



Dave Yost • Auditor of State

**CITY OF SALEM
COLUMBIANA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

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, 2011, and the respective changes in financial position and where applicable, cash flows, thereof, and the respective budgetary comparisons for the General and Parks funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2011, the City implemented Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2012, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

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

Dave Yost
Auditor of State

June 26, 2012

City of Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

The discussion and analysis of the City of Salem's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2011. 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 2011 are as follows:

- During 2011, the City implemented Governmental Accounting Standard Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" which recognizes constraints imposed upon the use of the resources in governmental funds and categorizes the constraints into five classifications.
- City income tax receipts have been on an upswing over the last three years. The 2009 receipts were \$3.7 million, climbed to 4.0 million in 2010 and 4.2 million in 2011.
- Total governmental capital assets increased due to the completion of the East Pershing Street Extension project and the purchase of two dump trucks during the year. The business-type activities capital assets decreased due to an additional year of depreciation expense which was offset by the continuation of several wastewater construction projects.
- A review of the enterprise funds reflects an operating income for the wastewater fund and a smaller operating loss for the water fund when compared to the prior year. These changes in net assets are largely due to diligent financial management. The smaller operating loss for the water fund was due to reductions in material and supplies expenses. Rates for all enterprise funds are monitored by the City to maintain the revenue needed to operate these activities.

Using this Annual Financial Report

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

The Statement of Net Assets 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 2011?" The Statement of Net Assets and the Statement of Activities answer this question.

These statements include all *assets* and *liabilities* 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.

City of Salem
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These two statements report the City's *net assets* and changes in those assets. This change in net assets 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 Assets and the Statement of Activities, the City is divided into two distinct kinds of activities:

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

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

Reporting on the Most Significant Funds of the City of Salem

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

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City's most significant funds. The City's major governmental funds are the general fund, the parks special revenue fund and the tax increment financing 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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

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

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

The City of Salem as a Whole

The Statement of Net Assets provides an overall view of the City. Table 1 shows a summary of the City's net assets for 2011 as they compare to 2010.

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets						
Current and Other Assets	\$5,799,665	\$5,463,161	\$18,314,004	\$17,727,400	24,113,669	\$23,190,561
Capital Assets, Net	17,564,537	17,462,117	17,391,824	17,895,859	34,956,361	35,357,976
<i>Total Assets</i>	<u>23,364,202</u>	<u>22,925,278</u>	<u>35,705,828</u>	<u>35,623,259</u>	<u>59,070,030</u>	<u>58,548,537</u>
Liabilities						
Current Liabilities	2,567,213	2,082,965	224,171	342,092	2,791,384	2,425,057
Long-term Liabilities						
Due within one Year	361,514	324,781	36,687	57,850	398,201	382,631
Due in More than one Year	3,384,970	3,236,215	910,404	931,601	4,295,374	4,167,816
<i>Total Liabilities</i>	<u>\$6,313,697</u>	<u>\$5,643,961</u>	<u>\$1,171,262</u>	<u>\$1,331,543</u>	<u>\$7,484,959</u>	<u>\$6,975,504</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	13,213,209	13,521,311	16,594,201	17,016,942	29,807,410	30,538,253
Restricted for:						
Capital Projects	313,250	97,074	0	0	313,250	97,074
Debt Service	0	24,661	0	0	0	24,661
Streets	349,330	449,898	0	0	349,330	449,898
Parks	296,907	313,103	0	0	296,907	313,103
Law Enforcement	394,571	168,538	0	0	394,571	168,538
Community Environment	554,266	718,111	0	0	554,266	718,111
Other Purposes	37,458	0	0	0	37,458	0
Unrestricted	1,891,524	1,988,621	17,940,365	17,274,774	19,831,889	19,263,395
<i>Total Net Assets</i>	<u>\$17,050,515</u>	<u>\$17,281,317</u>	<u>\$34,534,566</u>	<u>\$34,291,716</u>	<u>\$51,585,081</u>	<u>\$51,573,033</u>

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

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In order to further understand what makes up the changes in net assets 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 assets for the fiscal years 2011 and 2010.

(Table 2)
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Program Revenues						
Charges for Services and Assessments	\$294,513	\$231,796	\$4,369,686	\$4,091,287	\$4,664,199	\$4,323,083
Operating Grants and Contributions	1,044,156	1,392,013	0	0	1,044,156	1,392,013
Capital Grants and Contributions	79,341	242,828	0	0	79,341	242,828
<i>Total Program Revenues</i>	<u>1,418,010</u>	<u>1,866,637</u>	<u>4,369,686</u>	<u>4,091,287</u>	<u>5,787,696</u>	<u>5,957,924</u>
General Revenues						
Property Taxes	1,022,506	1,178,154	0	0	1,022,506	1,178,154
Municipal Income Tax	4,245,821	3,989,074	0	0	4,245,821	3,989,074
Grants and Entitlements not Restricted to Specific Programs	434,837	519,430	0	0	434,837	519,430
Gain on Sale of Capital Assets	9,026	0	0	0	9,026	0
Payments in Lieu of Taxes	85,961	58,042	0	0	85,961	58,042
Interest	150,992	244,664	16,579	30,674	167,571	275,338
Other	116,938	244,903	76,740	52,897	193,678	297,800
<i>Total General Revenues</i>	<u>6,066,081</u>	<u>6,234,267</u>	<u>93,319</u>	<u>83,571</u>	<u>6,159,400</u>	<u>6,317,838</u>
<i>Total Revenues</i>	<u>7,484,091</u>	<u>8,100,904</u>	<u>4,463,005</u>	<u>4,174,858</u>	<u>11,947,096</u>	<u>12,275,762</u>
Program Expenses						
General Government	1,328,436	1,222,646	0	0	1,328,436	1,222,646
Security of Persons and Property	3,447,065	3,649,834	0	0	3,447,065	3,649,834
Public Health Services	113,515	99,797	0	0	113,515	99,797
Transportation	1,838,374	1,404,361	0	0	1,838,374	1,404,361
Community Development	337,489	498,173	0	0	337,489	498,173
Leisure Time Activities	509,663	516,422	0	0	509,663	516,422
Interest and Fiscal Charges	140,361	158,193	0	0	140,361	158,193
Water	0	0	1,822,081	2,345,701	1,822,081	2,345,701
Wastewater	0	0	2,398,074	2,181,910	2,398,074	2,181,910
<i>Total Program Expenses</i>	<u>7,714,903</u>	<u>7,549,426</u>	<u>4,220,155</u>	<u>4,527,611</u>	<u>11,935,058</u>	<u>12,077,037</u>
Transfers	0	(40,137)	0	40,137	0	0
<i>Change in Net Assets</i>	<u>(230,812)</u>	<u>511,341</u>	<u>242,850</u>	<u>(312,616)</u>	<u>12,038</u>	<u>198,725</u>
Net Assets Beginning of the Year	17,281,317	16,769,976	34,291,716	34,604,332	51,573,033	51,374,308
Net Assets End of the Year	<u>\$17,050,505</u>	<u>\$17,281,317</u>	<u>\$34,534,566</u>	<u>\$34,291,716</u>	<u>\$51,585,071</u>	<u>\$51,573,033</u>

City of Salem
Management's Discussion and Analysis
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Governmental Activities

Funding for governmental activities is derived from several sources, the largest of which is the City's municipal income tax. There was an increase in income tax collections in 2011, mainly due to increases in income tax collections and the income tax receivable. The City's income tax rate is currently 1 percent. Residents of the City who work in another community receive a 100 percent credit on income earned outside the City and paid to another municipality. This credit was not in place from July 2010 to November 2010. An increase in income tax collections during the first half of 2011 can be partly contributed to the credit not being in place during this time period. City Council passed an ordinance during 2010 removing the credit on income taxes paid to another municipality beginning July 1, 2010. This ordinance was repealed by the citizens of the City during the general election held on November 2, 2010.

General revenues from grants and entitlements, such as local government funds, are also revenue generators. The City monitors its source of revenues very closely for fluctuations. Local government funding has remained stagnant for the past several years and anticipated to be reduced in the future. This is also a direct result of the poor economic conditions and their subsequent effect on the State as a whole. The decrease in governmental activities operating grants and contributions was due to the City receiving less community development grant monies compared to 2010. The decrease in property tax revenues can be contributed to the decrease in assessed values of real property compared to 2010.

General government expenses increased from 2010, mainly due to wage increases which were offset by increases in the percentages employees pay for benefits and increases in transportation expenses. The largest governmental activities expenses are for the police and fire departments. Effective July 1, 2011, employees of the City received a 4 percent pay increase. The pay increase was offset by increases in the percentage employees pay toward their pension. Police and fire departments now pay 4 percent of their pension and other bargaining employees pay 3.5 percent. The transportation department had increases in costs from 2010, due to an increase in spending for the summer street maintenance program. The summer street maintenance program expenses were scaled back in 2010 due to lack of funding.

Business-Type Activities

The City operates two business-type activities, the water and wastewater treatment facilities. These two activities generated operating revenues of \$1,632,931 from water and \$2,813,495 from the wastewater facility. The largest sources of revenue for both water and wastewater treatment facilities in 2011 were charges for services. Water and wastewater expenses for 2011 amounted to \$1,822,081 and \$2,398,074, respectively. The largest expenses are for payroll and employee benefits for both operations.

The City's Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year. Information about the City's governmental funds begins on page 16. The funds are accounted for using the modified accrual method of accounting.

As of the end of 2011, the City of Salem's governmental funds reported a positive combined ending fund balance. The City's major governmental funds are the general fund, parks special revenue fund and the tax increment financing capital projects fund. Revenues exceeded expenditures for the year in the general fund due to an increase in municipal income taxes. This was offset by an increase in expenditures due to wage

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increases which was offset by increases the portion employees pay for pension costs. Expenditures exceeded revenues in the parks special revenue fund due to decreases in property tax collections. The tax increment financing capital projects fund ended the year with a negative fund balance due to the issuance of short-term notes for road construction.

Information about the proprietary funds starts on page 22. These funds are accounted for on an accrual basis.

Enterprise funds are handled in the same manner as governmental funds, with the intent to ensure the strength of these funds. These funds had total operating revenue of \$4,446,426 and total operating expenses of \$4,220,155. If expenses were to exceed revenue and dramatically affect net assets, the City has the power to increase revenue through rate increases.

General Fund Budgeting Highlights

Budgeting for the operations of the City is done as prescribed by Ohio Revised Code. Essentially the budget is the City's appropriations, which is restricted by the amounts of the anticipated revenues certified by the Budget Commission in accordance with Ohio Revised Code. In 2011, actual revenues for the general fund were more than final estimated revenues due to more income taxes collections than actually 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 2011, 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 contributed to the completion of the East Pershing Street Extension project and the purchase of two dump trucks offset by an additional year of accumulated depreciation being taken.

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

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

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$4,586,123	\$4,586,123	\$564,419	\$564,419	\$5,150,542	\$5,150,542
Construction in Progress	0	115,652	876,071	644,080	876,071	759,732
Buildings	1,021,661	1,074,301	9,523,096	9,984,690	10,544,757	11,058,991
Improvements Other than Buildin	121,107	143,653	11,009	9,102	132,116	152,755
Land Improvements	391,858	404,682	0	0	391,858	404,682
Machinery and Equipment	877,745	830,890	602,799	627,001	1,480,544	1,457,891
Infrastructure	10,566,043	10,306,816	5,814,430	6,066,567	16,380,473	16,373,383
Total Capital Assets	\$17,564,537	\$17,462,117	\$17,391,824	\$17,895,859	\$34,956,361	\$35,357,976

Long-term Obligations

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

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

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
General Obligation Bonds	\$2,760,954	\$2,924,433	\$0	\$0	\$2,760,954	\$2,924,433
Special Assessment Bonds	0	20,000	0	0	0	20,000
OPWC Loans	636,874	312,873	797,623	878,917	1,434,497	1,191,790
OWDA Loans	0	0	0	0	0	0
Compensated Absences	348,656	303,690	149,468	110,534	498,124	414,224
Total	\$3,746,484	\$3,560,996	\$947,091	\$989,451	\$4,693,575	\$4,550,447

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

The OPWC loans are being paid with monies from the general obligation bond retirement fund and from the water and wastewater enterprise fund user charges. The governmental activities OPWC loan balance increased due to the new loan for the East Pershing Street Improvement during 2011. This project was completed during 2011 and the City will begin repaying this loan during 2012.

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

The City of Salem's overall legal debt margin was \$17,628,007 on December 31, 2011. For more information about the City's long-term obligations, see Note 14 to the basic financial statements.

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Current Financial Issues

The Administration provided strong fiscal management, holding general operating expenses in check while maintaining City services at a high level in 2011. But with decreasing revenues from Federal and State sources and increasing expenses, the City is going to see some tougher times in the coming years.

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

Contacting the City of Salem's Financial Management

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

City of Salem, Ohio

Statement of Net Assets

December 31, 2011

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,332,821	\$17,250,649	\$19,583,470
Accrued Interest Receivable	19,512	0	19,512
Accounts Receivable	23,777	500,391	524,168
Intergovernmental Receivable	1,172,676	0	1,172,676
Property Taxes Receivable	1,226,254	0	1,226,254
Income Taxes Receivable	761,483	0	761,483
Special Assessments Receivable	0	271,779	271,779
Materials and Supplies Inventory	153,927	275,052	428,979
Prepaid Items	23,254	16,133	39,387
Payments in Lieu of Taxes Receivable	85,961	0	85,961
Nondepreciable Capital Assets	4,586,123	1,440,490	6,026,613
Depreciable Capital Assets, Net	12,978,414	15,951,334	28,929,748
<i>Total Assets</i>	<u>23,364,202</u>	<u>35,705,828</u>	<u>59,070,030</u>
Liabilities			
Accounts Payable	66,426	123,341	189,767
Accrued Wages	117,223	39,417	156,640
Intergovernmental Payable	257,947	61,413	319,360
Accrued Interest Payable	15,980	0	15,980
Notes Payable	953,500	0	953,500
Deferred Revenue	1,156,137	0	1,156,137
Long-Term Liabilities:			
Due Within One Year	361,514	36,687	398,201
Due In More Than One Year	3,384,970	910,404	4,295,374
<i>Total Liabilities</i>	<u>6,313,697</u>	<u>1,171,262</u>	<u>7,484,959</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	13,213,209	16,594,201	29,807,410
Restricted for:			
Capital Projects	313,240	0	313,240
Streets	349,330	0	349,330
Parks	296,907	0	296,907
Law Enforcement	394,571	0	394,571
Community Environment	554,266	0	554,266
Other Purposes	37,458	0	37,458
Unrestricted	1,891,524	17,940,365	19,831,889
<i>Total Net Assets</i>	<u>\$17,050,505</u>	<u>\$34,534,566</u>	<u>\$51,585,071</u>

See accompanying notes to the basic financial statements

City of Salem, Ohio
Statement of Activities
For the Year Ended December 31, 2011

	Program Revenues			
	Expenses	Charges for Services and Assessments	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$1,328,436	\$64,488	\$0	\$0
Security of Persons and Property	3,447,065	122,682	346,745	0
Public Health Services	113,515	72,283	6,399	0
Transportation	1,838,374	836	587,914	79,341
Community Development	337,489	4,353	64,409	0
Leisure Time Activities	509,663	29,871	38,689	0
Interest and Fiscal Charges	140,361	0	0	0
<i>Total Governmental Activities</i>	<u>7,714,903</u>	<u>294,513</u>	<u>1,044,156</u>	<u>79,341</u>
Business-Type Activities:				
Water	1,822,081	1,563,357	0	0
Wastewater	2,398,074	2,806,329	0	0
<i>Total Business-Type Activities</i>	<u>4,220,155</u>	<u>4,369,686</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u><u>\$11,935,058</u></u>	<u><u>\$4,664,199</u></u>	<u><u>\$1,044,156</u></u>	<u><u>\$79,341</u></u>

General Revenues

Property Taxes Levied for:

General Purposes

Park

Fire

Police

Income Taxes Levied for:

General Purposes

Debt Service

Capital Projects

Grants and Entitlements not Restricted
to Specific Programs

Gain on Sale of Capital Asset

Payment in Lieu of Taxes

Interest

Other

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$1,263,948)	\$0	(\$1,263,948)
(2,977,638)	0	(2,977,638)
(34,833)	0	(34,833)
(1,170,283)	0	(1,170,283)
(268,727)	0	(268,727)
(441,103)	0	(441,103)
(140,361)	0	(140,361)
(6,296,893)	0	(6,296,893)
0	(258,724)	(258,724)
0	408,255	408,255
0	149,531	149,531
(6,296,893)	149,531	(6,147,362)
562,303	0	562,303
322,430	0	322,430
72,994	0	72,994
64,779	0	64,779
3,628,399	0	3,628,399
255,418	0	255,418
362,004	0	362,004
434,837	0	434,837
9,026	0	9,026
85,961	0	85,961
150,992	16,579	167,571
116,938	76,740	193,678
6,066,081	93,319	6,159,400
(230,812)	242,850	12,038
17,281,317	34,291,716	51,573,033
<u>\$17,050,505</u>	<u>\$34,534,566</u>	<u>\$51,585,071</u>

City of Salem, Ohio

Balance Sheet

Governmental Funds

December 31, 2011

	<u>General</u>	<u>Parks</u>	<u>Tax Increment Financing</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and					
Cash Equivalents	\$1,165,380	\$256,521	\$13,937	\$895,653	\$2,331,491
Receivables:					
Property Taxes	688,869	389,779	0	147,606	1,226,254
Income Taxes	761,483	0	0	0	761,483
Accounts	23,777	0	0	0	23,777
Intergovernmental	164,888	19,253	0	988,535	1,172,676
Accrued Interest	19,512	0	0	0	19,512
Interfund Receivable	11,019	0	0	0	11,019
Materials and Supplies Inventory	114,854	0	0	39,073	153,927
Prepaid Items	22,105	1,149	0	0	23,254
Payments in Lieu of Taxes Receivable	0	0	0	85,961	85,961
Restricted Assets:					
Equity in Pooled Cash and					
Cash Equivalents	1,330	0	0	0	1,330
Total Assets	<u>\$2,973,217</u>	<u>\$666,702</u>	<u>\$13,937</u>	<u>\$2,156,828</u>	<u>\$5,810,684</u>
Liabilities					
Accounts Payable	\$24,439	\$2,408	\$0	\$39,579	\$66,426
Accrued Wages	93,066	6,129	0	18,028	117,223
Intergovernmental Payable	117,059	11,277	0	129,611	257,947
Interfund Payable	0	0	0	11,019	11,019
Deferred Revenue	1,027,420	409,032	0	1,071,293	2,507,745
Accrued Interest Payable	0	0	5,510	0	5,510
Notes Payable	0	0	953,500	0	953,500
Total Liabilities	<u>1,261,984</u>	<u>428,846</u>	<u>959,010</u>	<u>1,269,530</u>	<u>3,919,370</u>
Fund Balances					
Nonspendable	138,289	1,149	0	39,073	178,511
Restricted	0	236,707	0	783,101	1,019,808
Committed	2	0	0	183,701	183,703
Assigned	114,347	0	0	0	114,347
Unassigned (Deficit)	1,458,595	0	(945,073)	(118,577)	394,945
Total Fund Balances	<u>1,711,233</u>	<u>237,856</u>	<u>(945,073)</u>	<u>887,298</u>	<u>1,891,314</u>
Total Liabilities and Fund Balances	<u>\$2,973,217</u>	<u>\$666,702</u>	<u>\$13,937</u>	<u>\$2,156,828</u>	<u>\$5,810,684</u>

See accompanying notes to the basic financial statements

City of Salem, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2011*

Total Governmental Fund Balances	\$1,891,314
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	17,564,537
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Property Taxes	156,078
Income Taxes	222,923
Intergovernmental	<u>972,607</u>
Total	1,351,608
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(10,470)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
OPWC Loans Payable	(636,874)
General Obligation Bonds	(2,760,954)
Compensated Absences	<u>(348,656)</u>
Total	<u>(3,746,484)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$17,050,505</u></u>

City of Salem, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2011

	General	Parks	Tax Increment Financing	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$559,348	\$320,740	\$0	\$128,923	\$1,009,011
Municipal Income Taxes	3,626,236	0	13,920	603,502	4,243,658
Special Assessments	3,403	0	0	16,870	20,273
Charges for Services	70,809	15,817	0	39,871	126,497
Fees, Licenses and Permits	91,539	8,075	0	33,836	133,450
Fines and Forfeitures	16,624	0	0	643	17,267
Intergovernmental	457,463	38,507	79,341	986,630	1,561,941
Interest	182,546	0	0	90	182,636
Rentals	0	5,979	0	0	5,979
Payments in Lieu of Taxes	0	0	0	85,961	85,961
Other	37,848	4,675	0	74,415	116,938
<i>Total Revenues</i>	<u>5,045,816</u>	<u>393,793</u>	<u>93,261</u>	<u>1,970,741</u>	<u>7,503,611</u>
Expenditures					
Current:					
General Government	1,305,359	0	0	1,664	1,307,023
Security of Persons and Property	2,764,471	0	0	503,078	3,267,549
Public Health Services	0	0	0	112,071	112,071
Transportation	12,181	0	0	731,817	743,998
Community Development	103,005	0	0	236,463	339,468
Leisure Time Activities	0	416,154	0	39,746	455,900
Capital Outlay	0	0	780,700	625,287	1,405,987
Debt Service:					
Principal Retirement	0	0	0	227,178	227,178
Interest and Fiscal Charges	0	0	16,613	132,826	149,439
<i>Total Expenditures</i>	<u>4,185,016</u>	<u>416,154</u>	<u>797,313</u>	<u>2,610,130</u>	<u>8,008,613</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>860,800</u>	<u>(22,361)</u>	<u>(704,052)</u>	<u>(639,389)</u>	<u>(505,002)</u>
Other Financing Sources (Uses)					
Sale of Fixed Assets	0	0	0	9,026	9,026
OPWC Loan Issued	0	0	376,179	0	376,179
Transfers In	0	0	0	297,483	297,483
Transfers Out	(297,483)	0	0	0	(297,483)
<i>Total Other Financing Sources (Uses)</i>	<u>(297,483)</u>	<u>0</u>	<u>376,179</u>	<u>306,509</u>	<u>385,205</u>
<i>Net Change in Fund Balances</i>	563,317	(22,361)	(327,873)	(332,880)	(119,797)
<i>Fund Balances (Deficit) Beginning of Year - Restated (See Note 3)</i>	<u>1,147,916</u>	<u>260,217</u>	<u>(617,200)</u>	<u>1,220,178</u>	<u>2,011,111</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$1,711,233</u>	<u>\$237,856</u>	<u>(\$945,073)</u>	<u>\$887,298</u>	<u>\$1,891,314</u>

See accompanying notes to the basic financial statements

City of Salem, Ohio

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2011

Net Change in Fund Balances - Total Governmental Funds (\$119,797)

*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 Outlay	1,002,747	
Depreciation	<u>(900,327)</u>	
Total		102,420

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

Property Taxes	13,495	
Income Taxes	2,163	
Intergovernmental	(3,607)	
Interest	(31,644)	
Special Assessments	<u>(8,953)</u>	
Total		(28,546)

Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 227,178

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	599	
Amortization of Premium	<u>8,479</u>	
Total		9,078

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. (44,966)

Other financing sources, such as OPWC Loan Proceeds in the governmental funds increase long-term liabilities in the statement of net assets. (376,179)

Change in Net Assets of Governmental Activities (\$230,812)

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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$540,741	\$576,057	\$559,348	(\$16,709)
Municipal Income Taxes	3,200,497	3,169,267	3,589,333	420,066
Special Assessments	1,877	2,000	3,403	1,403
Charges for Services	65,947	70,254	70,809	555
Fees, Licenses and Permits	128,841	137,256	107,677	(29,579)
Fines and Forfeitures	16,896	18,000	15,124	(2,876)
Intergovernmental	428,216	456,183	477,391	21,208
Interest	157,256	167,526	163,171	(4,355)
Other	14,707	15,620	15,957	337
<i>Total Revenues</i>	4,554,978	4,612,163	5,002,213	390,050
Expenditures				
Current:				
General Government	1,338,837	1,497,802	1,364,484	133,318
Security of Persons and Property	2,930,567	2,957,231	2,825,073	132,158
Transportation	12,000	12,000	11,750	250
Community Development	105,842	116,036	107,288	8,748
<i>Total Expenditures</i>	4,387,246	4,583,069	4,308,595	274,474
<i>Excess of Revenues Over Expenditures</i>	167,732	29,094	693,618	664,524
Other Financing Sources (Uses)				
Advances In	6,195	6,600	14,997	8,397
Advances Out	0	(66,141)	(26,016)	40,125
Transfers In	5,000	5,000	0	(5,000)
Transfers Out	(460,228)	(445,808)	(297,483)	148,325
<i>Total Other Financing Sources (Uses)</i>	(449,033)	(500,349)	(308,502)	191,847
<i>Net Change in Fund Balance</i>	(281,301)	(471,255)	385,116	856,371
<i>Fund Balance Beginning of Year</i>	666,664	666,664	666,664	0
Prior Year Encumbrances Appropriated	44,781	44,781	44,781	0
<i>Fund Balance End of Year</i>	\$430,144	\$240,190	\$1,096,561	\$856,371

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
Parks Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$386,398	\$386,398	\$320,740	(\$65,658)
Charges for Services	11,000	11,000	15,817	4,817
Fees, Licenses and Permits	10,000	10,000	8,075	(1,925)
Intergovernmental	0	0	38,507	38,507
Rentals	7,000	7,000	5,979	(1,021)
Other	5,000	5,420	4,675	(745)
<i>Total Revenues</i>	419,398	419,818	393,793	(26,025)
Expenditures				
Current:				
Leisure Time Activities	651,929	651,929	451,165	200,764
<i>Net Change in Fund Balance</i>	(232,531)	(232,111)	(57,372)	174,739
<i>Fund Balance Beginning of Year</i>	235,874	235,874	235,874	0
Prior Year Encumbrances Appropriated	45,369	45,369	45,369	0
<i>Fund Balance End of Year</i>	\$48,712	\$49,132	\$223,871	\$174,739

See accompanying notes to the basic financial statements

City of Salem, Ohio
Statement of Fund Net Assets
Proprietary Funds
December 31, 2011

	Enterprise		
	Water	Wastewater	Total
Assets			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$3,418,392	\$13,832,257	\$17,250,649
Accounts Receivable	219,966	280,425	500,391
Special Assessments Receivable	0	271,779	271,779
Materials and Supplies Inventory	242,129	32,923	275,052
Prepaid Items	8,589	7,544	16,133
<i>Total Current Assets</i>	<u>3,889,076</u>	<u>14,424,928</u>	<u>18,314,004</u>
<i>Noncurrent Assets:</i>			
Nondepreciable Capital Assets	654,962	785,528	1,440,490
Depreciable Capital Assets, Net	8,308,748	7,642,586	15,951,334
<i>Total Noncurrent Assets</i>	<u>8,963,710</u>	<u>8,428,114</u>	<u>17,391,824</u>
<i>Total Assets</i>	<u>12,852,786</u>	<u>22,853,042</u>	<u>35,705,828</u>
Liabilities			
<i>Current Liabilities:</i>			
Accounts Payable	45,966	77,375	123,341
Accrued Wages	16,719	22,698	39,417
Intergovernmental Payable	26,435	34,978	61,413
Compensated Absences Payable	4,260	5,329	9,589
OPWC Loans Payable	27,098	0	27,098
<i>Total Current Liabilities</i>	<u>120,478</u>	<u>140,380</u>	<u>260,858</u>
<i>Long-Term Liabilities (net of current portion):</i>			
Compensated Absences Payable	61,678	78,201	139,879
OPWC Loans Payable	770,525	0	770,525
<i>Total Long-Term Liabilities</i>	<u>832,203</u>	<u>78,201</u>	<u>910,404</u>
<i>Total Liabilities</i>	<u>952,681</u>	<u>218,581</u>	<u>1,171,262</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	8,166,087	8,428,114	16,594,201
Unrestricted	3,734,018	14,206,347	17,940,365
<i>Total Net Assets</i>	<u>\$11,900,105</u>	<u>\$22,634,461</u>	<u>\$34,534,566</u>

See accompanying notes to the basic financial statements

City of Salem, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2011*

	Enterprise		
	Water	Wastewater	Total
Operating Revenues			
Charges for Services	\$1,563,357	\$2,806,268	\$4,369,625
Special Assessments	0	61	61
Other Operating Revenues	69,574	7,166	76,740
<i>Total Operating Revenues</i>	<u>1,632,931</u>	<u>2,813,495</u>	<u>4,446,426</u>
Operating Expenses			
Personal Services	749,643	937,043	1,686,686
Materials and Supplies	328,669	421,901	750,570
Contractual Services	333,570	653,592	987,162
Depreciation	399,895	371,772	771,667
Other	10,304	13,766	24,070
<i>Total Operating Expenses</i>	<u>1,822,081</u>	<u>2,398,074</u>	<u>4,220,155</u>
<i>Operating Income (Loss)</i>	(189,150)	415,421	226,271
Non-Operating Revenue			
Interest	0	16,579	16,579
<i>Change in Net Assets</i>	(189,150)	432,000	242,850
<i>Net Assets Beginning of Year</i>	<u>12,089,255</u>	<u>22,202,461</u>	<u>34,291,716</u>
<i>Net Assets End of Year</i>	<u><u>\$11,900,105</u></u>	<u><u>\$22,634,461</u></u>	<u><u>\$34,534,566</u></u>

See accompanying notes to the basic financial statements

City of Salem, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

	Enterprise		
	Water	Wastewater	Total
<i>Increase (Decrease) in Cash and Cash Equivalents</i>			
Cash Flows from Operating Activities			
Cash Received from Customers	\$1,637,441	\$2,834,634	\$4,472,075
Cash Payments to Employees for Services	(741,791)	(910,726)	(1,652,517)
Cash Payments for Goods and Services	(865,018)	(1,022,342)	(1,887,360)
Other Cash Payments	(10,304)	(13,766)	(24,070)
<i>Net Cash Provided by Operating Activities</i>	<u>20,328</u>	<u>887,800</u>	<u>908,128</u>
Cash Flows from Capital and Related Financing Activities			
Payments for Capital Acquisitions	(92,455)	(175,177)	(267,632)
Principal Paid on OWPC Loans	(81,294)	0	(81,294)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(173,749)</u>	<u>(175,177)</u>	<u>(348,926)</u>
Cash Flows from Investing Activities			
Interest on Investments	0	16,579	16,579
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(153,421)	729,202	575,781
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>3,571,813</u>	<u>13,103,055</u>	<u>16,674,868</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$3,418,392</u>	<u>\$13,832,257</u>	<u>\$17,250,649</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating Income (Loss)	(\$189,150)	\$415,421	\$226,271
Adjustments:			
Depreciation	399,895	371,772	771,667
<i>(Increase) Decrease in Assets:</i>			
Accounts Receivable	4,510	2,299	6,809
Special Assessments Receivable	0	18,840	18,840
Materials and Supplies Inventory	(115,551)	80,190	(35,361)
Prepaid Items	(1,078)	(33)	(1,111)
<i>Increase (Decrease) in Liabilities:</i>			
Accounts Payable	(86,203)	(27,006)	(113,209)
Accrued Wages	(1,945)	(543)	(2,488)
Compensated Absences Payable	18,115	20,819	38,934
Intergovernmental Payable	(8,265)	6,041	(2,224)
<i>Total Adjustments</i>	<u>209,478</u>	<u>472,379</u>	<u>681,857</u>
<i>Net Cash Provided by Operating Activities</i>	<u>\$20,328</u>	<u>\$887,800</u>	<u>\$908,128</u>

See accompanying notes to the basic financial statements

City of Salem, Ohio
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2011

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$16,955</u>
Liabilities	
Undistributed Monies	<u>\$16,955</u>

See accompanying notes to the basic financial statements

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City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Note 1 – Description of the City and Reporting Entity

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

Reporting Entity

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

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

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

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

Note 2 – Summary of Significant Accounting Policies

The financial statements of the City of Salem have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected not to apply FASB Pronouncements and Interpretations issued after November 30, 1989 to its business-type activities and to its enterprise funds. 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 assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Government-wide Financial Statements The statement of net assets 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 activity of the internal service fund is eliminated to avoid “doubling up” revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type.

The statement of net assets 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. The internal service fund is presented in a single column on the face of the proprietary fund statements. 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 liabilities 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 City of Salem and/or the general laws of Ohio.

Parks Fund - The parks special revenue fund accounts for and reports property taxes levied that are restricted for the support of the operation and maintenance of City parks.

Tax Increment Financing Fund – The tax increment financing capital project fund accounts for and reports tax increment financing that are restricted for City improvement projects.

City of Salem, Ohio
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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 assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

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 assets and changes in net assets. 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 all liabilities associated with the operation of the City are included on the Statement of Net Assets. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

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 current liabilities 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 all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of revenues, expenses and changes in fund net

City of Salem, Ohio
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assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. 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 revenue 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 thirty-one days of year-end.

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

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

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

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 2011, investments were limited to federal home loan bank bonds, federal farm credit bank bonds and US treasury notes.

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 2011 amount to \$182,546, of which \$170,678 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, 2011, 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 assets 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 assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The

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

All capital assets are depreciated except for land. 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

Interfund Balances

On 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 offset by a fund balance reserve account. Interfund balances amounts are eliminated in the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of 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.

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.

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

Fund Balance

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

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

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

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

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance or resolution) of Council. Those committed amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. Constraints imposed on the use of committed amounts are imposed by Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are 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. In the general fund, assigned amounts represent intended uses established by policies of the Council or a City official delegated that authority by City Charter or ordinance, or by State Statute.

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 resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

City of Salem, Ohio
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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 Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets 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 assets 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 assets 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 and self insurance programs. 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 received in the year the bonds are issued.

Internal Activity

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

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

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Estimates

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

Budgetary Process

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

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

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

Note 3 - Change in Accounting Principle and Restatement

For 2011, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" and Statement No. 59, "Financial Instrument Omnibus".

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the reclassification of certain funds and restatement of the City's financial statements.

GASB Statement No. 59 addresses significant practice issues that have arisen when accounting for financial instruments by updating and improving existing standards regarding financial reporting of certain financial instruments and external investment pools. The implementation of this statement did not result in any change in the City's financial statements.

Restatement

The implementation of GASB Statement No. 54 had the following effect on fund balances of the major and nonmajor funds as they were previously reported.

City of Salem, Ohio
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For The Year Ended December 31, 2011

	General	Municipal Income Tax	Parks	Buildings Tax Increment Financing	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balance at						
December 31, 2010	\$390,741	\$756,928	\$255,054	(\$617,200)	\$1,225,588	\$2,011,111
Change in Fund Structure	757,175	(756,928)	5,163	0	(5,410)	0
Adjusted Fund Balance at						
December 31, 2010	<u>\$1,147,916</u>	<u>\$0</u>	<u>\$260,217</u>	<u>(\$617,200)</u>	<u>\$1,220,178</u>	<u>\$2,011,111</u>

Note 4 - Fund Balances

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

Fund Balances	General	Parks	Tax Increment Financing	Nonmajor Governmental Funds	Total
<i>Nonspendable</i>					
Prepays	\$22,105	\$1,149	\$0	\$0	\$23,254
Inventory	114,854	0	0	39,073	153,927
Unclaimed Monies	1,330	0	0	0	1,330
<i>Total Nonspendable</i>	<u>138,289</u>	<u>1,149</u>	<u>0</u>	<u>39,073</u>	<u>178,511</u>
<i>Restricted for</i>					
Park Operations	0	236,707	0	0	236,707
Public Safety	0	0	0	169,618	169,618
Community Development	0	0	0	160,767	160,767
Street Maintenance	0	0	0	136,533	136,533
Capital Improvements	0	0	0	313,240	313,240
Debt Service Payments	0	0	0	2,943	2,943
<i>Total Restricted</i>	<u>0</u>	<u>236,707</u>	<u>0</u>	<u>783,101</u>	<u>1,019,808</u>
<i>Committed to</i>					
Municipal Events	0	0	0	19,187	19,187
Health Department	0	0	0	16,956	16,956
Capital Improvements	0	0	0	147,558	147,558
Accrued Personal Benefits	2	0	0	0	2
<i>Total Committed</i>	<u>2</u>	<u>0</u>	<u>0</u>	<u>183,701</u>	<u>183,703</u>
<i>Assigned to</i>					
Shade Tree Program	72	0	0	0	72
Other Purposes	114,275	0	0	0	114,275
<i>Total Assigned</i>	<u>114,347</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>114,347</u>
<i>Unassigned (Deficit)</i>	<u>1,458,595</u>	<u>0</u>	<u>(945,073)</u>	<u>(118,577)</u>	<u>394,945</u>
<i>Total Fund Balances (Deficit)</i>	<u>\$1,711,233</u>	<u>\$237,856</u>	<u>(\$945,073)</u>	<u>\$887,298</u>	<u>\$1,891,314</u>

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Note 5 - Accountability

Fund balances at December 31, 2011, included the following individual fund deficits:

	<u>Deficit Fund Balances</u>
<i>Major Fund:</i>	
Tax increment Financing	\$945,073
<i>Special Revenue Funds:</i>	
Police Pension	60,896
Fire Pension	57,681

The tax increment financing capital projects fund deficit is caused by the issuance of short-term notes payable. 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 operating transfers when cash is required, not when accruals occur.

Note 6 - Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual for the general and major special revenue funds are 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 as a reservation of fund balance (GAAP).
4. Unrecorded cash represents amounts received but not reported by the City on the operating statements (budget), but which is reported on the GAAP basis operating statement.
5. Advances-in and Advances-out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
6. Budgetary revenues and expenditures for the shade tree fund is classified to the general fund for GAAP reporting and the lakes and grounds fund is classified to the parks fund for GAAP reporting.

City of Salem, Ohio
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For The Year Ended December 31, 2011

The following table summarized the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general and major special revenue funds:

Net Change in Fund Balances		
	General	Parks
GAAP Basis	\$563,317	(\$22,361)
Net Adjustment for Revenue Accruals	(43,315)	0
Ending Unrecorded Cash	(288)	0
Advance In	14,997	0
Net Adjustment for Expenditures Accruals	(53,965)	(2,361)
Excess of Revenues Under Expenditures		
Shade Tree	175	0
Advance Out	(26,016)	0
Encumbrances	(69,789)	(32,650)
Budget Basis	\$385,116	(\$57,372)

Note 7 - Deposits and Investments

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

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

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

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

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;

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

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

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

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

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

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that, in the event of failure of the counterparty, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$8,864,636 of the City's bank balance of \$12,216,071 was uninsured and

City of Salem, Ohio
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For The Year Ended December 31, 2011

uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

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

Investments

Investments are reported at fair value. As of December 31, 2011, the City had the following investments:

	Fair Value	Maturity	Moody Rating	Percent of Total Investments
Federal Home Loan Bank Bonds	2,527,100	Less than One Year	Aaa	33.71%
Federal Home Loan Bank Bonds	1,762,833	More than One Year	Aaa	23.51%
Federal Farm Credit Bank Bonds	2,201,183	More than One Year	Aaa	29.36%
US Treasury Notes	1,005,820	More than One Year	Aaa	13.42%
Total Portfolio	<u>\$7,496,936</u>			

Interest Rate Risk As a means of limiting its exposure to fair value losses caused by rising interest rates, the City's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

Credit Risk All investments of the City carry a rating of Aaa by Moody's rating system. The City has no investment policy that addresses credit risk.

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

Note 8 - Receivables

Receivables at December 31, 2011, 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.

City of Salem, Ohio
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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 2011 for real and public utility property taxes represents collections of 2010 taxes.

2011 real property taxes were levied after October 1, 2011, on the assessed value as of January 1, 2011, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2011 real property taxes are collected in and intended to finance 2012.

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. 2011 public utility property taxes which became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2011, was \$5.40 per \$1,000 of assessed value. The assessed values of real and public utility tangible property upon which 2011 property tax receipts were based are as follows:

Real Property	\$202,148,450
Public Utility Personal Property	<u>4,579,090</u>
Total	<u><u>\$206,727,540</u></u>

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which were measurable as of December 31, 2011, and for which there was an enforceable legal claim. In the governmental funds, the entire receivable has been deferred since current taxes were not levied to finance 2011 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the accrual basis, collectible delinquent property taxes have been recorded as revenue while on the modified accrual basis the revenue has been deferred.

Income Taxes

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

City of Salem, Ohio
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Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. All income tax proceeds are received by the general fund, the tax increment financing special revenue fund and the income tax capital improvement fund.

Intergovernmental Receivables

A summary of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities	
CHIPS Grant	\$338,668
FEMA Grant	242,188
Gasoline and Municipal Cents per Gallon	195,059
Local Government	110,087
Homestead and Rollback	60,767
Community Block Grant	59,000
Motor Vehicle License Tax	51,001
Ohio Housing Trust Fund Grant	50,000
Permissive Tax	43,437
Inheritance Tax	18,722
Columbiana County	1,887
Commercial Activity Tax	1,860
Total	<u>\$1,172,676</u>

Note 9 - Compensated Absences

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

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.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

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, 2011.

Note 11 - Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Balance 12/31/2010	Additions	Deductions	Balance 12/31/2011
Governmental Activities				
<i>Capital Assets not being Depreciated:</i>				
Land	\$4,586,123	\$0	\$0	\$4,586,123
Construction in Progress	115,652	764,236	(879,888)	0
Total Capital Assets not being Depreciated	<u>4,701,775</u>	<u>764,236</u>	<u>(879,888)</u>	<u>4,586,123</u>
<i>Capital Assets being Depreciated:</i>				
Buildings	2,274,772	0	0	2,274,772
Improvements Other Than Buildings	481,581	0	0	481,581
Land Improvements	639,229	0	0	639,229
Machinery and Equipment	3,032,352	238,511	(79,377)	3,191,486
Infrastructure	21,747,952	879,888	0	22,627,840
Total Capital Assets being Depreciated	<u>28,175,886</u>	<u>1,118,399</u>	<u>(79,377)</u>	<u>29,214,908</u>
<i>Less Accumulated Depreciation:</i>				
Buildings	(1,200,471)	(52,640)	0	(1,253,111)
Improvements Other Than Buildings	(337,928)	(22,546)	0	(360,474)
Land Improvements	(234,547)	(12,824)	0	(247,371)
Machinery and Equipment	(2,201,462)	(191,656)	79,377	(2,313,741)
Infrastructure	(11,441,136)	(620,661)	0	(12,061,797)
Total Accumulated Depreciation	<u>(15,415,544)</u>	<u>(900,327) *</u>	<u>79,377</u>	<u>(16,236,494)</u>
Total Capital Assets being Depreciated, Net	<u>12,760,342</u>	<u>218,072</u>	<u>0</u>	<u>12,978,414</u>
Governmental Activities Capital Assets, Net	<u>\$17,462,117</u>	<u>\$982,308</u>	<u>(\$879,888)</u>	<u>\$17,564,537</u>

*Depreciation expense was charged to governmental activities as follows:

City of Salem, Ohio
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General Government	\$16,190
Security of Persons and Property	142,505
Public Health Services	961
Transportation	687,778
Leisure Time Activities	<u>52,893</u>
Total Depreciation Expense	<u><u>\$900,327</u></u>

	Balance 12/31/2010	Additions	Deductions	Balance 12/31/2011
Business Type Activities:				
<i>Capital Assets not being Depreciated:</i>				
Land	\$564,419	\$0	\$0	\$564,419
Construction in Progress	644,080	231,991	0	876,071
<i>Total Capital Assets not being Depreciated</i>	<u>1,208,499</u>	<u>231,991</u>	<u>0</u>	<u>1,440,490</u>
<i>Capital Assets being Depreciated:</i>				
Buildings	20,740,386	0	0	20,740,386
Improvements Other Than Buildings	102,073	0	0	102,073
Machinery and Equipment	7,842,862	35,641	(2,985)	7,875,518
Infrastructure	9,682,946	0	0	9,682,946
Total Capital Assets being Depreciated	<u>38,368,267</u>	<u>35,641</u>	<u>(2,985)</u>	<u>38,400,923</u>
<i>Less Accumulated Depreciation:</i>				
Buildings	(10,755,696)	(461,594)	0	(11,217,290)
Improvements Other Than Buildings	(92,971)	(1,078)	2,985	(91,064)
Machinery and Equipment	(7,215,861)	(56,858)	0	(7,272,719)
Infrastructure	(3,616,379)	(252,137)	0	(3,868,516)
<i>Total Accumulated Depreciation</i>	<u>(21,680,907)</u>	<u>(771,667)</u>	<u>2,985</u>	<u>(22,449,589)</u>
Total Capital Assets being Depreciated, Net	<u>16,687,360</u>	<u>(736,026)</u>	<u>0</u>	<u>15,951,334</u>
Business Type Activities Capital Assets, Net	<u><u>\$17,895,859</u></u>	<u><u>(\$504,035)</u></u>	<u><u>\$0</u></u>	<u><u>\$17,391,824</u></u>

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Note 12 – Interfund Transfers and Balances

Interfund Transfers

Interfund transfers for the year ended December 31, 2011, consisted of the following:

Transfer To	Transfer From
	General Fund
Nonmajor Funds:	
Police Pension Fund	\$106,428
Fire Pension Fund	107,698
Street Construction Maintenance and Repair Fund	45,000
Health Fund	36,909
Special Assessment Debt Service Fund	1,448
Grand Total	\$297,483

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 transfer to the special assessment debt service fund moves unassigned balances to meet debt service payments.

Interfund Balances

Interfund balances at December 31, 2011, consist of a general fund advance of \$11,019 to the FEMA special revenue fund due to the timing of the receipt of grant monies at year end.

Note 13 – Notes Payable

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

	Balance			Balance
	12/31/10	Additions	Reductions	12/31/11
Street Improvement 2.15%	\$683,500	\$0	\$683,500	\$0
Street Improvement 2.25%	0	953,500	0	953,500
Total	\$683,500	\$953,500	\$683,500	\$953,500

During 2011 the City retired the \$683,500 Street Improvement note.

On July 28, 2011, the City issued \$953,500 in various purpose notes to finance various street improvements within the City. The interest rates on the notes are 2.25 percent and they mature on September 28, 2012.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Note 14 - Long-Term Obligations

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

Debt Issue	Interest Rate	Original Issue	Year of Maturity
Business-Type Activities:			
<i>Ohio Public Works Commission Loan</i>			
Stewart Road Water Tank	0.00 %	\$410,000	2020
Roosevelt Ave Water Tank	0.00	673,917	2030
Governmental Activities:			
<i>General Obligation Bonds:</i>			
Various Purpose Improvement Bonds	3.10 - 4.15	2,380,000	2025
Street Improvement TIF Bonds	4.00 - 5.12	985,000	2020
<i>Ohio Public Works Commission Loan</i>			
South East Boulevard Improvement	0.00	261,838	2018
Cunningham Road & Bentley Drive Improvement	0.00	259,936	2021
East Pershing Street Improvement	0.00	376,179	2042

A schedule of changes in bonds and other long-term obligations of the City during 2011 follows:

	Amount Outstanding 12/31/2010	Additions	Deletions	Amount Outstanding 12/31/2011	Amounts Due In One Year
Business-Type Activities:					
<i>Ohio Public Works Commission</i>					
Stewart Road Water Tank	\$205,000	\$0	(\$30,750)	\$174,250	\$10,250
Roosevelt Ave Water Tank	673,917	0	(50,544)	623,373	16,848
Total Ohio Public Works Commission	878,917	0	(81,294)	797,623	27,098
Compensated Absences	110,534	66,567	(27,634)	149,468	9,589
<i>Total Business-Type Activities Obligations</i>	<u>\$989,451</u>	<u>\$66,567</u>	<u>(\$108,928)</u>	<u>\$947,091</u>	<u>\$36,687</u>

City of Salem, Ohio
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For The Year Ended December 31, 2011

	Amount Outstanding 12/31/2010	Additions	Deletions	Amount Outstanding 12/31/2011	Amounts Due In One Year
Governmental Activities Obligations:					
<i>General Obligation Bonds</i>					
Various Purpose Improvement	\$1,950,000	\$0	(\$95,000)	\$1,855,000	\$100,000
Premium on Various Purpose Improvement	75,157	0	(5,011)	70,146	0
Street Improvement TIF	875,000	0	(60,000)	815,000	100,000
Premium on Street Improvement TIF	24,276	0	(3,468)	20,808	0
Total General Obligation Bonds	<u>2,924,433</u>	<u>0</u>	<u>(163,479)</u>	<u>2,760,954</u>	<u>200,000</u>
<i>Special Assessment Bonds</i>					
Street Improvement	20,000	0	(20,000)	0	0
<i>Ohio Public Works Commission Loan</i>					
South East Boulevard Improvement	130,918	0	(26,184)	104,734	8,728
Cunningham Road & Bently Drive Improvement	181,955	0	(25,994)	155,961	8,665
East Pershing Street Improvement	0	376,179	0	376,179	6,270
Total Ohio Public Works Commission Loan	<u>312,873</u>	<u>376,179</u>	<u>(52,178)</u>	<u>636,874</u>	<u>23,663</u>
Compensated Absences	<u>303,690</u>	<u>159,961</u>	<u>(114,995)</u>	<u>348,656</u>	<u>137,851</u>
<i>Total Governmental Activities Obligations</i>	<u><u>\$3,560,996</u></u>	<u><u>\$536,140</u></u>	<u><u>(\$350,652)</u></u>	<u><u>\$3,746,484</u></u>	<u><u>\$361,514</u></u>

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

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

OPWC loans will be paid from water and sewer enterprise fund user service charges and monies from the general obligation bond retirement fund. Compensated absences will be paid from the following funds: the general fund, the street construction maintenance and repair, the health and the parks special revenue funds and the water and sewer 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 \$797,623. Principal paid for the current year and total net revenues were \$81,294 and \$210,745 respectively.

The City's overall legal debt margin was \$17,628,007 at December 31, 2011. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2011, are as follows:

City of Salem, Ohio
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For The Year Ended December 31, 2011

Business-Type Activities:

	<u>OPWC Loans</u>
2012	\$27,098
2013	54,196
2014	54,196
2015	54,196
2016	54,196
2017-2021	250,480
2012-2026	168,480
2017-2030	<u>134,781</u>
Total	<u><u>\$797,623</u></u>

Governmental Activities:

	<u>General Obligation Bonds</u>		<u>OPWC Loan</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2012	\$200,000	\$125,644	\$23,663
2013	215,000	117,644	47,324
2014	230,000	107,806	47,324
2015	255,000	97,200	47,324
2016	275,000	85,312	47,323
2017-2021	835,000	266,313	166,858
2022-2026	660,000	80,036	62,695
2027-2031	0	0	62,695
2032-2036	0	0	62,698
2037-2041	0	0	62,700
2042	0	0	6,270
Total	<u><u>\$2,670,000</u></u>	<u><u>\$879,955</u></u>	<u><u>\$636,874</u></u>

Conduit Debt

The City has issued Revenue Bonds to provide financial assistance to the City's hospital facilities. The monies are used primarily for upgrades to these facilities. In addition, the City has issued bonds to provide the necessary funds for the construction of a community recreation center. At December 31, 2011, the outstanding bonds have a principal amount outstanding of \$12,085,000. The City is not obligated in any way to pay debt charges on the bonds from any of its funds, and therefore they have been excluded entirely for the City's debt presentation. There has not been any condition of default under the bonds or the related financing documents.

City of Salem, Ohio
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Note 15 - Risk Management

Property and Liability

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2011, the City contracted with the Ohio Municipal League Joint Self-Insurance Pool for various types of insurance as follows:

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

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

Workers' Compensation

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

Note 16 - Public Entity Risk Pool

Risk Sharing Authority

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

The Pool's general objectives are to formulate, develop and administer a program of insurance, to obtain lower costs for that coverage, and to develop a comprehensive loss control program on behalf of the member political subdivisions. Political subdivisions joining the Pool may withdraw at the end of any coverage period upon 60 days prior written notice to the Pool. Under agreement, members who terminate participation in the Pool, as well as current members, are subject to a supplemental assessment or a refund, at the discretion of the Board of Trustees, depending on the ultimate loss experience of all the entities it insures of reach 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 \$108,435 in the Pool in 2011.

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

In ordinary course of business, the Pool cedes a portion of its expenses to other insurers. These arrangements limit the Pool’s maximum net loss on individual risks. Treaty basis casualty excess of loss contracts in force at December 31, 2011 generally protects the Pool against losses subject to a deductible of lesser of \$100,000 per location or \$100,000 per occurrence. The Pool is, and the participants are, contingently liable should any reinsurer become unable to meet its obligation under the reinsurance agreements.

Note 17 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law enforcement and public safety employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in State and local divisions and 12 percent for law enforcement and public safety members. For the year ended December 31, 2011, members in state and local divisions contributed 10 percent of covered payroll while public safety and law enforcement members contributed 11.0 percent and 11.6 percent, respectively. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. For 2011, member and employer contribution rates were consistent across all three plans.

The City’s 2011 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City’s contribution was 18.10 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4.00

City of Salem, Ohio
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percent for 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2011. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010 and 2009 were \$240,458, \$223,705, and \$198,997, respectively. For 2011, 84.49 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009. Contributions to the Member-Directed Plan for 2011 were \$5,089 made by the City and \$3,635 made by plan members.

Ohio Police and Fire Pension Fund

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

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

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contributions to OP&F for police and firefighters pension were \$119,893 and \$135,180 for the year ended December 31, 2011, \$120,873 and \$137,619 for the year ended December 31, 2010, and \$126,714 and \$118,679 for the year ended December 31, 2009, respectively. For 2011, 66.77 percent for police and 69.31 percent for firefighters has been contributed with the balance for both police and firefighters being report as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

Note 18 – Postemployment Benefits

Ohio Public Employees Retirement System

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

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

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

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 18.10 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent for 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2011.

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

The City’s contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010, and 2009 were \$96,183, \$127,533, and \$144,706, respectively. For 2011, 84.49 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year from 2006 to 2008. Rates for law enforcement and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

Ohio Police and Fire Pension Fund

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

City of Salem, Ohio
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For The Year Ended December 31, 2011

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

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$63,473 and \$52,897 for the year ended December 31, 2011, \$63,991 and \$53,851 for the year ended December 31, 2010, and \$53,851 and \$46,440 for the year ended December 31, 2009. For 2011, 66.77 percent has been contributed for police and 69.31 percent has been contributed for firefighters with the balance for both police and firefighters being report as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

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Dave Yost • Auditor of State

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

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

To the City Council:

We have audited 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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 26, 2012, wherein we noted the City implemented Government Accounting Standard No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

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 more than a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

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, providing an opinion 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*.

Voinovich Government Center, 242 Federal Plaza W. Suite 302, Youngstown, Ohio 44503-1293
Phone: 330-797-9900 or 800-443-9271 Fax: 330-797-9949

www.ohioauditor.gov

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Required by Government Auditing Standards
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We did note certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated June 26, 2012.

We intend this report solely for the information and use of the audit committee, management, City Council, and others within the City. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

June 26, 2012



Dave Yost • Auditor of State

CITY OF SALEM

COLUMBIANA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 30, 2012**