



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



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## REPORT OF INDEPENDENT ACCOUNTANTS

City of Salem  
Columbiana County  
231 S. Broadway Ave.  
Salem, OH 44460

To the City Council:

We have audited the accompanying general-purpose financial statements of the City of Salem, Columbiana County, (the City) as of and for the year ended December 31, 1999, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Salem, Columbiana County, as of December 31, 1999, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2000 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 grants.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the City, taken as a whole. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Jim Petro".

**Jim Petro**  
Auditor of State

July 7, 2000

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**THE CITY OF SALEM, OHIO**  
**COMBINED BALANCE SHEET**  
**ALL FUND TYPES AND ACCOUNT GROUPS**  
**DECEMBER 31, 1999**

	Governmental			Proprietary			Fiduciary			Account			Totals
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Funds	Trust and Agency Funds	General Fixed Assets	Long-Term Obligations	General	Fixed Assets	Long-Term Obligations	(Memorandum Only)	
<b>Assets and Other Debits:</b>													
Assets:													
Cash and Cash Equivalents	\$1,188,954	\$681,947	\$126,040	\$987,856	\$6,127,323	\$25,889	\$0	\$0	\$0	\$0	\$0	\$9,138,009	
Investments	0	0	0	0	500,000	0	0	0	0	0	0	500,000	
Receivables (net of allowance for doubtful accounts):													
Taxes													
Accounts	577,717	921,898	0	0	0	0	0	0	0	0	0	1,499,615	
Special Assessments	18,202	0	0	0	617,110	0	0	0	0	0	0	635,312	
Interest	0	0	244,421	0	0	0	0	0	0	0	0	244,421	
Loans	0	0	0	0	22,372	0	0	0	0	0	0	22,372	
Due from Other Funds	0	47,773	0	0	0	0	0	0	0	0	0	47,773	
Intergovernmental Receivables	5,788	0	0	0	0	0	0	0	0	0	0	5,788	
Deferred Bond Issuance Costs	94,171	32,767	0	0	0	0	0	0	0	0	0	126,938	
Inventory of Supplies at Cost	72,681	23,090	0	0	142,781	0	0	0	0	0	0	142,781	
Prepaid Items	17,532	1,825	0	0	130,940	0	0	0	0	0	0	226,711	
Restricted Assets:													
Revenue Bond Reserve Account:													
Cash and Cash Equivalents	0	0	0	0	539,494	0	0	0	0	0	0	539,494	
Fixed Assets (net of accumulated depreciation)	0	0	0	0	31,500,652	0	5,932,555	0	0	0	0	37,433,207	
Construction in Progress	0	0	0	0	232,189	0	103,911	0	0	0	0	336,100	
Other Debits:													
Amount Available in Debt Service Funds	0	0	0	0	0	0	0	0	0	126,040	0	126,040	
Amount to be Provided for													
General Long-Term Obligations	0	0	0	0	0	0	0	0	0	1,249,911	0	1,249,911	
Total Assets and Other Debits	\$1,975,045	\$1,709,300	\$370,461	\$987,856	\$39,826,211	\$25,889	\$6,036,466	\$1,375,951	\$0	\$1,375,951	\$0	\$52,307,179	

(Continued)

**Governmental                      Proprietary                      Fiduciary                      Account**  
**Fund Types                      Fund Types                      Fund Types                      Groups**

	Governmental			Proprietary			Fiduciary			Account		
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Funds	Trust and Agency Funds	General Fixed Assets	Long-Term Obligations	Totals (Memorandum Only)			
Accounts Payable	\$48,963	\$91,213	\$0	\$21,464	\$289,108	\$0	\$0	\$0	\$450,748			
Accrued Wages and Benefits	120,361	117,813	0	0	69,579	0	0	0	307,753			
Due to Others	0	0	0	0	0	25,889	0	0	25,889			
Due to Other Funds	0	5,788	0	0	0	0	0	0	5,788			
Accrued Interest Payable	0	0	0	19,436	27,378	0	0	0	46,814			
Deferred Revenue	598,912	464,244	244,421	0	0	0	0	0	1,307,577			
Compensated Absences Payable	0	0	0	0	82,200	0	0	355,606	437,806			
General Obligation Notes Payable	0	0	0	900,000	0	0	0	0	900,000			
Capital Lease Payable	0	0	0	0	3,616	0	0	0	3,616			
General Obligation Bonds Payable	0	0	0	0	2,180,000	0	0	750,000	2,930,000			
Special Assessment Bond Payable with governmental commitment	0	0	0	0	0	0	0	177,000	177,000			
Revenue Bonds Payable	0	0	0	0	1,125,000	0	0	0	1,125,000			
Police and Firemen's Pension Accrued Liability	0	0	0	0	0	0	0	93,345	93,345			
<b>Total Liabilities</b>	<b>768,236</b>	<b>679,058</b>	<b>244,421</b>	<b>940,900</b>	<b>3,776,881</b>	<b>25,889</b>	<b>0</b>	<b>1,375,951</b>	<b>7,811,336</b>			
Equity and Other Credits:												
Investment in General Fixed Assets	0	0	0	0	0	0	6,036,466	0	6,036,466			
Contributed Capital	0	0	0	0	5,995,574	0	0	0	5,995,574			
Retained Earnings:												
Reserved	0	0	0	0	539,494	0	0	0	539,494			
Unreserved	0	0	0	0	29,514,262	0	0	0	29,514,262			
<b>Total Retained Earnings</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>30,053,756</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>30,053,756</b>			
Fund Balances:												
Reserved for Encumbrances	54,867	178,772	0	91,359	0	0	0	0	324,998			
Reserved for Supplies Inventory	72,681	23,090	0	0	0	0	0	0	95,771			
Reserved for Prepaid Items	17,532	1,825	0	0	0	0	0	0	19,357			
Reserved for Debt Service	0	0	126,040	0	0	0	0	0	126,040			
Unreserved:												
Undesignated	1,061,729	826,555	0	(44,403)	0	0	0	0	1,843,881			
<b>Total Equity and Other Credits</b>	<b>1,206,809</b>	<b>1,030,242</b>	<b>126,040</b>	<b>46,956</b>	<b>36,049,330</b>	<b>0</b>	<b>6,036,466</b>	<b>0</b>	<b>44,495,843</b>			
<b>Total Liabilities, Equity and Other Credits</b>	<b>\$1,975,045</b>	<b>\$1,709,300</b>	<b>\$370,461</b>	<b>\$987,856</b>	<b>\$39,826,211</b>	<b>\$25,889</b>	<b>\$6,036,466</b>	<b>\$1,375,951</b>	<b>\$52,307,179</b>			

The notes to the general purpose financial statements are an integral part of this statement.



**THE CITY OF SALEM, OHIO**  
**COMBINED STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES**  
**ALL GOVERNMENTAL FUND TYPES**  
**FOR THE YEAR ENDED DECEMBER 31, 1999**

**Governmental Fund Types**

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Totals (Memorandum Only)
<b>Revenues:</b>					
Taxes	\$522,664	\$4,274,783	\$0	\$0	\$4,797,447
Intergovernmental Revenues	596,127	1,014,639	0	0	1,610,766
Charges for Services	43,077	20,500	0	0	63,577
Licenses and Permits	60,522	7,630	0	472	68,624
Investment Earnings	132,976	13,004	0	2,081	148,061
Special Assessments	0	0	22,620	0	22,620
Fines and Forfeitures	46,755	1,055	0	0	47,810
All Other Revenues	8,247	48,635	0	50,593	107,475
Total Revenues	<u>1,410,368</u>	<u>5,380,246</u>	<u>22,620</u>	<u>53,146</u>	<u>6,866,380</u>
<b>Expenditures:</b>					
Current:					
Security of Persons and Property	2,132,988	355,889	0	0	2,488,877
Leisure Time Activities	0	297,182	0	0	297,182
Community Environment	105,784	600,027	0	0	705,811
Transportation	47,003	573,632	0	0	620,635
General Government	747,546	148,707	0	0	896,253
Capital Outlay	0	0	0	747,261	747,261
Debt Service:					
Principal Retirement	0	0	270,000	0	270,000
Interest and Fiscal Charges	0	0	68,767	34,595	103,362
Total Expenditures	<u>3,033,321</u>	<u>1,975,437</u>	<u>338,767</u>	<u>781,856</u>	<u>6,129,381</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,622,953)	3,404,809	(316,147)	(728,710)	736,999
<b>Other Financing Sources (Uses):</b>					
Proceeds from Sale of Fixed Assets	0	0	0	30,985	30,985
Operating Transfers In	2,250,826	348,734	354,400	1,233,275	4,187,235
Operating Transfers Out	(398,734)	(3,751,376)	(37,125)	0	(4,187,235)
Total Other Financing Sources (Uses)	<u>1,852,092</u>	<u>(3,402,642)</u>	<u>317,275</u>	<u>1,264,260</u>	<u>30,985</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	229,139	2,167	1,128	535,550	767,984
Fund Balance (Deficit) Beginning of Year	980,017	1,036,702	124,912	(488,594)	1,653,037
Decrease in Inventory Reserve	(2,347)	(8,627)	0	0	(10,974)
Fund Balance End of Year	<u>\$1,206,809</u>	<u>\$1,030,242</u>	<u>\$126,040</u>	<u>\$46,956</u>	<u>\$2,410,047</u>

The notes to the general purpose financial statements are an integral part of this statement.

**THE CITY OF SALEM, OHIO**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**ALL GOVERNMENTAL FUND TYPES**  
**FOR THE YEAR ENDED DECEMBER 31, 1999**

	<i>General Fund</i>			<i>Special Revenue Funds</i>		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
<b>Revenues:</b>						
Taxes	\$532,025	\$522,552	(\$9,473)	\$4,010,528	\$4,241,190	\$230,662
Intergovernmental Revenues	600,100	607,584	7,484	981,934	1,016,433	34,499
Charges for Services	45,550	43,077	(2,473)	18,000	20,500	2,500
Licenses and Permits	54,600	60,634	6,034	7,500	7,630	130
Investment Earnings	138,100	132,976	(5,124)	10,500	13,004	2,504
Special Assessments	0	0	0	0	0	0
Fines and Forfeitures	70,000	47,713	(22,287)	500	1,308	808
All Other Revenues	27,962	8,247	(19,715)	48,038	49,857	1,819
Total Revenues	1,468,337	1,422,783	(45,554)	5,077,000	5,349,922	272,922
<b>Expenditures:</b>						
Current:						
Security of Persons and Property	2,319,304	2,195,441	123,863	360,312	340,030	20,282
Leisure Time Activities	0	0	0	363,152	316,891	46,261
Community Development	135,253	112,544	22,709	874,034	746,432	127,602
Transportation	50,500	47,357	3,143	626,436	588,463	37,973
General Government	798,421	682,337	116,084	173,467	148,394	25,073
Capital Outlay	0	0	0	0	0	0
Debt Service:						
Principal Retirement	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
Total Expenditures	3,303,478	3,037,679	265,799	2,397,401	2,140,210	257,191
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,835,141)	(1,614,896)	220,245	2,679,599	3,209,712	530,113
<b>Other Financing Sources (Uses):</b>						
Proceeds from Sale of Fixed Assets	10,000	0	(10,000)	0	0	0
Proceeds from General Obligation Notes	0	0	0	0	0	0
Operating Transfers In	2,263,000	2,250,826	(12,174)	414,750	348,734	(66,016)
Operating Transfers Out	(471,750)	(398,734)	73,016	(3,773,409)	(3,751,376)	22,033
Advances In	0	0	0	5,788	5,788	0
Advances Out	(5,788)	(5,788)	0	0	0	0
Total Other Financing Sources (Uses)	1,795,462	1,846,304	50,842	(3,352,871)	(3,396,854)	(43,983)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(39,679)	231,408	271,087	(673,272)	(187,142)	486,130
Fund Balance at Beginning of Year	845,303	845,303	0	451,305	451,305	0
Prior Year Encumbrances	47,041	47,041	0	167,942	167,942	0
Fund Balance at End of Year	\$852,665	\$1,123,752	\$271,087	(\$54,025)	\$432,105	\$486,130

The notes to the general purpose financial statements are an integral part of this statement.

**THE CITY OF SALEM, OHIO**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**ALL GOVERNMENTAL FUND TYPES**  
**FOR THE YEAR ENDED DECEMBER 31, 1999**

<i>Debt Service Funds</i>			<i>Capital Projects Funds</i>			<i>Totals (Memorandum Only)</i>		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$0	\$0	\$0	\$0	\$0	\$0	\$4,542,553	\$4,763,742	\$221,189
0	0	0	0	0	0	1,582,034	1,624,017	41,983
0	0	0	0	0	0	63,550	63,577	27
0	0	0	500	472	(28)	62,600	68,736	6,136
0	0	0	0	2,081	2,081	148,600	148,061	(539)
18,600	22,620	4,020	0	0	0	18,600	22,620	4,020
0	0	0	0	0	0	70,500	49,021	(21,479)
0	0	0	0	50,593	50,593	76,000	108,697	32,697
18,600	22,620	4,020	500	53,146	52,646	6,564,437	6,848,471	284,034
0	0	0	0	0	0	2,679,616	2,535,471	144,145
0	0	0	0	0	0	363,152	316,891	46,261
0	0	0	0	0	0	1,009,287	858,976	150,311
0	0	0	0	0	0	676,936	635,820	41,116
650	0	650	0	0	0	972,538	830,731	141,807
0	0	0	1,246,611	867,590	379,021	1,246,611	867,590	379,021
1,170,000	1,170,000	0	0	0	0	1,170,000	1,170,000	0
111,000	105,892	5,108	0	0	0	111,000	105,892	5,108
1,281,650	1,275,892	5,758	1,246,611	867,590	379,021	8,229,140	7,321,371	907,769
(1,263,050)	(1,253,272)	9,778	(1,246,111)	(814,444)	431,667	(1,664,703)	(472,900)	1,191,803
0	0	0	10,000	30,985	20,985	20,000	30,985	10,985
0	900,000	900,000	0	0	0	0	900,000	900,000
1,111,687	354,400	(757,287)	1,227,530	1,196,150	(31,380)	5,016,967	4,150,110	(866,857)
0	0	0	0	0	0	(4,245,159)	(4,150,110)	95,049
0	0	0	0	0	0	5,788	5,788	0
0	0	0	0	0	0	(5,788)	(5,788)	0
1,111,687	1,254,400	142,713	1,237,530	1,227,135	(10,395)	791,808	930,985	139,177
(151,363)	1,128	152,491	(8,581)	412,691	421,272	(872,895)	458,085	1,330,980
124,912	124,912	0	355,736	355,736	0	1,777,256	1,777,256	0
0	0	0	108,342	108,342	0	323,325	323,325	0
(\$26,451)	\$126,040	\$152,491	\$455,497	\$876,769	\$421,272	\$1,227,686	\$2,558,666	\$1,330,980

*THE CITY OF SALEM, OHIO  
 COMBINED STATEMENT OF REVENUES, EXPENSES  
 AND CHANGES IN RETAINED EARNINGS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 1999*

	<i>Enterprise Funds</i>
<u>Operating Revenues:</u>	
Charges for Service	\$3,726,805
Other Operating Revenues	644,936
Total Operating Revenues	4,371,741
<u>Operating Expenses:</u>	
Personal Services	1,072,569
Materials and Supplies	219,879
Contractual Services	384,287
Utilities	222,568
Depreciation and Amortization	959,525
Total Operating Expenses	2,858,828
Operating Income	1,512,913
<u>Nonoperating Revenues (Expenses):</u>	
Investment Earnings	336,740
Interest and Fiscal Charges	(130,387)
Loss on Disposal of Fixed Assets	(804)
Other Nonoperating Expenses	(3,402)
Total Nonoperating Revenues (Expenses)	202,147
Net Income	1,715,060
Restated Retained Earnings at Beginning of Year	28,338,696
Retained Earnings at End of Year	\$30,053,756

The notes to the general purpose financial statements are an integral part of this statement.

**THE CITY OF SALEM, OHIO**  
**COMBINED STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 1999**

	<u><i>Enterprise Funds</i></u>
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$4,337,358
Cash Payments for Goods and Services	(813,791)
Cash Payments to Employees	(1,059,658)
Net Cash Provided by Operating Activities	<u>2,463,909</u>
 <u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition and Construction of Assets	(307,924)
Payment on Capital Leases	(10,446)
Principal Paid on General Obligation Bonds	(90,000)
Principal Paid on Mortgage Revenue Bonds	(200,000)
Interest Paid on All Debt	(202,665)
Net Cash Used for Capital and Related Financing Activities	<u>(811,035)</u>
 <u>Cash Flows from Investing Activities:</u>	
Sale of Investments	1,625,000
Receipt of Interest	314,368
Net Cash Provided by Investing Activities	<u>1,939,368</u>
 Net Increase in Cash and Cash Equivalents	 3,592,242
Cash and Cash Equivalents at Beginning of Year	3,074,575
Cash and Cash Equivalents at End of Year	<u><u>\$6,666,817</u></u>
 <u>Reconciliation of Cash and</u>	
<u>Cash Equivalents per the Balance Sheet:</u>	
Cash and Cash Equivalents	\$6,127,323
Restricted Cash and Cash Equivalents	539,494
Cash and Cash Equivalents at End of Year	<u><u>\$6,666,817</u></u>

(Continued)

*THE CITY OF SALEM, OHIO  
 COMBINED STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 1999*

	<u><i>Enterprise Funds</i></u>
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income	\$1,512,913
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation and Amortization Expense	959,525
Miscellaneous Nonoperating Expense	(3,402)
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(34,383)
Increase in Inventory	(12,615)
Decrease in Prepaid Items	2,988
Increase in Accounts Payable	25,972
Increase in Accrued Wages and Benefits	16,801
Decrease in Compensated Absences	(3,890)
Total Adjustments	<u>950,996</u>
Net Cash Provided by Operating Activities	<u><u>\$2,463,909</u></u>

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Schedule of Noncash Investing, Capital and Financing Activities:

At December 31, 1999, the Water and Sewer Funds had outstanding liabilities of \$169,889 and \$6,339, respectively for certain capital assets.

The notes to the general purpose financial statements are an integral part of this statement.

**THE CITY OF SALEM, OHIO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**DECEMBER 31, 1999**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Salem, Ohio (the "City") was incorporated in 1867 and is a statutory municipal corporation under the laws of the State of Ohio. The City operates under a Council-Mayor form of government.

The accompanying general purpose financial statements of the City present the financial position of the various fund types and account groups, the results of operations of the various fund types and the cash flows of the proprietary funds. The financial statements are presented as of December 31, 1999 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (the "GASB") is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

**A. Reporting Entity**

The accompanying general purpose financial statements comply with provisions of the GASB Statement No. 14, *"The Financial Reporting Entity,"* in that the financial statements include all organizations, activities, functions and component units for which the City (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Based on the foregoing, the City's financial reporting entity has no component units but includes all funds, account groups, agencies, boards and commissions that are part of the primary government, which include the following services: police and fire protection, parks and recreation, planning, zoning, street maintenance 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.

**B. Basis of Presentation - Fund Accounting**

The accounting system is organized and operated on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are summarized by type in the general purpose financial statements. The following fund types and account groups are used by the City:

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**B. Basis of Presentation - Fund Accounting** (Continued)***Governmental Funds***

Governmental funds are those funds through which most governmental functions are typically financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is upon "financial flow" (sources, uses and balances of financial resources). The following are the City's governmental fund types:

General Fund - This fund is used to account for all financial resources except those accounted for 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.

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Funds - These funds are used for the accumulation of resources for, and the payment of, general and special assessment long-term debt principal and interest.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

***Proprietary Funds***

The proprietary funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets and liabilities associated with the operation of the proprietary funds are included on the balance sheet. Fund equity (i.e., net assets) are segregated into contributed capital and retained earnings components. The proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, in which the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

***Fiduciary Funds***

Trust and Agency Funds - These funds are used to account for assets held by a government unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The City maintains an expendable trust fund and agency funds. The expendable trust fund is accounted for and reported similarly to governmental funds. The City's expendable trust fund had no activity during the year, therefore it is not included on the "Combined Statement of Revenues, Expenditures Changes in Fund Balances." Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**B. Basis of Presentation - Fund Accounting** (Continued)

*Account Groups* - To make a clear distinction between fixed assets related to specific funds and those of general government and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for fixed assets of the City other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - This account group is established to account for all long-term debt and other long-term obligations of the City except those accounted for in the proprietary funds.

**C. Basis of Accounting**

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses in the accounts and reported in the financial statements, and relates to the timing of the measurements made. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Revenue considered susceptible to accrual at year end includes income taxes withheld by employers, interest on investments and state levied locally shared taxes (including motor vehicle license fees, gasoline tax, and local government assistance). Other revenue, including licenses, permits, certain charges for services, income taxes other than those withheld by employers and miscellaneous revenues are recorded as revenue when received in cash because generally this revenue is not measurable until received.

Special assessment installments including related accrued interest, which are measurable but not available at December 31, are recorded as deferred revenue. Delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 5.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting (Continued)

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," the City follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds. Revenues are recognized when they are earned and expenses recognized when incurred.

D. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting.

The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year. All funds other than agency funds are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The primary level of budgetary control is at the object level within each department. Budgetary modifications may only be made by ordinance of the City Council.

1. Tax Budget

The Mayor submits an annual tax budget for the following fiscal year to City Council by July 15 for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

2. Estimated Resources

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 1999.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**D. Budgetary Process** (Continued)

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level. The appropriation ordinance may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of City Council.

The budgetary figures which appear in the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual--All Governmental Fund Types" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures (budget basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities and are reported as reservations of fund balances for governmental funds in the accompanying general purpose financial statements.

5. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

6. Budgetary Basis of Accounting

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

6. Budgetary Basis of Accounting (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the governmental funds:

	Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses			
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds
GAAP Basis (as reported)	\$229,139	\$2,167	\$1,128	\$535,550
Increase (Decrease):				
Accrued Revenues at December 31, 1999 received during 2000	(96,966)	(538,194)	0	0
Accrued Revenues at December 31, 1998 received during 1999	103,593	507,870	0	0
Accrued Expenditures at December 31, 1999 paid during 2000	169,324	214,814	0	40,900
Accrued Expenditures at December 31, 1998 paid during 1999	(110,736)	(125,800)	0	(52,672)
1998 Prepays for 1999	19,788	3,668	0	0
1999 Prepays for 2000	(17,532)	(1,825)	0	0
Debt Service Related:				
Note Proceeds	0	0	0	900,000
Note Retirements	0	0	0	(900,000)
Outstanding Encumbrances	(65,202)	(249,842)	0	(111,087)
Budget Basis	<u>\$231,408</u>	<u>(\$187,142)</u>	<u>\$1,128</u>	<u>\$412,691</u>

E. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, repurchase agreements and short-term certificates of deposit with original maturity dates of three months or less. Repurchase agreements are considered investments for purposes of GASB Statement No. 3, but reported as cash equivalents in the general purpose financial statements because they are highly liquid instruments which are readily convertible to cash.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****E. Cash and Cash Equivalents** (Continued)

The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash, including the investment instruments described above, represents the balance on hand as if each fund maintains its own cash and investments account. For purposes of the statement of cash flows, the proprietary funds share of equity in pooled cash and investments is considered to be a cash equivalent. See Note 4, "Cash, Cash Equivalents, and Investments."

**F. Investments**

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. The City allocates interest among certain funds based upon the fund's cash balance at the date of investment. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City records all its investments at fair value except for nonparticipating investment contracts (certificates of deposit and repurchase agreements) which are reported at cost.

The City has invested funds in STAR Ohio during 1999. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 1999. See Note 4, "Cash, Cash Equivalents and Investments."

**G. Inventory**

Inventory is stated at cost in the governmental funds and at the lower of cost or market in the proprietary funds. The costs of inventory items are recorded as expenditures in the governmental funds when purchased and as expenses in the proprietary funds when used.

**H. Fixed Assets and Depreciation**

The accounting and reporting treatment applied to fixed assets is determined by their ultimate use:

**I. Property, Plant and Equipment - General Governmental Purposes**

Fixed assets acquired or constructed for general governmental purposes are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years) in the General Fixed Assets Account Group. Contributed fixed assets are recorded at fair market value at the date received.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. Fixed Assets and Depreciation (Continued)**

**1. Property, Plant and Equipment - General Governmental Purposes (Continued)**

Fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, have not been capitalized. Such assets normally are immovable and of value only to the City; therefore, the purpose of stewardship for capital expenditures can be satisfied without recording these assets.

General fixed asset values were initially determined at December 31, 1987 by identifying historical costs when such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain fixed assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

The City has elected not to record depreciation in the General Fixed Assets Account Group.

**2. Property, Plant and Equipment - Proprietary Funds**

Property, plant and equipment acquired by the proprietary funds are stated at cost (or estimated historical cost), including interest capitalized during construction, and architectural and engineering fees where applicable. Contributed fixed assets are recorded at fair market value at the date received.

Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives (Years)</u>
Buildings	20 - 50
Improvements Other Than Buildings	50 - 67
Machinery, Equipment, Furniture and Fixtures	3 - 20

Depreciation on proprietary fixed assets is charged to retained earnings.

**I. Long-Term Obligations**

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
General Obligation Bonds	General Obligation Bond Retirement Fund Water Fund
Special Assessment Bonds	Special Assessment Bond Retirement Fund
Mortgage Revenue Bonds	Sewer Fund

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**I. Long-Term Obligations** (Continued)

Obligation	Fund
Police and Fire Pension Accrued Liability	General Fund
Capital Lease	General Fund
Compensated Absences	General Fund Street Construction, Maintenance and Repair Fund Income Tax Fund Parks Fund Recycling/Litter Grant Fund Water Fund Sewer Fund

**J. Compensated Absences**

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," vacation and compensatory time are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

Employees of the City earn vacation and sick leave at various rates within limits specified under collective bargaining agreements or under statute. At termination or retirement, employees are paid at their full rate for 100% of their unused vacation leave and 25% or 50% of unused sick leave up to specified limits depending upon the bargaining agreement.

**K. Pensions**

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**L. Bond Issuance Costs**

In governmental fund types, bond discounts and issuance costs are recognized in the current period. Bond discounts and issuance costs for proprietary fund types are deferred and amortized over the term of the bonds. Issuance costs are recorded as deferred charges.

**M. Interfund Transactions**

During the course of normal operations, the City has numerous transactions between funds. Interfund transactions are generally classified as follows:

Operating transfers are reported as "Other Financing Sources and Uses" in the governmental funds, as "Operating Transfers In" by the recipient fund, and "Operating Transfers Out" by the disbursing fund.

Residual Equity Transfers are nonroutine or nonrecurring transfers between funds and are reported as additions to or deductions from the fund equity balance. The City did not perform any residual equity transfers in 1998.

Transactions that would be treated as revenues and expenditures/expenses if the transactions involved organizations external to the City are similarly treated when involving other funds of the City. The City also advances cash from one fund to another as necessary to meet current obligations.

**N. Reservations of Fund Balance**

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for materials and supplies inventories, prepaid items, debt service and encumbered amounts that have not been accrued at year end.

**O. Total Columns on Combined Financial Statements - Overview**

Total columns on the "Combined Financial Statements-Overview" are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations or changes in cash flow or conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.



**NOTE 2 - COMPLIANCE AND ACCOUNTABILITY**

*Fund Deficits* - The fund deficits at December 31, 1999 of \$37,502 in the Police Pension Fund, \$37,914 in the Fire Pension Fund, \$36,559 in the Community Housing Improvement Fund, \$78 in the Community Development Block Grant Fund and \$3,511 in the Design Review Board Fund (special revenue funds) arise from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary basis. The fund deficit at December 31, 1999 of \$909,590 in the Industrial Park West Project Fund (capital projects fund) arises from the recognition of notes payable on the modified accrual basis which are not recorded on the budgetary basis. A deficit does not exist under the budgetary basis of accounting. The General Fund provides operating transfers when cash is required, not when accruals occur.

*Excess Expenditures over Appropriations* - For the year ended December 31, 1999, expenditures exceeded appropriations at the object level (i.e., the legal level of budgetary control) as follows:

Fund	Excess
Special Revenue Fund:	
Rehab Loan	
Community Environment	\$2,648
Expendable Trust Fund:	
Unclaimed Monies	
Other Expenditures	129

The excess expenditures were funded from available fund balance.

**NOTE 3 - RESTATEMENT OF RETAINED EARNINGS**

The retained earnings at December 31, 1998 of the Sewer Fund were restated from amounts previously reported to reflect the correction of an accounting error related to accrued interest expense and to properly record interest payable.

The restatement resulted in adjustments to December 31, 1998 retained earnings balances as follows:

Description	Enterprise Funds
Balance at December 31, 1998 (as reported)	\$28,150,696
Adjustment to accrued interest expense	61,500
Adjustment to accrued interest payable	126,500
Restated Balance at December 31, 1998	<u>\$28,338,696</u>

**NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

Cash resources of several individual funds are combined to form a pool of cash and investments. In addition, investments are separately held by the capital projects, debt service and enterprise funds. Statutes require the classification of funds held by the City into three categories.

Category 1 consists of "active" funds - those funds required to be kept in "cash" or "near cash" status for immediate use by the City. Such funds must be maintained either as cash in the City Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current two year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above 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 that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

**NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 110% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3, *"Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements,"* collateral held in a single financial institution collateral pool with securities being held by the pledging institutions' agent in the pool's name are classified as Category 3.

The GASB has established risk categories for deposits and investments as follows:

*Deposits:*

- Category 1 Insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 Uncollateralized. (This category includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the City's name.)

*Investments:*

- Category 1 Insured or registered, with securities held by the City or its agent in the City's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

**A. Deposits**

At year end the carrying amount of the City's deposits (including restricted cash) was \$1,064,138 and the bank balance was \$1,092,798. Of the bank balance:

1. \$253,302 was covered by federal depository insurance.
2. \$839,496 was uninsured and uncollateralized as defined by the GASB because the collateral pledged by the financial institutions or their trust departments or agents was not in the City's name due to the fact that the pledging bank has an investments and securities pool used to collateralize all public deposits. This method of collateralization is authorized by state statute.

**NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

**B. Investments**

The City's investments at December 31, 1999 were classified as Category 2 investments and are summarized below:

<u>Categorized Investments</u>	<u>Category 2</u>	<u>Fair Value</u>
Repurchased Agreements	<u>\$5,063,365</u>	<u>\$5,063,365</u>
<u>Non-Categorized Investments</u>		
STAR Ohio	<u>N/A</u>	<u>4,050,000</u>
Total Investments	<u>\$5,063,365</u>	<u>\$9,113,365</u>

**C. Reconciliation of Cash, Cash Equivalents and Investments**

The Classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No.9. Investments with an original maturity of three months or less are treated as cash and cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note is based on criteria set forth in GASB Statement No.3.

A reconciliation between classifications of cash and investments on the combined financial statements and the classifications per items A and B of this note are as follows:

	<u>Cash and Cash</u>	<u>Investments</u>
	<u>Equivalents</u>	
Per Combined Balance Sheet	\$9,677,503	\$500,000
Certificates of Deposit (with maturities of more than 3 months)	500,000	(500,000)
Investments:		
STAR Ohio	(4,050,000)	4,050,000
Repurchase Agreements	<u>(5,063,365)</u>	<u>5,063,365</u>
Per GASB Statement No. 3	<u>\$1,064,138</u>	<u>\$9,113,365</u>

**NOTE 5 -TAXES**

**A. Property Taxes**

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real Property taxes (other than public utility ) collected during 1999 were levied after October 1, 1998 on assessed values as of January 1, 1998, the lien date. Assessed values were established by the County Auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments made in the third year following reappraisal. The last revaluation was completed in 1998. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder payable by June 20.

**NOTE 5 - TAXES** (Continued)

**A. Property Taxes** (Continued)

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually: the first payment is due April 30; the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City of Salem. The County Auditor periodically remits to the City its portion of the taxes collected.

The full tax rate for all City operations for the year ended December 31, 1999 was \$4.40 per \$1,000 of assessed value. The assessed value upon which the 1999 tax receipts were based was \$200,874,530. This amount constitutes \$134,226,200 in real property assessed value, \$7,250,430 in public utility assessed value and \$59,397,900 in tangible personal property assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is .0044 (4.4 mills) of assessed value.

**B. Income Tax**

The City levies a tax of 1% on all salaries, wages, commissions and other compensation and on net profits earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality to a maximum of the total amount assessed.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

All income tax proceeds are received by the Municipal Income Tax Fund.

**NOTE 6 - RECEIVABLES**

Receivables at December 31, 1999 consisted of taxes, accounts and loans receivable, interest receivable, special assessments and intergovernmental receivables arising from shared revenues.

**NOTE 7 - INTERFUND RECEIVABLES/PAYABLES**

Following is a summary of interfund receivables/payables for all funds at June 30, 1999:

	Due from Other Funds	Due to Other Funds
General Fund	\$5,788	\$0
Special Revenue Fund:		
Design Review Board	0	5,788
Totals	<u>\$5,788</u>	<u>\$5,788</u>

**NOTE 8 - OPERATING TRANSFERS**

Following is a summary of operating transfers in and out for all funds for 1999:

Fund	Transfer In	Transfer Out
General Fund	\$2,250,826	\$398,734
Special Revenue Funds:		
Police Pension Fund	96,582	0
Fire Pension Fund	116,402	0
Street Construction, Maintenance and Repair	75,000	0
Municipal Lodging Tax	25,000	0
Municipal Income Tax Fund	0	3,751,376
Parks Fund	15,000	0
Shade Tree Fund	20,750	0
Total Special Revenue Funds	<u>348,734</u>	<u>3,751,376</u>
Debt Service Fund:		
General Bond Retirement Fund	354,400	37,125
Capital Projects Funds:		
Income Tax Capital Improvement Fund	1,146,150	0
Industrial Park West Project Fund	37,125	0
Fire Truck Fund	50,000	0
Total Capital Projects Funds	<u>1,233,275</u>	<u>0</u>
Totals	<u>\$4,187,235</u>	<u>\$4,187,235</u>

**NOTE 9 - FIXED ASSETS**

**A. General Fixed Assets**

Summary by category of changes in general fixed assets:

Category	December 31, 1998	Additions	Deletions	December 31, 1999
Land	\$398,430	\$0	\$0	\$398,430
Buildings and Improvement	1,937,765	18,641	0	1,956,406
Land Improvements	830,909	21,307	0	852,216
Machinery and Equipment	2,678,178	47,325	0	2,725,503
Construction in Progress	103,911	0	0	103,911
Totals	\$5,949,193	\$87,273	\$0	\$6,036,466

Schedule of General Fixed Assets at December 31, 1999:

General Fixed Assets		Investment in General Fixed Assets	
Land	\$398,430	General Fund	\$935,802
Buildings and Improvements	1,956,406	Special Revenue Funds	1,915,829
Land Improvements	852,216	Capital Projects Funds	3,181,335
Machinery and Equipment	2,725,503	Donations	3,500
Construction in Progress	103,911		
Total	\$6,036,466	Total	\$6,036,466

**B. Proprietary Fixed Assets**

Summary by Category at December 31, 1999:

Category	Historic Cost	Accumulated Depreciation	Book Value
Land	\$231,052	\$0	\$231,052
Buildings and Improvements	30,090,447	(6,835,749)	23,254,698
Utility Structures in Services	8,353,784	(932,239)	7,421,545
Machinery and Equipment	1,309,947	(716,590)	593,357
Total Property, Plant and Equipment	39,985,230	(8,484,578)	31,500,652
Construction in Progress	232,189	0	232,189
Total	\$40,217,419	(\$8,484,578)	\$31,732,841

**NOTE 10 – DEFINED BENEFIT PENSION PLANS**

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit pension plans.

**A. Public Employees Retirement System (the "PERS of Ohio")**

The following information was provided by the PERS of Ohio to assist the City in complying with GASB Statement No. 27, *"Accounting for Pensions by State and Local Government Employers."*

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in the PERS of Ohio, a cost-sharing multiple employer defined benefit pension plan. The PERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Public Employees Retirement System of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the PERS of Ohio. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5%. The 1999 employer contribution rate for local government employer units was 13.55%, of covered payroll, 9.35% to fund the pension and 4.2% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the PERS of Ohio for the years ending December 31, 1999, 1998 and 1997 were \$260,248, \$237,701 and \$230,841, respectively, which were equal to the required contributions for each year.

The PERS of Ohio provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. A portion of each employer's contribution to the PERS of Ohio is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the PERS of Ohio. The portion of the 1999 employer contribution rate (identified above) that was used to fund health care for the year 1999 was 4.2% of covered payroll which amounted to \$80,667.

Other Postemployment Benefits (OPEB) are financed through employer contributions and investment earnings thereon. Funding and accounting were on a pay-as-you-go basis. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. Expenditures for other postemployment benefits during 1999 were \$523,599,349. As of December 31, 1999, the unaudited estimated net assets available for future OPEB payments were \$9,870,285,641. The number of benefit recipients eligible for OPEB at December 31, 1999 was 118,062.



NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

**A. Public Employees Retirement System (the “PERS of Ohio”)** (Continued)

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2% of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

**B. Ohio Police and Fire Pension Fund (the “OP&F Fund”)**

All City full-time police officers and full-time firefighters participate in the OP&F Fund, a cost-sharing multiple-employer defined benefit pension plan. The OP&F Fund provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the OP&F Fund. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City's contributions to the OP&F Fund for the years ending December 31, 1999, 1998 and 1997 were \$136,380, \$121,030 and \$115,500 for police and \$145,962, \$132,922 and \$129,705 for firefighters, respectively, which were equal to the required contributions for each year.

The OP&F Fund provides postemployment health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school on a full-time or two-thirds basis. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

The portion of the 1999 covered payroll that was used to fund postemployment health care benefits was \$48,957 representing 7.00% of covered payroll for police and \$42,572 representing 7.00% of covered payroll for fire. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. As of December 31, 1998, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 11,424 for police and 9,186 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 1998 were \$78,596,790, which was net of member contributions of \$5,331,515.

**NOTE 11 – COMPENSATED ABSENCES**

All full-time City employees earn sick leave at the rate of 1.25 days per calendar month of active service. Upon retirement under the PERS of Ohio or the PFDPF System of Ohio, or upon termination in good standing after ten years of continuous service with the City, an employee shall be compensated for a percentage of the total accumulated unused sick leave for which the monetary compensation is the hourly rate of compensation of the employee at the time of retirement or termination.

The City provides a liability for accumulated unpaid compensated absences when earned by employees. Accrued employee benefits for governmental funds not currently due and payable at year end are recorded in the General Long-Term Obligations Account Group. The amount decreased from a beginning year balance of \$360,984 to a year end balance of \$355,606. Accrued employee benefits for enterprise funds not currently due and payable at year end are recorded in the respective funds. The amount payable in the enterprise funds decreased from a beginning year balance of \$86,090 to a year end balance of \$82,200.

**NOTE 12 - NOTES PAYABLE**

The Ohio Revised Code provides that notes including renewal notes issued in anticipation of the issuance of general obligation bonds may be issued and outstanding from time to time up to a maximum period of twenty years from the date of issuance of the original notes. The maximum maturity for notes anticipating general obligation bonds payable from special assessments is five years. Any period in excess of five years must be deducted from the permitted maximum maturity of the bonds anticipated, and portions of the principal amount of notes outstanding for more than five years must be retired in amounts at least equal to and payable no later than those principal maturities required if the bonds had been issued at the expiration of the initial five year period. Bond anticipation notes may be retired at maturity from the proceeds of the sale of renewal notes or of the bonds anticipated by the notes, or from available funds of the City or a combination of these sources.

The following are the notes outstanding in the Capital Projects Funds as of December 31, 1999:

	Balance December 31, 1998	Issued (Retired)	Balance December 31, 1999
General Obligation Notes Payable:			
4.125% Salem Industrial Park West	\$900,000	(\$900,000)	\$0
3.650% Salem Industrial Park West	0	900,000	900,000
Total General Obligation Notes Payable	<u>\$900,000</u>	<u>\$0</u>	<u>\$900,000</u>

## NOTE 13 - LONG-TERM DEBT OBLIGATIONS

Long-term debt and other long-term obligations of the City at December 31, 1999 were as follows:

		Balance December 31, 1998	Issued (Retired)	Balance December 31, 1999	
<b>Enterprise Funds:</b>					
Mortgage Revenue Bonds:					
3.50 - 6.10%	Sewerage System Improvement	1995	\$1,325,000	(\$200,000)	\$1,125,000
General Obligation Bonds:					
4.35 - 6.50%	Series Water	1991	2,270,000	(90,000)	2,180,000
Capital Lease Payable					
			14,062	(10,446)	3,616
Total Enterprise Long-Term Debt			<u>\$3,609,062</u>	<u>(\$300,446)</u>	<u>\$3,308,616</u>
<b>General Long-Term Debt:</b>					
General Obligation Bonds:					
6.00 - 6.60%	Various Purpose	1989	\$160,000	(\$160,000)	\$0
5.20 - 6.05%	Street Improvement	1992	850,000	(100,000)	750,000
Total General Obligation Bonds			1,010,000	(260,000)	750,000
Special Assessment Bond: (with governmental commitment)					
6.10%	Street Improvement	1996	187,000	(10,000)	177,000
Total General Long-Term Debt			1,197,000	(270,000)	927,000
<b>Other Long-Term Obligations:</b>					
Compensated Absences			360,984	(5,378)	355,606
Police/Fire Pension Accrued Liability			94,287	(942)	93,345
Total Other Long-Term Obligations			455,271	(6,320)	448,951
Total General Long-Term Debt and Other Long-Term Obligations			<u>\$1,652,271</u>	<u>(\$276,320)</u>	<u>\$1,375,951</u>

The principal amount of the City's special assessment debt outstanding at December 31, 1999, of \$177,000 is general obligation debt (backed by the full faith and credit of the City) that is being retired with the proceeds from special assessments levied against benefited property owners. The City is obligated to repay the debt irrespective of the amount of special assessments collected from property owners.

**A. Defeased Debt**

In May 1992 the City defeased \$5,895,000 of Sewer System Mortgage Revenue Bonds dated January 1, 1987. Sewer System Mortgage Revenue Bonds dated May 1, 1992 were issued in the amount of \$7,000,000.

NOTE 13 - LONG-TERM DEBT OBLIGATIONS (Continued)

A. Defeased Debt (Continued)

At the time of defeasance, funds were deposited with the City's trustee, Society Investment Management and Trust Services. The principal and interest in these reserve accounts are used solely to pay the principal and interest requirements on the original issue bonds as they come due. At December 31, 1999, the refunded bonds had an outstanding balance of \$5,155,000. As the money on deposit with the trustee is adequate to service the defeased debt, the City is not required to service any portion of this debt directly. Therefore, this debt is not included in the "Schedule of Long-Term Debt Obligations" or in the Balance Sheet for the Wastewater Fund at December 31, 1999. Similarly, as no obligation is recorded, neither are the funds held on deposit with the trustee that will be used to service the obligation.

In April 1998, the City defeased \$2,400,000 of Mortgage Revenue Bonds for Water Improvements dated March 1, 1992 (the "1992 Bonds"). There were no refunding bonds issued. Chase Manhattan Bank (the trustee) had \$2,476,327 in cash and investments which coupled with investment earnings thereon, were determined to be sufficient to pay, when due, the remaining debt service payments. As a result, the old bonds are considered to be defeased and the liability for those bonds has been removed from the general long-term obligations account group. At December 31, 1999, the refunded bonds had an outstanding balance of \$2,100,000.

B. Police and Firemen's Pension Fund

The City's liability for past service costs related to the Police and Firemen's Pension Fund at December 31, 1999 was \$93,345 in principal and \$105,364 in interest payments through the year 2035. The principal amount due is included in the General Long-Term Obligations Account Group.

C. Principal and Interest Requirements

A summary of the City's future long-term debt funding requirements, including principal and interest payments as of December 31, 1999 follows:

Years	General Obligation Bonds		Mortgage Revenue Bonds		Special Assessment Bond	
	Principal	Interest	Principal	Interest	Principal	Interest
2000	\$240,000	\$180,168	\$325,000	\$45,075	\$10,000	\$10,797
2001	240,000	166,397	800,000	18,800	10,000	10,187
2002	550,000	152,388	0	0	10,000	9,577
2003	550,000	117,537	0	0	10,000	8,967
2004	550,000	82,538	0	0	10,000	8,357
2005-2009	800,000	78,000	0	0	87,000	29,219
2010-2014	0	0	0	0	40,000	3,660
2015-2019	0	0	0	0	0	0
2020-2035	0	0	0	0	0	0
Totals	\$2,930,000	\$777,028	\$1,125,000	\$63,875	\$177,000	\$80,764

(Continued)

NOTE 13 - LONG-TERM DEBT OBLIGATIONS (Continued)

C. Principal and Interest Requirements (Continued)

Years	Capital Lease		Police/Fire Accrued Pension Liability	
	Principal	Interest	Principal	Interest
2000	\$3,616	\$43	\$990	\$4,655
2001	0	0	1,040	4,605
2002	0	0	1,093	4,552
2003	0	0	1,148	4,497
2004	0	0	1,207	4,438
2005-2009	0	0	7,012	21,213
2010-2014	0	0	8,976	19,249
2015-2019	0	0	4,259	7,031
2020-2035	0	0	67,620	35,124
Totals	\$3,616	\$43	\$93,345	\$105,364

NOTE 14 - CAPITAL LEASE

The Water and Sewer Funds (enterprise funds) split the cost of a capital lease to purchase a loader/backhoe. The liability for the half of the capital lease is recorded in each of the funds.

The following is a schedule of the future minimum installment payments as of December 31, 1999:

Year Ending December 31,	Enterprise Funds
2000	\$3,659
Less amount representing interest at the City's incremental borrowing rate of interest	(43)
Present value of minimum lease payments	\$3,616

NOTE 15 - RISK MANAGEMENT

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. The City of Salem is a participant in the Ohio Municipal League Joint Self-Insurance Pool (the "Pool"). The Pool was established in 1987 and is administered under contract by the Ohio Municipal League to provide a program of property and casualty insurance for its member organizations throughout the State of Ohio.

**NOTE 15 - RISK MANAGEMENT (Continued)**

The Pool's general objectives are to formulate, develop and administer a program of insurance, to obtain lower costs for that coverage, and to develop a comprehensive loss control program on behalf of the member political subdivisions. Political subdivisions joining the Pool may withdraw at the end of any coverage period upon 60 days prior written notice to the Pool. Under agreement, members who terminate participation in the Pool, as well as current members, are subject to a supplemental assessment or a refund, at the discretion of the Board of Trustees, depending on the ultimate loss experience of all the entities it insures for each coverage year. To date there have been no assessments or refunds due to the limited period of time that the Pool has been in existence and the nature of the coverage that is afforded to the participants. The City contributed \$47,964 to the Pool in 1999.

The City of Salem obtained insurance coverage from the Pool beginning in August of 1997 for losses relating to general liability, automobile liability, law enforcement liability, firefighters liability, public officials liability, and property, automobile, computer and contractors' equipment coverage.

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

In the ordinary course of business, the Pool cedes a portion of its exposure to other insurers. These arrangements limit the Pool's maximum net loss on individual risks. Treaty basis casualty excess of loss contracts in force at December 31, 1999 generally protects the Pool against individual losses over \$150,000. Additionally, treaty basis property coverage protects the Pool against losses subject to a deductible of the lesser of \$50,000 per location or \$100,000 per occurrence. Since November 1, 1990, the Pool is limited to an annual aggregate loss of \$300,000. The Pool is, and the participants are, contingently liable should any reinsurer become unable to meet its obligations under the reinsurance agreements.

During 1999, the City carried commercial insurance coverage for all other risks as follows:

<u>Insurance Provider</u>	<u>Coverage</u>	<u>Deductible</u>
Peerless Insurance Co.	Public Employee Dishonesty Bond	\$0
Fidelity Insurance Co.	Auditor Bond	\$0
Fidelity Insurance Co.	Mayor Bond	\$0
Fidelity Insurance Co.	Treasurer	\$0
Fidelity Insurance Co.	Income Tax Administrator	\$0
Fidelity Insurance Co.	Income Tax Clerk	\$0
OML - Sedwick	General Liability	\$0
OML - Sedwick	Auto Liability	\$250
OML - Sedwick	Property	\$1,000
OML - Sedwick	Inland Marine	\$500

Settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

**NOTE 15 - RISK MANAGEMENT (Continued)**

Workers' compensation claims are covered through the City's participation in the State of Ohio's program. The City pays the State Workers' Compensation System a premium based upon a rate per \$100 of payroll. The rate is determined based on accident history and administrative costs.

The City also purchases insurance coverage to provide employee health benefits and pays unemployment claims to the State of Ohio as incurred.

The City continues to carry commercial insurance for other risks of loss, including employee health and life insurance. Settled claims resulting from the above noted risks have not exceeded commercial insurance coverages during the past three fiscal years.

**NOTE 16 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

Included in the services provided by the City financed primarily by user charges are water treatment and distribution and wastewater collection and treatment. The key financial information for the year ended December 31, 1999 for these enterprise activities is as follows:

	Water	Sewer	Total
Operating Revenues	\$1,776,473	\$2,595,268	\$4,371,741
Depreciation	512,203	447,322	959,525
Operating Income	387,071	1,125,842	1,512,913
Net Income	461,284	1,253,776	1,715,060
Property, Plant and Equipment:			
Additions	309,201	165,622	474,823
Deletions	(20,785)	0	(20,785)
Assets	18,440,703	21,385,508	39,826,211
Net Working Capital	3,230,218	4,334,306	7,564,524
Bonds Payable	2,180,000	1,125,000	3,305,000
Total Equity	15,948,546	20,100,784	36,049,330

**NOTE 17 - CONTRIBUTED CAPITAL**

There were no changes to contributed capital during 1999. Contributed capital is as follows:

	Balance 12/31/1999
Water	\$4,432,758
Sewer	1,562,816
Total Enterprise	<u>\$5,995,574</u>

**NOTE 18 - CONSTRUCTION COMMITMENTS**

During 1999 the City had the following construction commitments with respect to capital projects:

<u>Contract</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Stewart Road Water Tank	\$683,676	Fall 2000

**NOTE 19 - CONTINGENCIES**

The City is a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect on the financial condition of the City.

**NOTE 20 - SUBSEQUENT EVENT**

In July of 2000 the City issued \$750,000 of bond anticipation notes. The proceeds were used to retire the note issued in 1999 for the amount of \$900,000 to finance Salem Industrial Park West.



CITY OF SALEM  
COLUMBIANA COUNTY  
SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 1999

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<b><u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u></b>			
<i>Passed Through Ohio Department of Development:</i>			
Community Development Block Grant	A-F 97 171-1	14.228	\$51,108
	A-F 98 171-1	14.228	65,769
	A-C 96 171-1	14.228	25,155
	A-C 98 171-1	14.228	78,382
	C 98 171-1	14.228	63,287
	A-C 98 171-2	14.228	190,568
	A-F 96 171-1	14.228	6,550
Total U.S. Department of Housing and Development			<b><u>480,819</u></b>
<b>Total</b>			<b><u><u>\$480,819</u></u></b>

*The accompanying notes to this schedule are an integral part of this schedule.*

**CITY OF SALEM  
COLUMBIANA COUNTY  
FISCAL YEAR ENDED DECEMBER 31, 1999**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES**

**NOTE A -- SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the Government's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B -- COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAMS**

The Government has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low-moderate income households and to eligible persons and to rehabilitate homes. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the Government passed through the Ohio Department of Development. The initial loan of this money is recorded as a disbursement on the accompanying Schedule of Federal Awards Expenditures (the Schedule). Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the Schedule. At December 31, 1999, the gross amount of loans outstanding under this program were \$40,135.



STATE OF OHIO  
OFFICE OF THE AUDITOR  
JIM PETRO, AUDITOR OF STATE

Voinovich Government Center  
242 Federal Plaza West, Suite 302  
Youngstown, OH 44503  
Telephone 330-797-9900  
800-443-9271  
Facsimile 330-797-9949

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

City of Salem  
Columbiana County  
231 S. Broadway Ave.  
Salem, OH 44460

To the City Council:

We have audited the financial statements of the City of Salem as of and for the year ended December 31, 1999, and have issued our report thereon dated July 7, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City of Salem's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City of Salem in a separate letter dated July 7, 2000.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Salem's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City of Salem in a separate letter dated July 7, 2000.

This report is intended for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

**Jim Petro**  
Auditor of State

July 7, 2000



STATE OF OHIO  
OFFICE OF THE AUDITOR  
JIM PETRO, AUDITOR OF STATE

Voinovich Government Center  
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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

City of Salem  
Columbiana County  
231 S. Broadway Ave.  
Salem, OH 44460

To the City Council:

**Compliance**

We have audited the compliance of the City of Salem with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 1999. The City of Salem's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Salem's management. Our responsibility is to express an opinion on the City of Salem's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the City of Salem's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Salem's compliance with those requirements.

In our opinion, the City of Salem complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 1999.

**Internal Control Over Compliance**

The management of the City of Salem is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Salem's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized loop at the end.

**Jim Petro**  
Auditor of State

July 7, 2000

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505**

**CITY OF SALEM  
COLUMBIANA COUNTY  
DECEMBER 31, 1999**

**SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Community Development Block Grant (14.228)
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type AIB Programs</b>	Type A: > \$ 300,000
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes







STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**CITY OF SALEM**

**COLUMBIANA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
SEPTEMBER 5, 2000**