans which do not represent available expendable resources are classified as nonspendable fund balance. Interfund balance amounts are eliminated in the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Estimates

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

Budgetary Process

All funds, except 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 - Fund Balances

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

Fund Balances	General	Street Improvement	Other Governmental Funds	Total
Nonspendable				
Prepaids	$63,323	$0	$5,981	$69,304
Inventory	80,995	0	45,041	126,036
Unclaimed Monies	9,856	0	0	9,856
Total Nonspendable	154,174	0	51,022	205,196
Restricted for				
Park Operations	0	0	215,506	215,506
Public Safety	0	0	153,700	153,700
Community Development	0	0	102,303	102,303
Street Maintenance	0	73,556	152,122	225,678
Capital Improvements	0	0	1,498,440	1,498,440
Debt Service Payments	0	0	28,854	28,854
Total Restricted	0	73,556	2,150,925	2,224,481
Committed to				
Municipal Events	0	0	19,346	19,346
Storm Water Study	0	0	49,227	49,227
Capital Improvements	0	0	52,310	52,310
Health Department	0	0	25,899	25,899
Accrued Personal Benefits	1,387	0	0	1,387
Total Committed	1,387	0	146,782	148,169
Assigned to				
Shade Tree Program	624	0	0	624
2019 Appropriations	746,555	0	0	746,555
Purchases on Order:				
Materials and Supplies	3,386	0	0	3,386
Puchased Services	3,706	0	0	3,706
Total Assigned	754,271	0	0	754,271
Unassigned (Deficit)	1,442,054	0	(30,773)	1,411,281
Total Fund Balances	$2,351,886	$73,556	$2,317,956	$4,743,398

Note 4 - Accountability

Fund balances at December 31, 2018, included the following individual fund deficits:

	Deficit Fund Balances
Special Revenue Funds:	
Police Pension	$10,266
Fire Pension	6,524
Debt Service Fund	
Tax Increment Financing Bond Retirement	13,983

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

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

Note 5 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).

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

3. Encumbrances are treated as expenditures (budget) rather than restricted, committed or assigned fund balance (GAAP).

4. Unrecorded cash represents amounts received but not reported by the City on the operating statements (budget), but which is reported on the GAAP basis operating statement.

5. Budgetary revenues and expenditures for the shade tree fund is classified to the general fund for GAAP reporting.

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

Net Change in Fund Balances	General
GAAP Basis	($149,597)
Net Adjustment for Revenue Accruals	47,944
Beginning GASB 31 Adjustment	(37,503)
Ending GASB 31 Adjustment	46,625
Beginning Unrecorded Cash	20,129
Ending Unrecorded Cash	(3,334)
Net Adjustment for Expenditures Accruals	(18,980)
Encumbrances	(8,503)
Budget Basis	($103,219)

Note 6 - Deposits and Investments

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

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home

Loan Mortgage Corporation and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

5. Bonds and other obligations of the State of Ohio, and, with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;

6. The State Treasurer's investment pool (STAR Ohio);

7. Certain bankers' acceptances (for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and

8. Written repurchase agreements in the securities described in (1) or (2) provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited.

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

The City has passed an ordinance allowing the City to invest monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;

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

3. Obligations of the City.

Investments

Investments are reported at fair value. As of December 31, 2018, the City had the following investments:

Measurement/Investment	Measurement Amount	Maturity	Moody Rating	Percent of Total Investments
Fair Value - Level Two Inputs				
Negotiable Certificates of Deposit	$5,098,467	Less than Two Years	N/A	100.00%

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the City's recurring fair value measurements as of December 31, 2018. All of the City's investments are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data. (Level 2 inputs).

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

Credit Risk The Moody's ratings of the City's investments are listed in the table above. The City's investment policy states that no more than ten percent of the City's total investment portfolio will be invested in a single security type or with a single financial institution for a period of no longer than twelve months. Contrary to the existing investment policy the City has $2,181,996 in Negotiable Certificates of Deposit that exceed the twelve months. The City is in the process of updating their investment policy to prevent this issue in the future.

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

Concentration of Credit Risk The City places a $250,000 limit on investments unless collateralized in a different manner to guarantee no loss of principal.

Note 7 - Receivables

Receivables at December 31, 2018, 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 2018 for real and public utility property taxes represents collections of 2017 taxes.

2018 real property taxes were levied after October 1, 2018, on the assessed value as of January 1, 2018, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2018 real property taxes are collected in and intended to finance 2019.

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. 2018 public utility property taxes which became a lien December 31, 2017, are levied after October 1, 2018, and are collected in 2019 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2018, was $5.70 per $1,000 of assessed value. The assessed values of real and public utility tangible property upon which 2018 property tax receipts were based are as follows:

Real Property	$210,922,510
Public Utility Personal Property	9,580,050
Total	$220,502,560

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, 2018, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2018 operations is offset to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

Income Taxes

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

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. One percent of the income tax proceeds is distributed 82.5 percent to the general fund while the remaining 17.5 percent is distributed first to the general obligation bond retirement fund to cover debt payments then any remaining amount goes into the income tax capital improvement fund. The additional .25 percent income tax will be received by the street improvement capital projects fund for a five year period that started January 1, 2016 and ending December 31, 2020. The new income tax proceeds will be restricted for streets, alleys, sidewalks, curbs and storm sewers.

Intergovernmental Receivables

A summary of intergovernmental receivables follows:

	Amounts
Governmental Activities	
Gasoline and Municipal Cents per Gallon	$199,028
Homestead and Rollback	53,128
Local Government	49,200
Motor Vehicle License Tax	46,946
Permissive Tax	42,910
Ohio Department of Treasury	4,010
Salem City Schools	3,643
Columbiana County	3,105
Ohio Bureau of Worker's Compensation	1,900
State of Ohio	1,220
Total Governmental Activities	$405,090
Business Type Activities	
Ohio Bureau of Worker's Compensation	$667

Payments in Lieu of Taxes

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

Note 8 – Tax Abatements

As of December 31, 2018, the City of Salem provides tax incentives under the Community Reinvestment Area (CRA).

Real Estate Tax Abatements

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

Current Tax Abatement Activity

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

Below is the information relevant to the disclosure of those programs for the year ended December 31, 2018.

Tax Abatement Program	Total Amount of Taxes Abated (Incentives Abated) For the year 2018 (In Actual Dollars)
Community Reinvestment Area (CRA)	
- Commercial/Industrial	$10,605

Note 9 – Other Employee Benefits

Compensated Absences

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

Insurance

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

Life insurance is provided to full-time employees through Lincoln National Life Insurance. Full-time employees receive $25,000 term life coverage. The City pays the total monthly premium.

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, 2018.

Note 11 - Capital Assets

Capital asset activity for the year ended December 31, 2018, was as follows:

	Balance 12/31/2017	Additions	Deductions	Balance 12/31/2018
Governmental Activities				
Capital Assets not being Depreciated:				
Land	$4,606,592	$0	$0	$4,606,592
Capital Assets being Depreciated:				
Buildings	2,273,446	99,858	0	2,373,304
Improvements Other Than Buildings	473,448	5,355	0	478,803
Land Improvements	639,229	3,808	0	643,037
Machinery and Equipment	4,174,254	301,222	(42,440)	4,433,036
Infrastructure	27,358,655	1,505,652	0	28,864,307
Total Capital Assets being Depreciated	34,919,032	1,915,895	(42,440)	36,792,487
Less Accumulated Depreciation:				
Buildings	(1,547,228)	(55,185)	0	(1,602,413)
Improvements Other Than Buildings	(463,156)	(3,654)	0	(466,810)
Land Improvements	(305,947)	(10,706)	0	(316,653)
Machinery and Equipment	(2,723,501)	(304,198)	42,440	(2,985,259)
Infrastructure	(15,104,892)	(483,593)	0	(15,588,485)
Total Accumulated Depreciation	(20,144,724)	(857,336) *	42,440	(20,959,620)
Total Capital Assets being Depreciated, Net	14,774,308	1,058,559	0	15,832,867
Governmental Activities Capital Assets, Net	$19,380,900	$1,058,559	$0	$20,439,459

*Depreciation expense was charged to governmental activities as follows:

General Government	$16,639
Security of Persons and Property	231,947
Public Health Services	254
Transportation	566,305
Leisure Time Activities	42,191
Total Depreciation Expense	$857,336

During 2018, two ford explorers were donated to the City valued at $28,378. The City has recorded this as a capital contribution.

	Balance 12/31/2017	Additions	Deductions	Balance 12/31/2018
Business Type Activities:				
Capital Assets not being Depreciated:				
Land	$669,334	$0	$0	$669,334
Construction in Progress	449,621	472,921	(137,233)	785,309
Total Capital Assets not being Depreciated	1,118,955	472,921	(137,233)	1,454,643
Capital Assets being Depreciated:				
Buildings	22,127,499	217,446	(11,819)	22,333,126
Improvements Other Than Buildings	100,073	0	0	100,073
Machinery and Equipment	8,880,213	159,038	0	9,039,251
Infrastructure	17,985,737	24,780	0	18,010,517
Total Capital Assets being Depreciated	49,093,522	401,264	(11,819)	49,482,967
Less Accumulated Depreciation:				
Buildings	(12,495,397)	(476,246)	7,535	(12,964,108)
Improvements Other Than Buildings	(96,796)	(331)	0	(97,127)
Machinery and Equipment	(8,197,590)	(97,309)	0	(8,294,899)
Infrastructure	(6,224,802)	(365,950)	0	(6,590,752)
Total Accumulated Depreciation	(27,014,585)	(939,836)	7,535	(27,946,886)
Total Capital Assets being Depreciated, Net	22,078,937	(538,572)	(4,284)	21,536,081
Business Type Activities Capital Assets, Net	$23,197,892	($65,651)	($141,517)	$22,990,724

Note 12 - Public Entity Risk Pool

Risk Sharing Authority

Property and Liability

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

PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2018, the Pool retained $500,000 for casualty claims and $250,000 for property claims. The Board of Directors and York periodically review the financial strength of the Pool and other market conditions to determine the appropriate level of risk the Pool will retain.

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

Financial Position

PEP's financial statements (for which an independent audit is still ongoing) conform to generally accepted accounting principles, and preliminarily show the following assets, liabilities and net position at December 31, 2018:

Casualty and Property Coverage	2018
Assets	$49,921,998
Liabilities	14,676,199
Net Position - Unrestricted	$35,245,799

At December 31, 2018, the liabilities above include unknown amounts of estimated incurred claims payable. The casualty coverage assets and net position above include approximately $11.8 million of unpaid claims to be billed to approximately 538 member governments in the future, as of December 31, 2018. These amounts will be included in future contributions from members when the related claims are due for payment. This payable includes subsequent year's contributions due if the City terminates participation, as described in the last paragraph below.

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

This was the first year the City was a member of the PEP. The contribution for 2018 was $110,392.

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

Note 13 – Interfund Transfers and Balances

Interfund Transfers

Interfund transfers for the year ended December 31, 2018, consisted of the following:

	Transfer From						
Transfer To	General	Other Governmental	Total Governmental	Water	Wastewater	Total Business-Type	Total
Governmental Funds							
Major Fund:							
General Fund	$0	$7,350	$7,350	$3,405	$3,405	$6,810	$14,160
Nonmajor Funds:							
Police Pension Fund	189,800	0	189,800	0	0	0	189,800
Fire Pension Fund	186,000	0	186,000	0	0	0	186,000
Street Construction							
Maintenance and Repair Fund	130,000	0	130,000	0	0	0	130,000
Health Fund	61,515	0	61,515	0	0	0	61,515
Income Tax Capital Improvement	200,000	32,688	232,688	0	0	0	232,688
Grand Total	$767,315	$40,038	$807,353	$3,405	$3,405	$6,810	$814,163

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

Interfund Balances

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

	Interfund Receivable
Interfund Payable	Wastewater
Tax Increment Financing Debt Service	$92,703

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

	Principal	Interest
2019	$8,760	$1,013
2020	8,848	926
2021	8,936	837
2022	9,026	748
2023	9,116	658
2024-2028	46,963	1,640
2029	1,054	97
Total	$92,703	$5,919

On May 30, 2018, the City issued $1,100,000 in manuscript debt for a 5 year period at a rate of 2.50 percent. The City has purchased this debt. The City has identified the wastewater enterprise fund as the fund that received the proceeds and the water enterprise fund as the fund that purchased the debt. For reporting purposes, these transactions are reflected as an interfund receivable and an interfund payable in the respective funds. This note is due on May 30, 2023 and was used for waterline improvements.

	Interfund Receivable
Interfund Payable	Wastewater
Water	$1,100,000

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

	Principal	Interest
2019	$209,271	$27,500
2020	214,503	22,268
2021	219,866	16,906
2022	225,363	11,409
2023	230,997	5,775
Total	$1,100,000	$83,858

Note 14 – Note Debt

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

	Balance 12/31/2017	Additions	Reductions	Balance 12/31/2018
Infrastructure Improvement Note, Series 2018	$0	$1,000,000	$0	$1,000,000
Real Estate Acquisition Note, Series 2018	0	47,500	0	47,500
Total	$0	$1,047,500	$0	$1,047,500

In 2018, the City issued $1,000,000 in Infrastructure Improvement notes. These notes were issued at an interest rate of 2.5 percent and will be retired on April 30, 2019.

In 2018, the City issued $47,500 in Real Estate Acquisition notes. These notes were issued at an interest rate of 4.0 percent. On February 7, 2019, the City paid $47,500 in principal and $375 in interest which retired this note.

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

Note 15 - Long-Term Obligations

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

Debt Issue	Interest Rate	Original Issue	Year of Maturity
Business-Type Activities:			
Ohio Public Works Commission Loan			
Stewart Road Water Tank	0.00 %	$410,000	2020
Roosevelt Ave Water Tank	0.00	673,917	2030
Wastewater System Improvement Bond	2.90	3,000,000	2027
Governmental Activities:			
General Obligation Bonds:			
Various Purpose Bonds, Series A	2.59	$328,000	2023
Various Purpose Bonds, Series B	2.52	55,000	2020
Various Purpose Refunding Bonds	2.45	1,540,000	2025
Ohio Public Works Commission Loan			
East Pershing Street Improvement	0.00	376,179	2042
Long Term Note			
Infrastructure Improvement Note	2.50	2,000,000	2019

A schedule of changes in bonds and other long-term obligations of the City during 2018 follows:

	Amount Outstanding 12/31/2017	Additions	Deletions	Amount Outstanding 12/31/2018	Amounts Due In One Year
Business-Type Activities:					
Ohio Public Works Commission					
Stewart Road Water Tank	$51,250	$0	($20,500)	$30,750	$20,500
Roosevelt Ave Water Tank	421,197	0	(33,696)	387,501	33,696
Total Ohio Public Works Commission	472,447	0	(54,196)	418,251	54,196
Wastewater System Improvement Bond	3,000,000	0	(300,000)	2,700,000	300,000
Other Long-term Liabilities:					
Net Pension Liability - OPERS:					
Water	924,364	0	(265,277)	659,087	0
Sewer	1,109,236	0	(318,332)	790,904	0
Total Net Pension Liability - OPERS	$2,033,600	$0	($583,609)	$1,449,991	$0

(continued)

	Amount Outstanding 12/31/2017	Additions	Deletions	Amount Outstanding 12/31/2018	Amounts Due In One Year
Business-Type Activities (continued):					
Net OPEB Liability - OPERS:					
Water	$409,872	$37,746	$0	$447,618	$0
Sewer	491,846	45,297	0	537,143	0
Total Net OPEB Liability - OPERS	901,718	83,043	0	984,761	0
Compensated Absences	148,903	3,005	(17,803)	134,105	7,272
Total Other Long-term Liabilities	3,084,221	86,048	(601,412)	2,568,857	7,272
Total Business-Type Activities Obligations	$6,556,668	$86,048	($955,608)	$5,687,108	$361,468

	Amount Outstanding 12/31/2017	Additions	Deletions	Amount Outstanding 12/31/2018	Amounts Due In One Year
Governmental Activities Obligations:					
General Obligation Bonds					
Various Purpose Bonds, Series A	$183,085	$0	($36,334)	$146,751	$31,446
Various Purpose Bonds, Series B	22,253	0	(8,721)	13,532	8,053
Various Purpose Refunding Bonds, Series 2014	1,249,802	0	(140,521)	1,109,281	150,000
Total General Obligation Bonds	1,455,140	0	(185,576)	1,269,564	189,499
Ohio Public Works Commission Loan					
East Pershing Street Improvement	300,945	0	(12,539)	288,406	12,539
Other Long-term Liabilities:					
Net Pension Liability					
OPERS	2,588,221	0	(742,778)	1,845,443	0
OP&F	6,135,900	0	(29,689)	6,106,211	0
Total Net Pension Liability:	8,724,121	0	(772,467)	7,951,654	0
Net OPEB Liability					
OPERS	1,147,641	105,692	0	1,253,333	0
OP&F	4,598,391	1,038,629	0	5,637,020	0
Total Net OPEB Liability:	5,746,032	1,144,321	0	6,890,353	0
Infrastructure Improvement Notes	3,600,000	2,000,000	(3,600,000)	2,000,000	0
Compensated Absences	399,394	145,717	(147,750)	397,361	133,681
Total Governmental Activities Obligations	$20,225,632	$3,290,038	($4,718,332)	$18,797,338	$335,719

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

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

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

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

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

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

OPWC loans will be paid from water and wastewater enterprise fund user service charges and monies from the general obligation bond retirement fund. Compensated absences will be paid from the following funds: the general fund, the street construction maintenance and repair and the parks special revenue funds and the water and wastewater enterprise funds. The City pays obligations related to employee compensation from the fund benefitting from their service. There is no repayment schedule for the net pension liability. However, employer pension contributions are made from the following funds; the general fund, the police pension, fire pension, street construction maintenance and repair, municipal income tax, health and park special revenue funds, and the water and wastewater enterprise funds.

The City has pledged future revenues, net of operating expenses, to repay OPWC loans in the water fund. The debt is payable solely from net revenues and are payable through 2030. Annual principal and interest payments on the debt issues required less than 100 percent of net revenues. The total principal remaining to be paid on the loans is $418,251. Principal paid for the current year and total net revenues were $54,196 and $60,373 respectively.

The City's overall legal debt margin was $18,594,799 at December 31, 2018. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2018, are as follows:

Business-Type Activities:

	Wastewater System Improvement Bonds		OPWC
	Principal	Interest	Loans
2019	$300,000	$74,863	$54,196
2020	300,000	66,245	43,946
2021	300,000	57,240	33,696
2022	300,000	48,428	33,696
2023	300,000	39,616	33,696
2024-2028	1,200,000	70,445	168,479
2029-2030	0	0	50,542
Total	$2,700,000	$356,837	$418,251

Governmental Activities:

	General Obligation Bonds		OPWC Loan
	Principal	Interest	Principal
2019	$189,499	$31,643	$12,539
2020	187,744	26,941	12,539
2021	188,106	22,272	12,539
2022	193,969	17,612	12,539
2023	175,964	12,806	12,539
2024-2028	334,282	12,372	62,695
2029-2033	0	0	62,696
2034-2038	0	0	62,700
2039-2041	0	0	37,620
Total	$1,269,564	$123,646	$288,406

Conduit Debt

The City has issued Revenue Bonds to provide financial assistance to the City's hospital facilities. The monies are used primarily for upgrades to these facilities. In addition, the City has issued bonds to provide the necessary funds for the construction of a community recreation center. During 2013, the hospital revenue bonds were refunded. At December 31, 2018, the outstanding bonds have a principal amount outstanding of $48,745,000. The City is not obligated in any way to pay debt charges on the bonds from any of its funds, and therefore they have been excluded entirely for the City's debt presentation. There has not been any condition of default under the bonds or the related financing documents.

Note 16 - Risk Management

Property and Liability

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2018, the City contracted with the Public Entities Pool of Ohio (PEP) for various types of insurance as follows:

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

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

Workers' Compensation

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

Note 17 - Defined Benefit Pension Plans

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

Net Pension Liability (Asset) /Net OPEB Liability

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

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

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

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

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a combination cost-sharing, multiple-employer defined benefit/defined contribution pension plan.

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

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

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

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

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

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

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

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

	State and Local
2018 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee *	10.0 %
2018 Actual Contribution Rates	
Employer:	
Pension **	14.0 %
Post-employment Health Care Benefits **	0.0
Total Employer	14.0 %
Employee	10.0 %

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

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

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

For 2018, The City's contractually required contribution was $404,312 for the traditional plan, $20,667 for the combined plan and $3,076 for the member-directed plan. Of these amounts, $31,895 is reported as an intergovernmental payable for the traditional plan, $1,631 for the combined plan, and $318 for the member-directed plan.

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

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

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

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

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

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

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

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

	Police	Firefighters
2018 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
2018 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was $476,024 for 2018. Of this amount, $58,282 is reported as an intergovernmental payable.

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

The net pension liability (asset) for OPERS was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2017, and was determined by rolling forward the total pension liability as of January 1, 2017, to December 31, 2017. The City's proportion of the net pension liability (asset) was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense of the City's defined benefit pension plans:

	OPERS Traditional Plan	OPERS Combined Plan	OP&F	Total
Proportion of the Net Pension Liability/Asset:				
Current Measurement Date	0.02100600%	0.02992900%	0.09949100%	
Prior Measurement Date	0.02035300%	0.03140500%	0.09687400%	
Change in Proportionate Share	0.00065300%	-0.00147600%	0.00261700%	
Proportionate Share of the:				
Net Pension Liability	$3,295,434	$0	$6,106,211	$9,401,645
Net Pension Asset	0	40,743	0	40,743
Pension Expense	719,288	(26,455)	745,820	1,438,653

2018 pension expense for the member-directed defined contribution plan was $3,076.

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to defined benefit pensions from the following sources:

	OPERS Traditional Plan	OPERS Combined Plan	OP&F	Total
Deferred Outflows of Resources				
Differences between expected and actual experience	$3,366	$0	$92,666	$96,032
Changes of assumptions	393,826	3,561	266,080	663,467
Changes in proportion and differences between City contributions and proportionate share of contributions	71,739	716	206,881	279,336
City contributions subsequent to the measurement date	404,312	20,667	476,024	901,003
Total Deferred Outflows of Resources	$873,243	$24,944	$1,041,651	$1,939,838
Deferred Inflows of Resources				
Differences between expected and actual experience	$64,942	$12,137	$11,046	$88,125
Net difference between projected and actual earnings on pension plan investments	707,486	6,428	211,228	925,142
Changes in proportion and differences between City contributions and proportionate share of contributions	45,885	0	129,670	175,555
Total Deferred Inflows of Resources	$818,313	$18,565	$351,944	$1,188,822

$901,003 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability or increase to the net pension asset in 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS Traditional Plan	OPERS Combined Plan	OP&F	Total
Year Ending December 31:				
2019	$291,258	($1,958)	$171,427	$460,727
2020	(38,386)	(2,133)	115,894	75,375
2021	(311,539)	(3,574)	(102,888)	(418,001)
2022	(290,715)	(3,422)	(81,981)	(376,118)
2023	0	(1,165)	89,096	87,931
Thereafter	0	(2,036)	22,135	20,099
Total	($349,382)	($14,288)	$213,683	($149,987)

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2017, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2017, are presented below.

	OPERS Traditional Plan	OPERS Combined Plan
Wage Inflation	3.25 percent	3.25 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation	3.25 to 8.25 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.15 percent, simple
Investment Rate of Return	7.5 percent	7.5 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

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

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

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

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was 16.82 percent for 2017.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.20 %
Domestic Equities	19.00	6.37
Real Estate	10.00	5.26
Private Equity	10.00	8.97
International Equities	20.00	7.88
Other investments	18.00	5.26
Total	100.00 %	5.66 %

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

Sensitivity of the City's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate The following table presents the City's proportionate share of the net pension liability (asset) calculated using the current period discount rate assumption of 7.5 percent, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability (asset)			
OPERS Traditional Plan	$5,851,851	$3,295,434	$1,164,153
OPERS Combined Plan	(22,147)	(40,743)	(53,573)

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Assumptions considered were: withdrawal rates, disability retirement, service retirement, DROP elections, mortality, percent married and forms of the payment, DROP interest rate, CPI-based COLA, investment returns, salary increases and payroll growth.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of January 1, 2017, compared with January 1, 2016, are presented below.

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

For the January 1, 2017, valuation, mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

Age	Police	Fire
7 or less	77 %	68 %
68-77	105	87
8 and up	115	120

For the January 1, 2017, valuation, mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

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

For the January 1, 2016 valuation, rates of death were based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed for the five year period ended December 31, 2016, the prior experience study was completed December 31, 2011.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2017, are summarized as follows:

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

Note: Assumptions are geometric.
* levered 2x

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

Discount Rate For 2017, the total pension liability was calculated using the discount rate of 8.00 percent. The discount rate used for 2016 was 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.00 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	$8,464,811	$6,106,211	$4,182,559

Note 18 - Defined Benefit OPEB Plans

See Note 17 for a description of the net OPEB liability

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

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

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

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

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting https://www.opers.org/financial/reports.shtml, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2018, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

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

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was $1,230 for 2018. Of this amount, $127 is reported as an intergovernmental payable.

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

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. OP&F provides health care benefits including coverage for medical, prescription drug, dental, vision, and Medicare Part B Premium to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit, or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 75.

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

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

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

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

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 2018, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contractually required contribution to OP&F was $11,344 for 2018. Of this amount, $1,402 is reported as an intergovernmental payable.

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

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2017, and was determined by rolling forward the total OPEB liability as of January 1, 2017, to December 31, 2017. The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	OPERS	OP&F	Total
Proportion of the Net OPEB Liability:			
Current Measurement Date	0.020610%	0.0994910%	
Prior Measurement Date	0.020290%	0.0968740%	
Change in Proportionate Share	0.0003200%	0.0026170%	
Proportionate Share of the Net Pension Liability	$2,238,094	$5,637,020	$7,875,114
OPEB Expense	$198,719	$463,596	$662,315

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	OPERS	OP&F	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$1,743	$0	$1,743
Changes of assumptions	162,957	550,053	713,010
Changes in proportion and differences between City contributions and proportionate share of contributions	21,867	101,495	123,362
City contributions subsequent to the measurement date	1,230	11,344	12,574
Total Deferred Outflows of Resources	$187,797	$662,892	$850,689
Deferred Inflows of Resources			
Differences between expected and actual experience	$0	$28,431	$28,431
Net difference between projected and actual earnings on OPEB plan investments	166,723	37,105	203,828
Total Deferred Inflows of Resources	$166,723	$65,536	$232,259

$12,574 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	OPERS	OP&F	Total
Year Ending December 31:			
2019	$47,517	$81,822	$129,339
2020	47,517	81,822	129,339
2021	(33,510)	81,822	48,312
2022	(41,680)	81,822	40,142
2023	0	91,098	91,098
Thereafter	0	167,626	167,626
Total	$19,844	$586,012	$605,856

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of

December 31, 2016, rolled forward to the measurement date of December 31, 2017. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation	3.25 percent
Projected Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
Single Discount Rate:	
Current measurement date	3.85 percent
Prior Measurement date	4.23 percent
Investment Rate of Return	6.50 percent
Municipal Bond Rate	3.31 percent
Health Care Cost Trend Rate	7.5 percent, initial 3.25 percent, ultimate in 2028
Actuarial Cost Method	Individual Entry Age

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

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

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

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 15.2 percent for 2017.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	34.00 %	1.88 %
Domestic Equities	21.00	6.37
Real Estate Investment Trust	6.00	5.91
International Equities	22.00	7.88
Other investments	17.00	5.39
Total	100.00 %	4.98 %

Discount Rate A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. A single discount rate of 4.23 percent was used to measure the OPEB liability on the measurement date of December 31, 2016. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50 percent and a municipal bond rate of 3.31 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate The following table presents the City's proportionate share of the net OPEB liability calculated using the single discount rate of 3.85 percent, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.85 percent) or one-percentage-point higher (4.85 percent) than the current rate:

	1% Decrease (2.85%)	Current Discount Rate (3.85%)	1% Increase (4.85%)
City's proportionate share of the net OPEB liability	$2,973,405	$2,238,094	$1,643,235

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

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
City's proportionate share of the net OPEB liability	$2,141,379	$2,238,094	$2,337,998

Actuarial Assumptions – OP&F

OP&F's total OPEB liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F's actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

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

Valuation Date	January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.0 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Single discount rate:	
Currrent measurement date	3.24 percent
Prior measurement date	3.79 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent

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

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

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

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

The most recent experience study was completed for the five year period ended December 31, 2016, the prior experience study was completed December 31, 2011.

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

Discount Rate The total OPEB liability was calculated using the discount rate of 3.24 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8 percent. Based on those assumptions, OP&F's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 3.16 percent at December 31, 2017 and 3.71 percent at December 31, 2016, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 3.24 percent. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index. The OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments until 2025. The long-term expected rate of return on health care investments was applied to projected costs through 2025, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 3.24 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.24 percent), or one percentage point higher (4.24 percent) than the current rate.

	1% Decrease (2.24%)	Current Discount Rate (3.24%)	1% Increase (4.24%)
City's proportionate share of the net OPEB liability	$7,046,344	$5,637,020	$4,552,598

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Net OPEB liability is sensitive to changes in the health care cost trend rate. The trend rate is the annual rate at which the cost of covered medical services is assumed to increase from the current year to the next year. Beginning in 2017, the per-capita costs are assumed to change by the following percentages each year:

Year	Non-Medicare	Non-AARP	AARP	Rx Drug	Medicare Part B
2017	-0.47%	-2.50%	4.50%	-0.47%	5.20%
2018	7.00%	7.00%	4.50%	7.00%	5.10%
2019	6.50%	6.50%	4.50%	6.50%	5.00%
2020	6.00%	6.00%	4.50%	6.00%	5.00%
2021	5.50%	5.50%	4.50%	5.50%	5.00%
2022	5.00%	5.00%	4.50%	5.00%	5.00%
2023 and Later	4.50%	4.50%	4.50%	4.50%	5.00%

To illustrate the potential impact, the following table presents the net OPEB liability calculated using the current healthcare cost trend current rates as outlined in the table above, a one percent decrease in the trend rates and a one percent increase in the trend rates.

	1% Decrease	Current Rates	1% Increase
City's proportionate share of the net OPEB liability	$4,378,939	$5,637,020	$7,332,489

Changes between Measurement Date and Report Date

In March 2018, the OP&F Board of Trustees approved the implementation date and framework for a new health care model. Beginning January 1, 2019, the current self-insured health care plan will no longer be offered. In its place is a stipend-based health care model. A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. The impact to the City's NOL is not known.

Note 19 – Encumbrances

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

Governmental Funds		**Proprietary Funds**	
General	$8,503	Water	$216,067
Other Government Funds	1,134,047	Wastewater	463,191
Total Governemntal Funds	$1,142,550		$679,258
		Agency Funds	$6,491

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

For fiscal year 2018, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 85, *Omnibus* 2017, Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions,* and related guidance from (GASB) Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits other Than Pensions (and Certain Issues Related to OPEB Plan Reporting).*

For 2018, the City also implemented the Governmental Accounting Standards Board's (GASB) *Implementation Guide No. 2017-1*. These changes were incorporated in the City's 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). These changes were incorporated in the City's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB 89 establishes accounting requirements for interest cost incurred before the end of a construction period. These changes were incorporated in the City's 2018 financial statements; however, there was no effect on beginning net position.

GASB 75 established standards for measuring and recognizing Postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported December 31, 2017:

	Governmental Activities	Business - Type Activities
Net Position December 31, 2017	$13,415,605	$33,292,612
Adjustments:		
Net OPEB Liability	(5,746,032)	(901,718)
Deferred Outflow - Payments Subsequent to Measurement Date	27,683	13,124
Restated Net Position December 31, 2017	$7,697,256	$32,404,018

	Water	Wastewater	Total Enterprise
Net Position December 31, 2017	$9,823,860	$23,468,752	$33,292,612
Adjustments:			
Net OPEB Liability	(409,872)	(491,846)	(901,718)
Deferred Outflow - Payments Subsequent to Measurement Date	5,966	7,158	13,124
Restated Net Position December 31, 2017	$9,419,954	$22,984,064	$32,404,018

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

Note 21 – Subsequent Events

Consistent with the provisions of Ohio Revised Code Section 3709.36, the City's health department was reorganized as a legally separate organization rather than continuing to operate as a department of the City. This change was effective January 2019 and will be reported as a transfer of operations in 2019. Among its various duties, the City of Salem Board of Health (Board) provides for the prompt diagnosis and control of communicable diseases. The Board may also inspect businesses where food is manufactured, handled, stored, or offered for sale. The Board will be operated by an six member board with all members being appointed by the City. The rates charged by the Board are not subject to the approval of City Council, however, the City provides funding to the Board, thus the City can impose will on the Board and the Board imposes a financial burden to the City. Therefore, beginning in 2019, the Board will be reported as a discretely presented component unit of the City.

On April 30, 2019, the City repaid $1,000,000 of the infrastructure improvement note. The City rolled $2,000,000 of the infrastructure improvement note at a rate 4.00 percent. The notes will mature April 30, 2020.

Required Supplementary Information

City of Salem, Ohio

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

	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.021006%	0.020353%	0.021391%	0.020844%	0.020844%
City's Proportionate Share of the Net Pension Liability	$3,295,434	$4,621,821	$3,705,192	$2,514,019	$2,457,236
City's Covered Payroll	$2,775,923	$2,631,075	$2,662,293	$2,555,433	$2,389,663
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	118.71%	175.66%	139.17%	98.38%	102.83%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.66%	77.25%	81.08%	86.45%	86.36%

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

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

See accompanying notes to the required supplementary information.

City of Salem, Ohio

Required Supplementary Information
Schedule of the City's Proportionate Share of the
Net Pension Asset
Ohio Public Employees Retirement System - Combined Plan
2018 (1)

	2018
City's Proportion of the Net Pension Asset	0.029929%
City's Proportionate Share of the Net Pension Asset	$40,743
City's Covered Payroll	$122,569
City's Proportionate Share of the Net Pension Asset as a Percentage of its Covered Payroll	-33.24%
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset	137.28%

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

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

See accompanying notes to the required supplementary information.

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

	2018	2017
City's Proportion of the Net OPEB Liability	0.020610%	0.020290%
City's Proportionate Share of the Net OPEB Liability	$2,238,094	$2,049,359
City's Covered Payroll	$2,919,567	$2,804,067
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	76.66%	73.09%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	54.14%	54.04%

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

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

See accompanying notes to the required supplementary information.

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

	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.0994910%	0.0968740%	0.1004440%	0.0972756%	0.0972756%
City's Proportionate Share of the Net Pension Liability	$6,106,211	$6,135,900	$6,461,633	$5,039,282	$4,737,627
City's Covered Payroll	$2,195,764	$2,099,783	$2,047,305	$1,934,895	$1,828,582
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	278.09%	292.22%	315.62%	260.44%	259.09%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.91%	68.36%	66.77%	71.71%	73.00%

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

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

See accompanying notes to the required supplementary information.

City of Salem, Ohio

Required Supplementary Information

Schedule of the City's Proportionate Share of the Net OPEB Liability

Ohio Police and Fire Pension Fund

Last Two Years (1)

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

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

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

See accompanying notes to the required supplementary information.

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

	2018	2017	2016
Net Pension Liability - Traditional Plan			
Contractually Required Contribution	$404,312	$360,870	$315,729
Contributions in Relation to the Contractually Required Contribution	(404,312)	(360,870)	(315,729)
Contribution Deficiency (Excess)	$0	$0	$0
City Covered Payroll	$2,887,943	$2,775,923	$2,631,075
Pension Contributions as a Percentage of Covered Payroll	14.00%	13.00%	12.00%
Net Pension Liability - Combined Plan			
Contractually Required Contribution	$20,667	$15,934	$14,669
Contributions in Relation to the Contractually Required Contribution	(20,667)	(15,934)	(14,669)
Contribution Deficiency (Excess)	$0	$0	$0
City Covered Payroll	$147,621	$122,569	$122,242
Pension Contributions as a Percentage of Covered Payroll	14.00%	13.00%	12.00%
Net OPEB Liability - OPEB Plan (3)			
Contractually Required Contribution	$1,230	$29,828	$57,096
Contributions in Relation to the Contractually Required Contribution	(1,230)	(29,828)	(57,096)
Contribution Deficiency (Excess)	$0	$0	$0
City Covered Payroll (2)	$3,066,314	$2,919,567	$2,804,067
OPEB Contributions as a Percentage of Covered Payroll	0.04%	1.02%	2.04%

(1) Information prior to 2013 is not available.
(2) The OPEB plan includes the members from the traditional plan, the combined plan and the member directed plan. The member directed pension plan is a defined contribution pension plan; therefore, the pension side is not included above.
(3) Information prior to 2016 is not available.

See accompanying notes to the required supplementary information.

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

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

	2018	2017	2016	2015
Net Pension Liability				
Contractually Required Contribution	$476,024	$459,876	$440,794	$430,900
Contributions in Relation to the Contractually Required Contribution	(476,024)	(459,876)	(440,794)	(430,900)
Contribution Deficiency (Excess)	$0	$0	$0	$0
City Covered Payroll (1)	$2,268,909	$2,195,764	$2,099,783	$2,047,305
Pension Contributions as a Percentage of Covered Payroll	20.98%	20.94%	20.99%	21.05%
Net OPEB Liability				
Contractually Required Contribution	$11,344	$10,979	$10,499	$10,237
Contributions in Relation to the Contractually Required Contribution	(11,344)	(10,979)	(10,499)	(10,237)
Contribution Deficiency (Excess)	$0	$0	$0	$0
OPEB Contributions as a Percentage of Covered Payroll	0.50%	0.50%	0.50%	0.50%
Total Contributions as a Percentage of Covered Payroll	21.48%	21.44%	21.49%	21.55%

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

See accompanying notes to the required supplementary information.

2014	2013	2012	2011	2010	2009
$407,092	$327,489	$265,348	$255,073	$258,492	$245,393
(407,092)	(327,489)	(265,348)	(255,073)	(258,492)	(245,393)
$0	$0	$0	$0	$0	$0
$1,934,895	$1,828,582	$1,799,399	$1,723,989	$1,745,815	$1,681,829
21.04%	17.91%	14.75%	14.80%	14.81%	14.59%
$9,675	$66,134	$121,460	$116,370	$117,843	$113,524
(9,675)	(66,134)	(121,460)	(116,370)	(117,843)	(113,524)
$0	$0	$0	$0	$0	$0
0.50%	3.62%	6.75%	6.75%	6.75%	6.75%
21.54%	21.53%	21.50%	21.55%	21.56%	21.34%

Changes in Assumptions – OPERS Pension

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

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

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

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

Changes in Assumptions – OP&F Pension

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

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

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

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

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

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

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

Changes in Assumptions – OPERS OPEB

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

Changes in Assumptions – OP&F OPEB

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

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

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

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, 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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 9, 2019, wherein we noted the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Keith Faber

Keith Faber
Auditor of State

Columbus, Ohio

September 9, 2019

OHIO AUDITOR OF STATE
KEITH FABER

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 1, 2019