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CITY OF SALEM, VIRGINIA

Comprehensive Annual Financial Report

Year Ended June 30, 2020

CITY OF SALEM, VIRGINIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT YEAR ENDED JUNE 30, 2020

DEPARTMENT OF FINANCE

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INTRODUCTORY SECTION



The Introductory Section of the City of Salem, Virginia's Comprehensive Annual Financial Report contains the Letter of Transmittal, which presents an overview of the profile of the City of Salem government, the local economic condition and outlook, major initiatives and accomplishments, and financial policies and financial planning. Also included in this section are an organizational chart and the Certificate of Achievement for Excellence in Financial Reporting awarded by the Government Finance Officers Association of the United States and Canada (GFOA) for the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2019. It is the highest form of recognition in governmental financial reporting.

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CITY OF SALEM, VIRGINIA

November 16, 2020

**The Honorable Mayor, Members of City Council
and Citizens of Salem, Virginia**

In accordance with Section 8.9 of the Salem City Charter, we are pleased to present the City of Salem, Virginia (City) Comprehensive Annual Financial Report (CAFR) as of and for the fiscal year ended June 30, 2020. The charter requires the City to issue an annual report on its financial position and activities and that the report be audited by an independent firm of certified public accountants. This report was prepared by the Department of Finance in conformity with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB).

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. The data as presented is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the City as measured by the financial activity of various funds and component units. All disclosures necessary to enable the reader to gain the maximum understanding of the City's financial activity have been included.

The City has established a comprehensive internal control framework designed to both safeguard the government's assets against loss from unauthorized use or theft and to properly record and adequately document transactions in order to compile information for the presentation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

Management's discussion and analysis (MD&A) beginning on page 20 provides a narrative introduction, overview and analysis to assist users in interpreting the basic financial statements as required by GAAP. This letter is meant to complement the MD&A and should be read in conjunction with it.

Profile of the Government

Salem is located in Virginia's Blue Ridge Mountains, approximately 190 miles west of Richmond and 250 miles southwest of Washington, DC. Its position in the southeastern United States gives the City ready access, within a 500-mile radius, to nearly two-thirds of the total population of the United States. In addition, the City lies at the region's crossroads of major rail and highway systems, making it a part of the principal trade, industrial, transportation, medical and cultural center of western Virginia.

Chartered by the Commonwealth of Virginia as a town in 1806 and as a city in 1968, Salem encompasses a land area of 14.4 square miles. The City's 2020 estimated population, 25,301, accounts for approximately 8.1% of the population in its metropolitan statistical area (MSA), which includes the neighboring City of Roanoke and Counties of Botetourt, Craig, Franklin and Roanoke.

The City of Salem operates under a Council-Manager form of government. Under this form of government, City Council is elected by the voters and is comprised of five members, who elect two of their members as Mayor and Vice-Mayor for a two-year term. The City Council employs a City Manager who is responsible for the proper administration of the City government. The Primary Government provides a full range of services including general government administration, judicial administration, public safety, public works, health and welfare, parks and recreation, community development activities and support for education. The City also owns and operates an electric distribution system, water and sewage facilities and a civic center.

The financial reporting entity reflected in the CAFR, which is more fully described in Note 1 to the basic financial statements, conforms to the requirements of GAAP. The accounting and reporting principles of the GASB are based on the fundamental concept that publicly elected officials are accountable to their constituents, and the financial statements should emphasize the primary government and permit financial statement users to distinguish between the primary government and its component units. There are several commissions and authorities where the City's accountability is limited to appointments to, or seats on, the respective boards. The City does not exercise financial or administrative control over these entities, so they are excluded from this report.

The City's reporting entity includes two discretely presented component units, the City of Salem School Division and the Economic Development Authority of the City of Salem, due to the City's financial accountability for these organizations. The discretely presented component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position and results of operations from that of the primary government. Additional information concerning these legally separate organizations can be found in Note 1 to the financial statements.

Local Economic Condition and Outlook

Fiscal year 2020 brought challenges to the City with the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus. This outbreak resulted in the declaration of a state of emergency for the Commonwealth of Virginia on March 12, 2020 and a national emergency on March 13, 2020. The Council of the City of Salem confirmed a declaration of a local emergency on March 23, 2020.

The COVID-19 outbreak altered business operations and citizens' behavior in a manner that negatively impacted global and local economies, including the City. The Governor issued a stay at home order in March 2020 that remained in place until May 2020. The stay at home order included a ban of indoor and outdoor gatherings of 10 or more people, closed dining establishments except for take-out services, closed public access to recreational and entertainment businesses and ordered K-12 schools, public and private, and higher education institutions to stop all in-person instruction for the remainder of the 2019-2020 school year. This action had a negative effect on many local tax revenues for the last quarter of fiscal year 2020, including admissions, lodging and meals taxes. Salem's unemployment rate was 2.9% as of June 30, 2019 but jumped to 7.7% at June 30, 2020 as a result of the economic havoc caused by the pandemic. While substantially higher than normal, Salem's unemployment rate remained lower than the national unemployment rate of 11.2% and the state unemployment rate of 8.2%. Based on rates published by the Virginia Employment Commission, Salem's unemployment rate dropped to 5.6% as of August 2020. At its highest point in fiscal year 2020, Salem's unemployment rate was over 10%.

In response to the pandemic, the City modified departmental procedures to enhance the safety of employees and citizens while continuing to provide essential services. The City received \$2.2 million in Coronavirus Aid, Relief and Economic Security (CARES) Act funding from the federal government to assist with costs related to the pandemic and has continued to identify savings opportunities to offset anticipated revenue shortfalls in fiscal year 2021. The fiscal year 2021 budget was revised and incorporated reductions in estimates for the revenue streams most affected by the COVID-19 outbreak, including sales, business license, admissions, lodging and meals taxes.

Despite the turmoil associated with the pandemic, Salem continued to provide an atmosphere and quality of life conducive to families and businesses. Over the years, Salem has been able to maintain stable property tax rates. A strong educational system providing a well-educated and skilled workforce along with generally lower operating costs are reasons why employers have chosen to locate in Salem and the rest of the Valley. The City was fortunate to have ongoing investment by businesses located downtown and in other areas of the City.

In January 2016, City Council adopted the Downtown Plan, the culmination of over a year of work by City staff, stakeholders and citizens. The Downtown Plan is a comprehensive strategy to improve and revitalize downtown Salem and includes multiple improvements, such as a distinctive new streetscape, a

façade program, overhead lighting and brick sidewalks. New event programming for a younger and more cosmopolitan audience, outreach to businesses and the involvement of state programs such as the Tourism Development Program, the Department of Historic Resources, and the Department of Housing and Community Development are also part of the planned improvements. Work on the downtown area will continue over several years and will involve multiple phases. Most City departments will be involved and many of the activities the City sponsors will need to be reoriented to better support downtown.

Since the implementation of the Downtown Plan is such a large undertaking, it involves multiple funding sources. In addition to local funding for the Façade Grant Program and for event programming, portions of the Downtown Plan are funded by Smartscale (HB2), Community Development Block Grants, Revenue Sharing, Transportation Alternatives Program funding and donations from partners such as Roanoke College and the Rotary Club of Salem. Grant funding totaling approximately \$10.7 million has been awarded with a required local match of approximately \$1.6 million. Staff continues to apply for additional funding.

Construction of the new streetscape is currently underway. The first phase on College Avenue began in the spring of 2020 and was recently completed, with a second phase on Main Street at the Farmer's Market underway. Engineering has begun on the sections from Thompson Memorial Drive to Market Street and Broad Street to Union Street. Additional phases are planned and will proceed as grant awards and other funding becomes available. In addition, the City's Façade Grant Program has been very popular with numerous businesses participating. In fiscal year 2020, grants totaling \$27,045 were paid to various downtown businesses. The result of these two programs has been a complete facelift for downtown, moving the entire district in a more upscale, dining and entertainment-oriented direction.

The Downtown Plan has been successful well beyond expectations, attracting significant investment not just in Downtown, but in surrounding areas as well, and resulting in the adaptive reuse of several well-known derelict properties. The effort has also realized several long time "wish list" items for Downtown, such as a hotel, valley-renowned dining options, better housing units, and a downtown microbrewery. The project has also been extremely timely, providing much needed outdoor seating for restaurants and businesses during the pandemic.

In the Downtown area, renovation of the former Ridenhour Music building, now The Sharp Flats, was completed in October 2019. FedStar Credit Union occupies the majority of the first-floor space. A 1,000 square foot area that fronts on Calhoun Street remains available for a commercial tenant. Upper floors include eleven one and two-bedroom apartments. The ornate tin ceiling and other rustic features have been preserved during the renovation, which represents an investment of \$2 million. The renovation of the historic Salem Theatre building is nearing completion. The lower level will house Frankie's Grille, an upscale restaurant, while fourteen boutique hotel rooms will be located on the upper floors.

Salem is fortunate to have a diversified economy comprised of health care, manufacturing, higher education, retail trade and government. Included in the manufacturing process are high-tech electronics, medical equipment, tires, steel, tool and die and railroad equipment, just to name a few. Health care remains an important part of Salem's economy. The Salem VA Medical Center (Salem VAMC) was Salem's largest employer in fiscal year 2020, employing approximately 2,000 people. Lewis Gale Hospital and Lewis Gale Physicians remained major employers in Salem, with workforces of 1,317 and 650, respectively. Lewis Gale Medical Center completed a \$2.3 million helipad expansion in April 2020, including an elevator tower located on the outside of the three-story structure that has access to the emergency department on the ground floor. A \$300,000 upgrade to the hospital's admissions office was completed, which improved privacy and protection for patients.

Integer Holdings Corporation is one of the largest medical device outsource (MDO) manufacturers in the world serving the cardiac, neuromodulation, vascular and portable medical markets. They have been an invaluable corporate partner to the City for over 20 years, employing over 400 people. They recently completed a \$2 million expansion of their Salem facility.

Salem is home to Carter Machinery's Corporate Headquarters where approximately 400 people are employed. Carter Machinery is one of the leading Caterpillar dealers in the United States selling an array of heavy equipment including construction, mining, logging and industrial. They recently acquired assets of Baltimore-based Alban Tractor Company, Inc., which positioned them to become the Caterpillar dealer in a territory that includes Northern Virginia, Washington D.C., Maryland and Delaware.

InnovAge is one of the country's largest providers of the Program of All-inclusive Care for the Elderly (PACE). Construction has begun on a new facility in the East Salem area to serve the community. It is anticipated that the new Salem facility will bring 133 new jobs to the City. Once completed, the new facility will represent an investment of more than \$9 million in the City.

New Millennium, a steel manufacturing facility, recently completed a two-story frame office building to accommodate growing employee demands at a cost of \$700,000. Novozymes, a world leader in biological solutions, experienced increased business demands requiring additional manufacturing space. The company spent \$200,000 to remodel their Chapman Avenue plant. Tractor Supply opened in November 2019 in the former Kmart building, which had been vacant since 2017. Chick-Fil-A completed \$251,000 in upgrades in February 2020. Improvements included providing a triple lane drive through with canopies and adding walk-out capabilities to what was previously a drive through window.

Major Initiatives and Accomplishments

Salem City Council and management are committed to making Salem a great place to live, work and raise a family. To that end, the City and School Board work diligently to provide one of the finest school systems, not only in the region, but throughout the Commonwealth.

Salem students demonstrated high levels of performance in academic, extracurricular and athletic activities. All six Salem schools were fully accredited by the Virginia Department of Education. The City of Salem School Division has one of the highest on-time graduation rates in the area at 94.12%. Approximately 84% of Salem High School graduates attend a 2-year or 4-year college or university. G. W. Carver Elementary School was selected to receive the 2020 Board of Education Exemplar Performance School Award for Continuous Improvement. The award was presented to the school for being accredited and for increasing passing rates for student performance in math, reading and science.

Construction on the Salem High School renovation project began in March 2020, since all Virginia schools were closed due to the pandemic. The multi-phase project includes classroom additions in the front and back of the building, a new administrative area in the front, façade improvements, a new roof, improved security and a new cafeteria courtyard adjacent to the cafeteria. Renovations are being done in a way that will enable future incremental classroom modernization of the existing classrooms within the original structure. The project is scheduled for completion in the summer of 2022. The City issued \$27 million in general obligation bonds including premiums in June 2020 to pay for the renovation project.

Salem, Virginia's Championship City, has a reputation as a sports town, bringing to the community hundreds of high school, collegiate and amateur tournaments and championships. Examples of events the City, in conjunction with Roanoke College, has hosted recently include the NCAA Division III women's basketball championship; the Central Intercollegiate Athletic Association football, cross country and women's volleyball championships; the Old Dominion Athletic Conference (ODAC) men's and women's basketball, softball and baseball championships; and the Mountain East Conference softball championship, and many of these events are scheduled to return to the City in future years. In addition, the City and the ODAC were awarded the Division III national softball and women's lacrosse championships in 2021 and 2022. In 2019-2020, nearly 21,500 people traveled to Salem to attend NCAA Division II and Division III collegiate events, with an estimated economic impact of \$4 million.

The number of tournaments and events held at the James I. Moyer Sports Complex in fiscal year 2020 was substantially lower than normal due to the pandemic, but the Complex still hosted 624 softball and baseball teams in tournaments, filling over 2,000 hotel rooms in the Roanoke Valley. Over 16,000 people attended events at the James I. Moyer Sports Complex during the past year. Approximately 11,000 athletes and 1,500 coaches participated in over 2,000 games at the Complex. Several major annual events were cancelled due to the pandemic including: the Chance Crawford Benefit Adult Slow-Pitch Softball

Tournament, the ISF Senior World Cup, the VHSL Spring Jubilee, the ODAC Softball Conference Championship, the CIAA Softball Conference Championship, the Mountain East Softball Conference Championship, and the USA Olympic Softball Tour Stop.

The third annual Salem Half Marathon was held on October 12, 2019, attracting 826 runners from all over the Commonwealth and 18 other states. This City-wide event involved over 200 volunteers and many of our City departments. Runners were able to see Salem's downtown, civic center facility, James I. Moyer Sports Complex, neighborhoods and vistas as they ran throughout the City. The Half Marathon also gave back over \$2,500 to local charities and volunteer groups.

The annual Salem Fair held at the Salem Civic Center is the largest open-gate fair in the state and celebrated its 32nd year on the 14-acre midway from July 3-14, 2019. Attendance at the 13-day event was estimated at over 300,000, up from the previous year and one of the highest attended fairs. Ticket sales for rides were up 5% from the prior year and food vendors showed increases as well.

The City issued \$30 million in general obligation bonds including premiums in June 2020, taking advantage of very favorable interest rates in the municipal bond market. Proceeds of \$27 million were allocated for Salem High School renovations. Proceeds of \$3 million will fund various City projects and equipment, including Kiwanis field lighting upgrades, a new fire engine, seat replacement at Salem Memorial Ballpark, Civic Center boiler replacement and Street Department equipment.

Roanoke Boulevard improvements, funded by federal grant revenue, were completed in fiscal year 2020 at a total cost of \$779,000. A sidewalk was constructed on the north side of Roanoke Boulevard near the VA Hospital and the crossing at Hemlock Road was improved, making the entire area more walkable and safer for pedestrians. The Cook Drive greenway was completed at a cost of \$333,000. This section of the greenway runs along the back edge of properties along Cook Drive near the Roanoke River and connects to the City of Roanoke's greenway system. Work continued on the East Main Street project, which is being managed by the Virginia Department of Transportation. The \$15.9 million project will improve a .5-mile section of East Main Street by adding bike lanes, curbing, lighting, sidewalks and a new signal at Lynchburg Turnpike. Improvements will make the area more walkable and help traffic move more smoothly. The project is expected to be completed in the fall of 2020.

Several large utility projects are underway. The City is moving forward with an automated meter reading infrastructure project for water and electric, which will result in operational efficiencies for the City. The pandemic has caused some project delays, but meter replacement is underway. The infrastructure needed to receive and transmit meter readings has been installed. Implementation is expected to be complete in fall of 2021. On December 8, 2005, the City and the Virginia Department of Environmental Quality entered into a special order by consent to address issues to alleviate overflows in the sanitary sewer system by reducing rainfall derived inflow and infiltration (RDII). The sewer system rehabilitation project

includes pipe bursting, slip lining, manhole rehabilitation and lateral replacement and is primarily within the downtown sewershed. As of June 30, 2020, 95% of the project was completed. The total construction value of all four contracts, including contingency, is just under \$5.9 million. Due to construction delays and COVID-19, the project has had extensive delays. The expected completion date for the project is late fall or early winter 2020.

The contract has been awarded for electric substation upgrades. This multi-year project includes replacement of transformers and switchgear units at three substations as equipment currently in place is nearing end of life. Replacement of the 69 kilovolt oil circuit breakers at two substations is also included. Equipment has been ordered and construction is expected to begin in fall of 2020 as equipment is received. The project is expected to cost \$11.6 million and be completed by the end of calendar year 2021.

Financial Policies and Financial Planning

City management is responsible for establishing and maintaining internal controls. Internal controls are designed to provide reasonable, but not absolute, assurance that City assets are safeguarded against unauthorized use or disposition and that financial transactions are conducted properly and in accordance with City policy.

The City's annual budget is based on the financial policies of the City and reflects the balance between anticipated revenues and proposed expenditures. As required by City Code, the City Manager submits a recommended budget to City Council thirty days prior to the last Council meeting in May of each year for the fiscal year beginning July 1st. After an extensive study process and a public hearing to receive citizen input, the City Council adopts the budget on or before June 30th.

The budget function is used as a management tool, including performance objectives, goals and long-range planning, as well as maintaining budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. For activities of the General Fund, which incorporates debt service, budgetary compliance is established at the fund level (that is, the level at which expenditures cannot legally exceed the appropriated amount.) The City also utilizes encumbrance accounting as a way to accomplish budgetary control. Encumbered amounts lapse at year-end but are re-appropriated as part of the following year's budget.

The City prepares a five-year capital improvement plan, which identifies and prioritizes major City projects and includes cost estimates and potential funding sources. The City closely monitors available funding and proceeds with capital purchases only as funds become available.

Independent Audit

Virginia law and the Charter of the City of Salem require that the financial statements of the City be audited by a certified public accountant. Brown, Edwards & Company, L.L.P., has performed an annual audit of the basic financial statements and other supplementary information contained within the City's Comprehensive Annual Financial Report. Their audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns* and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. The report of the independent auditor, which includes their opinion on the financial statements of the City, is contained in the Financial Section of this report. Other auditor's reports are included in the Compliance Section.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) has awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City for its Comprehensive Annual Financial Report for 2019. This represents the thirty-second year Salem has earned this distinction. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. We believe this report conforms to the Certificate of Achievement Program requirements and standards and are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

We would like to express our appreciation to the staff of the Department of Finance for the dedication and professionalism demonstrated daily assuring the financial integrity of the City and the preparation of this report. We would also like to express our appreciation to you, City Council, for the continued insight you bring to this City and the strong commitment you have made to its fiscal integrity and financial leadership. Lastly, we would like to express our appreciation to our independent auditing firm, Brown, Edwards & Company, L.L.P., for their cooperation and input in our efforts.

Respectfully submitted,



James E. Taliaferro, II
City Manager



Rosemarie B. Jordan
Director of Finance

**CITY OF SALEM, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
JUNE 30, 2020**

MEMBERS OF CITY COUNCIL

Byron R. Foley	Mayor
Jane W. Johnson	Vice-Mayor
William D. Jones	Member
James A. Martin	Member
John E. Saunders.....	Member

ELECTED OFFICERS

Danielle C. Crawford	Treasurer
Kristie D. Chittum	Interim Commissioner of the Revenue
Thomas E. Bowers	Commonwealth's Attorney
Gary Chance Crawford	Clerk of Circuit Court
April M. Staton.....	City Sheriff

GENERAL CITY GOVERNMENT

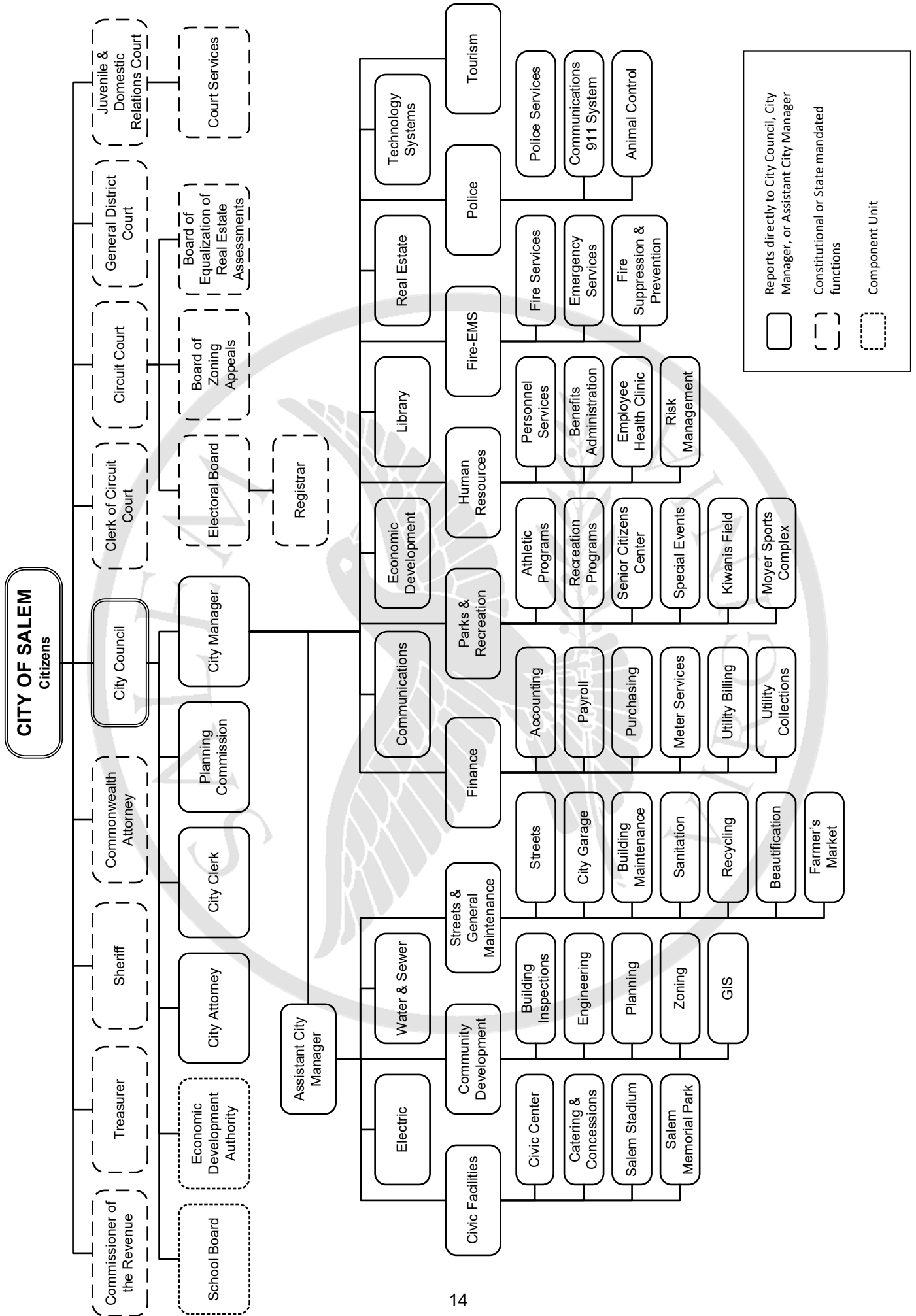
James E. Taliaferro, II	City Manager
Rosemarie B. Jordan, CPA.....	Director of Finance
Stephen M. Yost.....	City Attorney
Beth A. Rodgers.....	Director of Human Resources
Patrick W. Morton.....	Director of Technology Systems
Michael D. Crawley	Police Chief
John W. Prillaman	Fire Chief
Charles E. Van Allman, Jr.....	Director of Community Development
Norman M. Tyler, Jr.	Director of Streets and General Maintenance
John P. Shaner	Director of Parks and Recreation
Ann G. Tripp.....	Library Director
Dana M. Oliver	Director of Elections
A. K. Briele, III	Director of Electric Department
Larado M. Robinson.....	Director of Water and Sewer Department
Justin W. Kuzmich.....	Real Estate Assessor
Troy D. Loving.....	Building Official and Zoning Administrator
Melinda J. Payne.....	Director of Economic Development
Wendy S. Delano	Director of Civic Facilities
R. Carey Harveycutter, Jr.....	Director of Tourism
Mike Stevens.....	Director of Communications
Angela A. Sellers.....	Process Improvement/Business Efficiency Director

MEMBERS OF SCHOOL BOARD

David H. Preston	Chairman
Dr. Michael A. Chiglinsky	Vice Chairman
Dr. Nancy A. Bradley.....	Member
Artice M. Ledbetter.....	Member
John A. (Andy) Raines	Member

SCHOOL ADMINISTRATION

Dr. H. Alan Seibert	Superintendent of Schools
Dr. Curtis N. Hicks.....	Assistant Superintendent
Kirstine M. Barber	Director of Human Resources
Jennifer P. Dean	Director of Instruction and Innovation
Mandy C. Hall.....	Director of Business
Dr. Randy L. Jennings.....	Director of Student Services
Dr. Forest I. Jones.....	Director of Administrative Services
Rosemarie B. Jordan, CPA.....	Director of Finance
Jamie C. Soltis	Director of Instruction and Career Readiness





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Salem
Virginia**

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2019

Christopher P. Morill

Executive Director/CEO

FINANCIAL SECTION



The Financial Section of the City of Salem, Virginia's Comprehensive Annual Financial Report includes the independent auditor's report, management's discussion and analysis, and basic financial statements, including accompanying notes, required supplementary information, notes to required supplementary information, and other supplementary information.

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of City Council
City of Salem, Virginia
Salem, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Salem, Virginia (the "City"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities, and Towns* and the *Specifications for audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof and the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting 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 assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, other supplemental schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2020 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 16, 2020

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

The following discussion and analysis of the City of Salem, Virginia's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2020. It should be read in conjunction with the transmittal letter and the City's basic financial statements.

FINANCIAL HIGHLIGHTS

- As of June 30, 2020, the Primary Government had \$165.7 million in total net position, an increase of \$10.1 million from prior year. Unrestricted net position available to fund future expenses was \$1.9 million or 1.1% of total net position.
- As of June 30, 2020, the governmental activities had \$63.2 million in total net position, which increased \$3.0 million from prior year. Unrestricted net position (deficit) was \$(45.4) million or (71.8%) of total net position.
- As of June 30, 2020, the business-type activities had \$102.5 million in total net position, an increase of \$7.1 million from prior year. Unrestricted net position available to fund future expenses was \$47.3 million or 46.1% of total net position.
- As of June 30, 2020, the General Fund had \$46.9 million in total fund balance, which increased by \$6.7 million from prior year. Unassigned fund balance was \$37.5 million or 79.9% of total fund balance.
- In June 2020, the City issued \$50.6 million in general obligation bonds with a premium of \$9.2 million to fund a variety of capital improvements and refund \$28.7 million of outstanding bonds. Proceeds of \$27 million will fund Salem High School renovations and proceeds of \$3.2 million will pay for Kiwanis Field lighting upgrades, a Fire engine, Longwood Park restrooms, seat replacement at Salem Memorial Ballpark and Street Department equipment.

OVERVIEW OF THE FINANCIAL STATEMENTS

Our discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's financial statements present two types of statements, each with a different focus on the City's finances. The government-wide financial statements focus on the City as a whole and provide both short-term and long-term information about the City's overall financial status. The fund financials focus on the individual parts of City government, reporting the City's operations in more detail than the government-wide statements. Presentation of both perspectives provides the user a broader overview, enhances the basis for comparisons and better reflects the City's accountability.

Government-Wide Financial Statements

The government-wide financial statements begin on page 35 and include the Statement of Net Position and the Statement of Activities. These statements provide information about the City as a whole using the accrual basis of accounting, which is the method used by most private-sector enterprises. All current year revenues and expenses are reported in the Statement of Activities regardless of when cash is received or paid. These statements allow readers to answer the question "Is the City's financial position, as a whole, better or worse as a result of the year's activities?"

One of the main goals of these two statements is to report the City's net position and changes that affected net position during the fiscal year. The change in the City's net position, which is the difference between assets and deferred outflows and liabilities and deferred inflows, is one way to measure the City's financial health or financial position. Increases or decreases in net position are indicators of whether the City's financial health is improving or declining. Other non-financial factors, such as changes in the City's property tax base and the condition of the City's infrastructure should also be considered in assessing the overall financial health of the City.

MANAGEMENT'S DISCUSSION AND ANALYSIS **(Continued)**

In the Statement of Net Position and the Statement of Activities, the City's fund-based activity is classified as follows:

Governmental activities – Most of the City's basic services are reported here including general government, judicial administration, public safety, public works, health and welfare, education, parks and recreation and community development. Property taxes, other local taxes and federal and state grants finance most of these activities.

Business-type activities – The City's electric distribution system, water and sewage systems, Civic Center and catering and concessions are reported here as the City charges a fee to customers designed to cover all or most of the cost of services it provides.

Component units – Because of the City's financial accountability for these organizations, the City includes two discretely presented component units in this report, the City of Salem School Division (School Division) and the Economic Development Authority of the City of Salem (Economic Development Authority).

Fund Financial Statements

The fund financial statements begin on page 37 and provide detailed information about the most significant funds, rather than the City as a whole. The City has three types of funds:

Governmental funds – Most of the City's basic services are presented as governmental funds. Fund based statements for these funds focus on how resources flow into and out of the funds and the balances left at year-end that are available for future spending. 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 fiscal year. These funds are reported on the modified accrual basis of accounting, which measures cash and other liquid assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term overview that helps the reader determine the financial resources that can be spent in the near future to finance the City's programs. The City's governmental funds include the General Fund, Debt Service Fund and Capital Projects Fund. The differences between governmental activities as reported in the government-wide and fund financial statements are reconciled in Exhibits 4 and 6.

Proprietary funds – When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds which, like the government-wide statements, utilize the accrual basis of accounting and their statements provide both short-term and long-term financial information.

The City's enterprise funds, one type of proprietary fund, are accounted for in the same manner as the government-wide business-type activities; however, the fund financial statements provide more detail and additional information, such as cash flows. The City's enterprise funds include the Electric Fund, Water and Sewage Fund, Civic Center and Catering and Concessions.

The City utilizes an internal service fund to account for health and dental insurance coverage for employees and retirees.

Fiduciary funds – Resources held for other governments or agencies not part of the City are reported as fiduciary funds. These activities are excluded from the government-wide financial statements because the City cannot use these assets to finance its operations. The accounting used for fiduciary funds is much like that used for proprietary funds. The City reports assets for other postemployment benefits (OPEB) related to its healthcare plan for retirees in an OPEB trust fund and accounts for assets held on behalf of the Cardinal Criminal Justice Academy and the Court-Community Corrections Program as agency funds which are custodial in nature and do not involve measurement of results of operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

A comparative analysis of government-wide information is as follows:

Summary of Net Position

The following table presents a condensed summary of net position:

	Summary of Net Position (In Millions)							
	Governmental Activities		Business-type Activities		Total Primary Government		Component Units	
	2020	2019	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 87.1	\$ 52.8	\$ 68.1	\$ 64.9	\$ 155.2	\$ 117.7	\$ 24.3	\$ 21.3
Capital assets, net	87.7	87.4	93.0	88.0	180.7	175.4	46.8	43.1
Total assets	174.8	140.2	161.1	152.9	335.9	293.1	71.1	64.4
Deferred outflows of resources	6.7	3.5	2.3	1.4	9.0	4.9	8.4	5.4
Current and other liabilities	6.3	4.2	7.2	4.9	13.5	9.1	10.1	9.0
Long-term liabilities	108.1	74.8	52.5	52.4	160.6	127.2	43.5	40.2
Total liabilities	114.4	79.0	59.7	57.3	174.1	136.3	53.6	49.2
Deferred inflows of revenues	3.9	4.5	1.2	1.6	5.1	6.1	4.7	5.1
Net investment in capital assets	74.0	75.9	55.2	52.8	129.2	128.7	46.7	42.9
Restricted	34.6	5.9	-	-	34.6	5.9	1.0	0.6
Unrestricted	(45.4)	(21.6)	47.3	42.6	1.9	21.0	(26.5)	(28.0)
Total net position	\$ 63.2	\$ 60.2	\$ 102.5	\$ 95.4	\$ 165.7	\$ 155.6	\$ 21.2	\$ 15.5

The Primary Government net position increased from \$155.6 million to \$165.7 million. Net position of governmental activities increased \$3.0 million and net position of business-type activities increased \$7.1 million. A detailed description of the changes in revenues and expenses that create the differences in net position is discussed in the next section.

Net investment in capital assets represents the amount of capital assets owned by the City, including infrastructure, net of accumulated depreciation and any outstanding debt issued to fund the asset purchase or construction.

The Primary Government's unrestricted net position, the portion of net position that can be used to finance the daily operations of the City, was \$1.9 million. Debt totaling \$1.4 million issued for Civic Center improvements is being repaid by governmental activities while the related asset is recorded in business-type activities. The City also assumed \$40.1 million of debt including premiums issued for school improvements while the School Division recorded the related asset. As such, \$41.5 million is included in governmental activities long-term liabilities, which directly reduced unrestricted net position.

Net position is reported as restricted when constraints on asset use are externally imposed by creditors, grantors, contributors, regulators, or are imposed by law through constitutional provisions or enabling legislation. The City had restricted net position totaling \$34.6 million as of June 30, 2020, for governmental activities. Unspent bond proceeds of \$27.4 million were restricted. Approximately \$6.8 million in state funding was received, but not yet spent, for highway maintenance. Federal and state judicial administration and public safety grant funding totaling \$414,000 was received, but not yet spent, for fire programs, asset forfeiture, Four for Life and hazardous materials grants. Unspent donations totaling \$235,000 were restricted for law enforcement and public safety programs.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

As of June 30, 2020, component units had \$21.2 million in total net position, an increase of \$5.7 million. Unrestricted net position (deficit) available to fund future expenses was (\$26.5) million. Net investment in capital assets was \$46.7 million, an increase of \$3.8 million.

Summary of Changes in Net Position

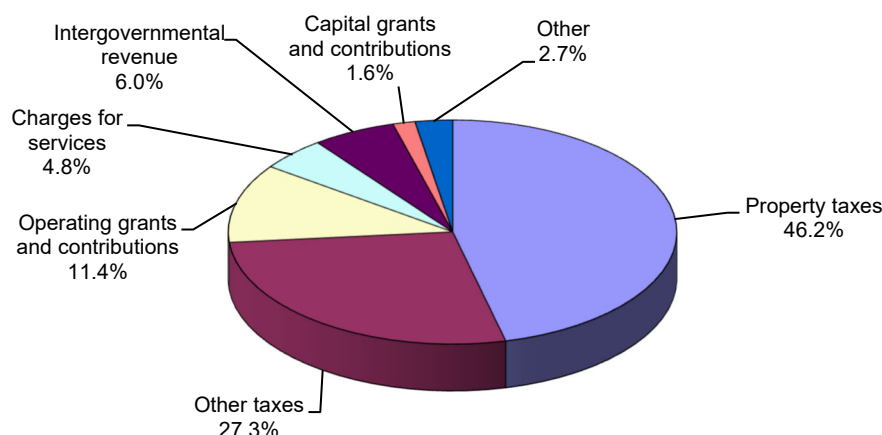
The following table presents a condensed summary of changes in net position.

Summary of Changes in Net Position (In Millions)								
	Governmental Activities		Business-type Activities		Total Primary Government		Component Units	
	2020	2019	2020	2019	2020	2019	2020	2019
Revenues								
<i>Program Revenues:</i>								
Charges for services	\$ 4.0	\$ 4.0	\$ 55.6	\$ 57.4	\$ 59.6	\$ 61.4	\$ 1.6	\$ 2.0
Operating grants and contributions	9.5	8.5	-	-	9.5	8.5	10.7	9.8
Capital grants and contributions	1.3	0.6	0.1	-	1.4	0.6	-	0.1
<i>General Revenues:</i>								
Property taxes	38.4	36.8	-	-	38.4	36.8	-	-
Local sales and use tax	7.7	7.3	-	-	7.7	7.3	-	-
Business license tax	5.6	5.6	-	-	5.6	5.6	-	-
Meals tax	4.7	5.1	-	-	4.7	5.1	-	-
Utility taxes	1.2	1.2	-	-	1.2	1.2	-	-
Other taxes	3.5	4.0	-	-	3.5	4.0	-	-
Intergovernmental revenue	5.0	4.0	-	-	5.0	4.0	-	-
Investment earnings	1.7	1.0	0.2	0.2	1.9	1.2	-	-
Payments from City of Salem	-	-	-	-	-	-	26.2	21.5
State aid	-	-	-	-	-	-	14.9	14.9
Other	0.6	0.7	0.2	-	0.8	0.7	0.2	0.1
Total revenues	83.2	78.8	56.1	57.6	139.3	136.4	53.6	48.4
Expenses								
General government	\$ 7.8	\$ 6.0	\$ -	\$ -	\$ 7.8	\$ 6.0	\$ -	\$ -
Judicial administration	2.4	2.0	-	-	2.4	2.0	-	-
Public safety	19.7	16.0	-	-	19.7	16.0	-	-
Public works	10.3	9.4	-	-	10.3	9.4	-	-
Health and welfare	5.0	4.0	-	-	5.0	4.0	-	-
Education	25.3	21.0	-	-	25.3	21.0	47.6	43.8
Parks, recreation and cultural	6.3	6.3	-	-	6.3	6.3	-	-
Community development	3.4	3.2	-	-	3.4	3.2	0.3	0.5
Interest and other fiscal charges	1.3	1.0	-	-	1.3	1.0	-	-
Electric	-	-	32.3	33.0	32.3	33.0	-	-
Water and sewage	-	-	10.1	9.5	10.1	9.5	-	-
Civic center	-	-	4.4	4.3	4.4	4.3	-	-
Catering and concessions	-	-	0.9	1.0	0.9	1.0	-	-
Total expenses	81.5	68.9	47.7	47.8	129.2	116.7	47.9	44.3
Excess before transfers	1.7	9.9	8.4	9.8	10.1	19.7	5.7	4.1
Transfers	1.3	1.3	(1.3)	(1.3)	-	-	-	-
Increase in net position	3.0	11.2	7.1	8.5	10.1	19.7	5.7	4.1
Net position, beginning	60.2	49.0	95.4	86.9	155.6	135.9	15.5	11.4
Net position, ending	\$ 63.2	\$ 60.2	\$ 102.5	\$ 95.4	\$ 165.7	\$ 155.6	\$ 21.2	\$ 15.5

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Governmental Activities – Revenues

The following graph presents revenues generated for governmental activities by category:



Property taxes, which were 46.2% of total governmental activities revenue, include real estate tax, the local portion of personal property tax, machinery and tools tax and public service corporation taxes. Property taxes in total increased \$1.5 million or 4.2% from the previous year. Current year real estate tax revenue was up approximately \$1.1 million or 4.4% from the prior year due to higher assessments and a tax rate increase. Real estate tax rates increased from \$1.18 to \$1.20 per \$100 of assessed value. Regular vehicle assessments increased 4.3% from the previous year and the tax rate increased from \$3.25 to \$3.40 per \$100 of assessed value, resulting in growth of \$647,000 or 8.7% in current year personal property tax revenue. Current year machinery and tools tax revenue was up \$210,000 or 7.2% but an amended return for a prior tax year resulted in a large refund, offsetting this increase. In total, machinery and tools tax declined \$98,000 or 3.3%. The rate for machinery and tools tax remained the same. Real estate and personal property tax rate increases were approved by City Council to cover higher debt service payments for the Salem High School renovation project.

Operating grants and contributions, which were 11.4% of total governmental activities revenue, increased \$991,000 or 11.7%. In fiscal year 2020, expenses of the Children's Services Act program were higher than the previous year resulting in an increase of \$587,000 in revenue from the State for their share of these costs. The corresponding increase in expenses is reflected in the health and welfare function. Several large donations were received in fiscal year 2020 for the Animal Shelter and the Fire Department received a grant of \$111,000 to purchase cardiac monitors and power loading stretchers. These two items resulted in an increase in public safety operating grants and contributions.

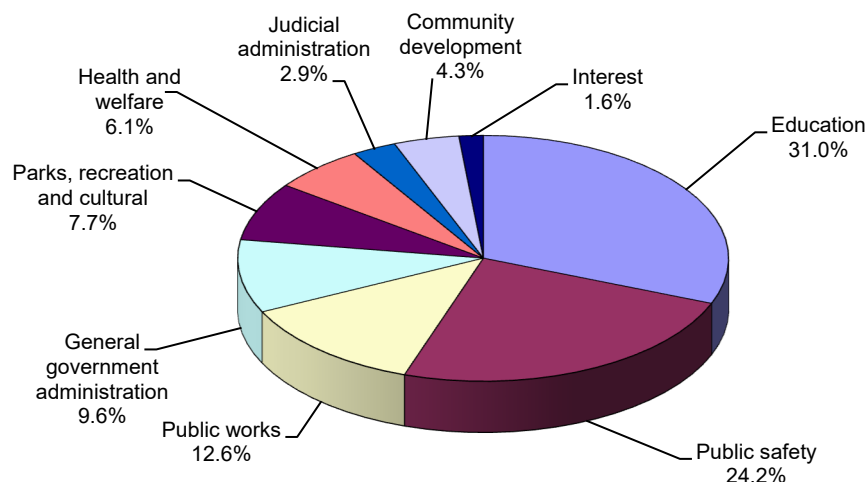
Capital grants and contributions, which were 1.6% of total governmental activities revenue, increased \$778,000 or 137.4%. In fiscal year 2020, grant revenue was received for several large projects including \$734,000 for Roanoke Boulevard Multimodal improvements, \$428,000 for downtown improvements at East Main Street and College Avenue, and \$113,000 for the Colorado Street bridge replacement. In the previous year, \$446,000 was received for the pedestrian bridge at Eddy Avenue and other smaller amounts for on-going projects. Capital grants and contributions vary from year to year based on active projects.

Local sales and use taxes increased \$366,000 or 5.0%. Business license tax, which is based on gross receipts for the previous calendar year, remained almost level with the prior year. Meals tax was negatively impacted by the pandemic that hit our area in late March and decreased \$338,000 or 6.6%. Intergovernmental revenue not restricted included \$1.1 million in CARES Act funding resulting in a 26.6% increase from the previous year. CARES Act funding was part of the federal stimulus package approved in March 2020 and was provided to Virginia localities based on population to help cover costs of the pandemic. Other taxes, which include motor vehicle license, franchise, bank stock, cigarette, admissions and lodging taxes declined \$583,000 or 14.4%. Lodging and admissions tax were adversely affected by the pandemic, decreasing 15.5% and 35%, respectively. Unrestricted investment earnings increased \$714,000 or 71.8% due to higher cash balances and a change in investment strategy.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Governmental Activities – Expenses

Expenses of the governmental activities are shown below by functional area:



Pension expense in all functions was higher than the previous year. The discount rate was reduced from 7% to 6.75% by the VRS Board of Trustees. Changes in assumption are amortized as a component of pension expense and the change in the discount rate assumption resulted in an increase in pension expense in fiscal year 2020.

Education expenses totaling \$25.3 million, or 31.0% of governmental activities, represented the largest allocation of resources. Education expenses increased \$4.3 million or 20.5%. Funding of \$20 million was allocated to the School Division to cover operating costs, a decrease of \$406,000 or 2%. Meals tax revenue is shared with the School Division and \$530,000 was transferred in fiscal year 2020. The amount of meals tax provided to the School Division was \$121,000 or 18.6% lower than the previous year. The pandemic and subsequent business closures mandated by the Governor negatively impacted meals tax revenue, which resulted in a lower amount allocated to the School Division. In fiscal year 2020, \$4.8 million was transferred to the School Division to cover Salem High School renovation costs.

Public safety expenses were 24.2% of total governmental activities expenses and increased \$3.8 million or 23.6%. This category includes operations of the labor-intensive police and fire departments, along with expenditures of communications (911 call center) and the cost of juvenile justice programs. Pension expense was \$1.7 million higher than the previous year. The portion of internal service fund activity allocated to this function was \$695,000 higher than the previous year. Police and Fire salary and benefit costs increased \$662,000 due to raises and higher overtime costs in the Fire Department. CARES Act funds totaling \$503,000 were spent in the public safety function. Depreciation expense was \$242,000 or 34.1% higher than the previous year as a full year of depreciation was recorded on the \$2.2 million radio system.

General government expenses were 9.6% of total governmental activities expense and included administrative departments such as the City Manager's Office, City Garage, Technology Systems and Finance. Expenses increased \$1.7 million or 28.9%. The increase in pension expense accounted for \$782,000 of the increase. In addition, costs of the Technology Systems department were up due to higher software and equipment maintenance costs and a change in the method of allocating technology charges to other departments. These increases were partially offset by a decrease in depreciation expense as several large technology assets were fully depreciated.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Health and welfare expenses, which were 6.1% of total governmental activities expenses, increased \$956,000 or 23.8%. As previously mentioned, expenses of the Children's Services Act program were higher due to a larger number of children requiring care and the need for more intensive services. The City is required to provide an average local match of 35% while the State provides remaining funding for these costs.

Business-type Activities

The proprietary funds provide the same type of information reported in the government-wide financial statements for business-type activities, but in more detail. Please refer to the MD&A's section on Financial Analysis of the City's Funds - Proprietary Funds for detailed analysis of the business-type activities major funds.

Component Units

Payments from the City of Salem totaled \$26.2 million, an increase of \$4.6 or 21.5%. Funding from the City to the Economic Development Authority totaled \$826,000 and increased from the previous year due to the transfer of CARES Act funding for small business assistance grants. Payments to the School Division totaled \$25.3 million and were up \$4.3 million or 20.5% from the previous year. Operating support totaled \$20 million, a decrease of 2% and \$4.8 million was transferred to cover Salem High School renovation costs. Meals tax revenue dedicated to school capital projects totaled \$530,000, which was down \$121,000 or 18.6% from the prior year.

State aid provided to the School Division remained fairly level with the previous year, increasing less than 1%. The School Division incurred expenses of \$47.6 million for the year ended June 30, 2020, an increase of \$3.8 million or 8.8% from prior year. Salary and benefit costs were higher. Pension expense increased \$2 million. Expenses of the Economic Development Authority totaled \$324,000 and declined \$141,000. Required incentive payments were lower than the previous year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

As of June 30, 2020, the governmental funds had \$75.5 million in total fund balance, an increase of \$32.6 million from prior year. Unassigned fund balances available to fund future expenditures were \$37.5 million or 49.6% of total fund balance. Unassigned fund balance, which contains all amounts not included in other classifications, is available to pay for future years' capital expenditures and provide for unforeseen circumstances. Restricted fund balance totaled \$34.8 million and included \$27.4 million of unspent bond proceeds and \$7.4 million that can be spent only for specific purposes stipulated by grantors and donors. Assigned fund balance totaled \$2.2 million and represents amounts set aside to liquidate encumbrances. Committed fund balance totaled \$120,000 and represents funds appropriated for the E-summons program and stormwater management.

General Fund

The General Fund is the chief operating fund of the City. As of June 30, 2020, the General Fund had \$46.9 million in total fund balance, which increased \$6.7 million from the prior year. Unassigned fund balance available to fund future expenditures was \$37.5 million or 80% of total fund balance and increased \$4.8 million from the previous year. As a measure of the General Fund's liquidity, it may be useful to compare both total fund balance and unassigned fund balance to total fund expenditures. Total fund balance to total fund expenditures increased from 57.9% to 65%. Unassigned fund balance to total fund expenditures increased from 47.1% to 52%.

Intergovernmental revenue increased \$1.9 million or 15%. The City recognized \$1.1 million in CARES Act revenue, which was allocated to local governments as part of the first stimulus package approved in March 2020 to help cover certain costs associated with the pandemic. In addition, expenses of the Children's Services Act program were higher than the previous year resulting in an increase of \$587,000 in revenue from the State for their share of these costs. A corresponding increase in expenditures is reflected in the health and welfare function.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Property taxes, which were 47.2% of total General Fund revenue, increased \$1.3 million or 3.4% from the prior year. Current year real estate tax revenue was up \$1.1 million or 4.6% due to higher assessments and a two-cent increase in the tax rate. Current year personal property tax revenue was up \$418,000 or 5.9%. The tax rate was increased from \$3.25 to \$3.40 per \$100 of assessed value. Assessments for regular vehicles were also up. Collection of delinquent taxes was lower than the prior year, contributing to the \$196,000 decrease in penalties and interest revenue. Machinery and tools tax decreased \$125,000 or 4.2% due to a refund related to a prior year amended return.

Revenue from use of money and property increased \$703,000 or 55.8% largely due to higher interest earnings and a change in the City's investment portfolio. The City invested excess funds with Local Government Investment Pool and a money market account, which resulted in a higher return on investment. Interest rates fell throughout the year, but the City's average cash balances were higher than the previous year contributing to the increase in interest revenue.

Other local taxes, which comprised 27.8% of total General Fund revenue decreased \$610,000 or 2.6% from the previous year. Several revenue streams in the other local tax classification were more severely impacted by the pandemic and the subsequent business closures ordered by the Governor. Meals, lodging and admissions taxes decreased 6.6%, 15.5% and 35%, respectively. Bank stock taxes were down and cigarette tax revenue decreased for the fourth consecutive year. Business license tax, which is based on gross receipts of businesses, remained fairly level with the previous year. Sales tax continued an upward trend, increasing \$366,000 or 5% from the previous year and partially offsetting decreases.

Public safety expenditures, which were 24.1% of total General Fund expenditures, increased \$1.3 million or 7.8% from the prior year. Salary and fringe costs of police and fire departments were higher in fiscal year 2020 due to raises. Overtime costs for the fire department were also higher in fiscal year 2020. CARES Act funds totaling \$503,000 were spent by public safety departments.

Community Development expenditures were \$1.3 million or 29% lower than the previous year. In fiscal year 2019, the City purchased three pieces of property at a total cost of \$1.5 million. Payment to the Economic Development Authority for incentives and façade grants was lower in fiscal year 2020, but \$500,000 of the City's CARES Act allocation was transferred for small business assistance grants, partially offsetting the decrease.

Health and Welfare expenditures were \$902,000 or 23.3% higher than the previous year. Expenditures of the Children's Services Act program were up due to an increase in the number of children requiring services and more children requiring a higher level of care. Costs for private day placements was up 39.7%. Foster care and community based services costs were also up.

Education expenditures, which comprise 30.4% of total General Fund expenditures, were up \$869,000 or 4.1%. Of the \$21.9 million in expenditures, \$20 million represented local operating support provided to the School Division, \$1.4 million was transferred to help pay for Salem High School renovations and \$530,000 was the transfer of meals tax collected by the City and dedicated to school capital projects. Local operating support decreased \$406,000 or 2% in fiscal year 2020. Meals tax revenue decreased from the prior year due to the effects of the pandemic, resulting in a \$121,000 decrease in the allocation to the School Division.

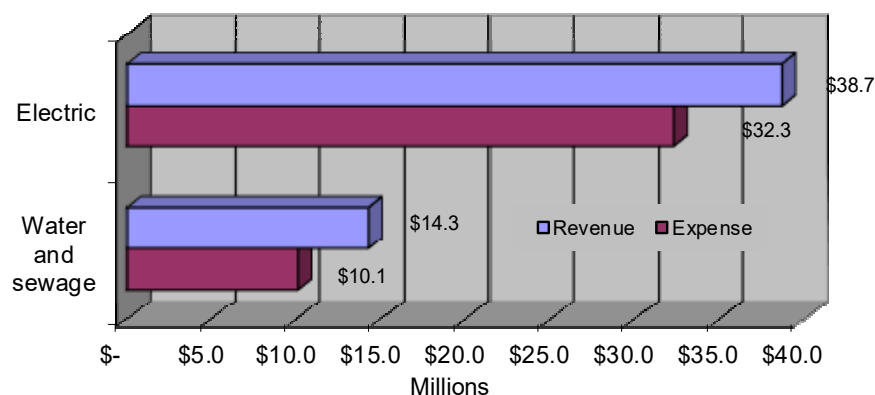
Capital Projects Fund

During fiscal year 2020, Capital Projects fund expenditures were \$6.5 million, which was \$1.5 million higher than the previous year. Bonds were issued in fiscal year 2020 to fund Salem High School renovations and purchase equipment budgeted in the Capital Projects Fund. Bond proceeds and premium totaled \$30.5 million. In fiscal year 2020, \$3.4 million was paid to the School Division to cover costs to date on the Salem High School renovation project. Bond proceeds of \$526,000 from the 2019 issue were used to pay for several pieces of equipment for the Street Department including a garbage truck, tractor and two dump trucks. Grant and local funding covered costs of \$916,000 for downtown improvements at East Main Street and College Avenue. Grant funding also covered \$734,000 in costs for the Roanoke Boulevard multimodal improvements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Proprietary Funds

Revenues and expenses of the major enterprise funds are shown below:



Electric Fund

As of June 30, 2020, the Electric Fund had \$58.4 million in total net position, which increased by \$3.4 million from the prior year. Net investment in capital assets was \$18.9 million or 32.4% of total net position. Unrestricted net position available to fund future expenses was \$39.4 million or 67.6% of total net position.

For fiscal year 2020, operating revenue was \$38.4 million and decreased \$1.3 million or 3.2%. Charges for services were down 3.4% due to a decline in consumption. Operating expenses were \$31.8 million and were \$768,000 lower than the prior year due to a decrease in purchased power costs. Purchased power costs decreased \$1.3 million or 4.7%. Higher pension expense partially offset the decrease in purchased power costs.

Water and Sewage Fund

As of June 30, 2020, the Water and Sewage Fund had \$44.8 million in total net position, an increase of \$3.9 million from prior year. Net investment in capital assets was \$32.5 million or 72.6% of total net position. Unrestricted net position available to fund future expenses was \$12.3 million or 27.4% of total net position.

For fiscal year 2020, operating revenue was \$14.2 million, which was level with the previous year. A 2% water rate increase was effective January 1, 2020 but consumption declined which resulted in charges for services remaining level with the previous year. Operating expenses were \$9.7 million, an increase of \$650,000 or 7.2% from the prior year largely due to an increase in pension expense. Professional services expense was higher due to additional consulting for sewer flow monitoring and increased engineering costs. These increases were partially offset by a decrease of \$441,000 or 20.4% in treatment of sewage costs. The gallons of sewage treated by the Western Virginia Water Authority (WVWA) was lower due to less rainfall and the rate charged was lower than the previous year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

GENERAL FUND BUDGETARY HIGHLIGHTS

The City's budget is prepared in accordance with the *Code of Virginia*. Below is a condensed version of the budgetary comparison of the General Fund original budget, amended budget and actual amounts.

Budgetary Highlights for 2020 (In Millions)

	Original Budget	Budget As Amended	Actual
Revenues	\$ 78.8	\$ 82.6	\$ 81.7
Expenditures	(75.3)	(84.0)	(72.0)
Transfers in	3.3	3.3	3.3
Transfers out	(6.8)	(6.3)	(6.3)
Use of fund balance	<u>\$ -</u>	<u>\$ (4.4)</u>	<u>\$ 6.7</u>

During the year, the City amended the original budget primarily for the following purposes:

- To re-appropriate monies for encumbrances established prior to June 30, 2019.
- To re-appropriate grants, donations and other revenues authorized in fiscal year 2019 or earlier, but not expended or encumbered as of June 30, 2020.
- To appropriate grants, donations and other revenues accepted or adjusted in fiscal year 2020 when official notice of approval was received.
- To appropriate unassigned General Fund balance to capital projects.

The Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual – General Fund is shown on page 41. Property tax revenue exceeded budget for several reasons. Assessed values of real estate and personal property increased more than anticipated while machinery and tools tax revenue was lower than budgeted due to a large refund related to a correction on a prior year return. Because the City assesses and bills personal property in late spring, no current assessment data is available at the time revenue estimates are developed for the subsequent fiscal year. The Finance Department works with other City departments to determine a reasonable revenue estimate based on the information that is available. Delinquent tax revenue was lower than the prior year but exceeded estimates. Delinquent tax revenues are budgeted conservatively because collections are unpredictable.

Other local taxes revenue was less than budgeted by 1%. While sales tax revenue exceeded budget, meals, lodging and admissions tax revenues were less than budgeted. These revenue streams were negatively impacted by the pandemic and fourth quarter revenues were substantially lower than the first three quarters of the fiscal year. Revenue from use of money and property exceeded budget by \$198,000 due to higher than expected interest earnings. The budget for intergovernmental revenue was increased \$3.6 million during fiscal year 2020 due to the allocation of CARES Act funding and an adjustment to Children's Services Act revenue. The City received \$2.2 million in CARES Act funding, but only \$1.1 million was recognized as revenue based on the amount expended during fiscal year 2020. The budget for Children's Services Act revenue from the State was increased based on higher than anticipated expenditures.

Public Works expenditures were under budget by \$5.1 million. Highway maintenance funding totaling \$3.7 million was encumbered, but not spent as of June 30, 2020. Highway maintenance spending was under budget due to no paving being done in fiscal year 2020. Unspent highway maintenance funding is available for spending in the subsequent year. CARES Act funding of \$2.2 million was budgeted in the Public Safety function and only a portion was expended in fiscal year 2020. In accordance with regulations, CARES Act funds must be spent by December 30, 2020, so unexpended funds will be available to spend in the subsequent fiscal year. In the non-departmental category, \$450,000 was budgeted as a reserve for fund balance replenishment and \$1 million of contingency was not expended in fiscal year 2020. The amount budgeted in contingency was intentionally set aside to help offset the effects of the pandemic on revenue.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

CAPITAL ASSETS

The City's total Primary Government capital assets, net of accumulated depreciation, increased 3% from \$175.4 million to \$180.7 million. This investment includes land, construction in progress, machinery and equipment, buildings and improvements, leasehold improvements, public domain infrastructure, distribution and transmission, utility plant and sewage treatment contract. The following table presents a summary of capital asset balances at the end of the year. The changes in each category of capital assets, along with other important information regarding capital assets, are presented in Note 7 of the financial statements.

Capital Assets, Net of Depreciation
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2020	2019	2020	2019	2020	2019	2020	2019
Land	\$ 6.5	\$ 6.5	\$ 1.6	\$ 1.5	\$ 8.1	\$ 8.0	\$ 1.1	\$ 1.1
Construction in progress	2.5	1.4	7.6	7.6	10.1	9.0	6.3	0.7
Machinery and equipment	8.2	7.6	2.8	2.9	11.0	10.5	2.5	2.8
Buildings and improvements	21.3	22.0	15.3	15.4	36.6	37.4	36.9	38.5
Public domain infrastructure	49.2	49.9	-	-	49.2	49.9	-	-
Distribution and transmission	-	-	15.0	14.5	15.0	14.5	-	-
Utility plant	-	-	31.0	25.6	31.0	25.6	-	-
Sewage treatment contract	-	-	19.7	20.5	19.7	20.5	-	-
Total	<u>\$ 87.7</u>	<u>\$ 87.4</u>	<u>\$ 93.0</u>	<u>\$ 88.0</u>	<u>\$ 180.7</u>	<u>\$ 175.4</u>	<u>\$ 46.8</u>	<u>\$ 43.1</u>

Major capital asset additions in the *governmental activities* included:

- Downtown improvements at East Main Street and College Avenue were underway in fiscal year 2020, with \$1 million in costs included in construction in progress.
- Roanoke Boulevard improvements were completed in fiscal year 2020 at a total cost of \$779,000. A sidewalk was constructed, making the area more walkable and safer for pedestrians. Improvements were funded by a grant from the Virginia Department of Transportation.
- The Cook Drive Greenway was completed at a cost of \$333,000. This section of the greenway runs along the edge of properties along Cook drive near the Roanoke River and connects to the City of Roanoke greenway system.
- A garbage truck was purchased at a cost of \$294,000.
- A new fire station alerting system was purchased at a cost of \$215,000.

Major capital asset additions in the *business-type activities* included:

- A portion of the sanitary sewer rehabilitation project was capitalized at a cost of \$6.6 million. Rehabilitation of the sanitary sewer system includes pipe bursting, slip lining, manhole rehabilitation and lateral replacements to reduce rainfall derived inflow and infiltration.
- The automated meter reading project is underway with costs of \$2 million in Water and Sewer Fund construction in progress and \$2 million in Electric Fund construction in progress.
- The Electric Department awarded the contract for the substation equipment replacement project, with \$749,000 included in the construction in progress balance. This project is expected to cost \$11.6 million.
- The Civic Center barrel roof was replaced at a cost of \$486,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

LONG-TERM DEBT

At June 30, 2020, the City's long-term liabilities, excluding capital lease obligations, compensated absences, net pension liabilities, net OPEB liabilities, bond premiums, and bond discounts, totaled \$90.9 million. This amount was comprised of \$55.5 million related to governmental activities (including \$36.8 million for debt held on behalf of the School Division and \$790,000 recorded as a receivable from Roanoke Valley Resource Authority) and \$35.4 million related to business-type activities. The City made \$6.7 million in principal payments and amortized \$26,429 in discounts and premiums.

Total debt increased \$33.4 million during the fiscal year. On June 17, 2020, the City issued \$50,590,000 in tax-exempt general obligation improvement and refunding bonds series 2020 with a premium of \$9,176,046 to finance the cost of various capital improvement projects, including but not limited to Salem High School renovations, Kiwanis field lighting upgrades, a new fire engine, seat replacement at the Salem Memorial Ballpark, Civic Center boiler replacement and Street Department equipment. The series 2020 general obligation bonds also refunded several bond issues including 2010B, 2015, 2016A and 2017A. Detailed information regarding these changes in long-term debt is disclosed in Note 9 to the financial statements.

With its most recent rating in May 2020, the City received a rating of Aa2 from Moody's Investor Service, an upgrade from the previous Aa3 rating. The City received a rating of AA+ from S&P Global Ratings.

The City Charter and the *Code of Virginia* limits the City's net debt to 10% of the assessed valuation of real estate within the City limits. This limit applies to governmental fund tax supported debt and certain long-term liabilities of proprietary funds. The City considers long-term debt of its electric, water and sewage funds to be self-supporting. Additionally, in accordance with its contractual agreement with Roanoke Valley Resource Authority, the City will receive funding from RVRA toward \$790,000 of general obligation debt. The City's tax-supported debt of \$59.9 million is below the legal debt limit of \$168.5 million. Table 10 of the statistical section provides additional information related to the legal debt margin.

The School Division relies upon the City to provide full faith and credit for any debt obligations incurred. Therefore, the City reports School Division long-term liabilities, other than capital lease obligations, compensated absences, net OPEB liabilities, and net pension liabilities, as its own. In addition to bonded debt, the City's long-term obligations include capital lease obligations, compensated absences, net OPEB liabilities, and net pension liabilities. Additional information concerning the City's long-term liabilities is presented in Note 9 of the financial statements and Table 9 of the statistical section.

Interest and other fiscal charges for fiscal year 2020 were \$1.3 million or 1.6% of total governmental activities expenses.

FACTORS INFLUENCING FUTURE BUDGETS

The COVID-19 outbreak continues to bring uncertainty to global and local economies. The pandemic and resulting mandates issued by the Governor forced changes in business operations and citizens' behavior in a manner that negatively affected revenue, particularly in the other local taxes category. After seeing declines of 6.6% in meals tax, 15.5% in lodging tax and 35% in admissions tax in fiscal year 2020, revenues decreased 12.9%, 43.1% and 97.4%, respectively at the end of the first quarter of fiscal year 2021. While CARES Act funding provided resources to help with additional expenses incurred as a result of the pandemic, restrictions on how it can be spent prevent using it to cover revenue shortfalls. Funds must be spent by December 30, 2020 but the effects of the pandemic will continue after this date.

The City will continue to face economic challenges and unknowns due to the pandemic in fiscal year 2021 and beyond. General Fund revenues budgeted for fiscal year 2021 reflect a small decrease in total. However, the amount budgeted for other local tax revenue is \$3.7 million lower than the prior year budget. A decline in interest earnings is anticipated as interest rates fell dramatically when the pandemic started. A large increase in funding from the State for the Children's Services Act program is anticipated in fiscal year 2021, partially offsetting decreases, but there is a corresponding increase in the budget for program spending. To offset anticipated revenue shortfalls, discretionary spending was eliminated, no raises were

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

included and no capital was allocated to departments. A contingency of \$2.4 million is budgeted, including \$1 million reserved for capital which will not be spent unless revenues perform in line with projections.

Electric and water consumption is expected to remain flat in fiscal year 2021. No rate increase was necessary for electric or sewer, but a 2% rate increase for water will be effective January 1, 2021 based on the five-year rate plan.

A substantial renovation and expansion of Salem High School was begun before the pandemic hit our area and work has continued on the project. The school originally opened for the 1978 school year and houses almost 1,200 students. Debt was issued in fiscal year 2020 to fund the renovation. Because the City assumes debt issued on behalf of the School Division, City Council approved increases in real estate and personal property tax rates and the monthly tote fee effective July 1, 2019 in order to generate enough revenue to pay debt service costs for this borrowing.

The City and School Division continue to be affected by issues at the federal and state level such as legislative actions at the federal level, potential state budget reductions and increases in retirement contribution rates assessed by the Virginia Retirement System all of which are exacerbated by the pandemic.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the resources it receives. If you have any questions about this report or need additional information, contact the Director of Finance, City of Salem, 114 North Broad Street, Salem, Virginia 24153, (540) 375-3061, or visit the City's website at www.salemva.gov.

Additional information on the Component Unit can be obtained from the Director of Business, Salem Public Schools, 510 South College Avenue, Salem, Virginia 24153, or visit the School's website at www.salem.k12.va.us.

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BASIC FINANCIAL STATEMENTS



The Basic Financial Statements subsection of the City of Salem, Virginia's Comprehensive Annual Financial Report includes the government-wide Statement of Net Position and Statement of Activities. Government-wide statements incorporate governmental and business-type activities of the City and activities of the component unit to provide an overview of the financial position and change in net position for the reporting entity. Also, this section includes the fund financial statements for governmental, proprietary, and fiduciary funds and the accompanying notes to the financial statements.

CITY OF SALEM, VIRGINIA
STATEMENT OF NET POSITION
JUNE 30, 2020

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 46,344,663	\$ 53,206,047	\$ 99,550,710	\$ 19,043,892
Receivables, net	4,250,417	6,835,013	11,085,430	3,276,045
Due from component unit	-	3,323,382	3,323,382	-
Due from other governmental units	6,912,112	-	6,912,112	1,164,837
Net pension asset	-	-	-	435,809
Inventories	698,134	1,898,555	2,596,689	98,571
Prepaid items	311,127	34,047	345,174	158,753
<i>Restricted assets:</i>				
Cash and cash equivalents	28,604,041	2,782,000	31,386,041	-
<i>Capital assets:</i>				
Nondepreciable	9,066,868	9,155,813	18,222,681	7,403,335
Depreciable, net	78,585,293	83,851,482	162,436,775	39,444,957
Total assets	<u>174,772,655</u>	<u>161,086,339</u>	<u>335,858,994</u>	<u>71,026,199</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>6,778,516</u>	<u>2,326,563</u>	<u>9,105,079</u>	<u>8,403,655</u>
LIABILITIES				
Accounts payable and accrued liabilities	2,618,166	5,484,240	8,102,406	1,967,535
Accrued payroll and related liabilities	1,787,265	375,905	2,163,170	4,600,839
Accrued interest	267,611	145,570	413,181	3,637
Self-insurance claims liability	500,659	-	500,659	100,000
Due to primary government	-	-	-	3,323,382
Unearned revenues	1,141,844	247,368	1,389,212	119,946
Customer security deposits	-	997,394	997,394	-
<i>Long-term liabilities due in less than one year:</i>				
Bonds payable	3,567,130	4,027,314	7,594,444	-
Capital lease obligation	55,931	-	55,931	99,919
Compensated absences	1,201,531	435,463	1,636,994	297,016
<i>Long-term liabilities due in more than one year:</i>				
Bonds payable	57,119,490	35,269,199	92,388,689	-
Capital lease obligation	43,589	-	43,589	-
Compensated absences	947,073	226,587	1,173,660	516,157
Net pension liability	32,639,977	8,769,514	41,409,491	36,340,277
Net OPEB liability	12,513,043	3,730,947	16,243,990	6,216,445
Total liabilities	<u>114,403,309</u>	<u>59,709,501</u>	<u>174,112,810</u>	<u>53,585,153</u>
DEFERRED INFLOWS OF RESOURCES	<u>3,870,937</u>	<u>1,235,130</u>	<u>5,106,067</u>	<u>4,652,375</u>
NET POSITION				
Net investment in capital assets	73,890,772	55,215,300	129,106,072	46,748,373
Restricted for:				
Grant programs	414,013	-	414,013	-
Highway maintenance	6,758,659	-	6,758,659	-
Capital projects	27,358,827	-	27,358,827	529,805
Net pension asset	-	-	-	435,809
Other	235,283	-	235,283	-
Unrestricted (deficit)	(45,380,629)	47,252,971	1,872,342	(26,521,661)
Total net position	<u>\$ 63,276,925</u>	<u>\$ 102,468,271</u>	<u>\$ 165,745,196</u>	<u>\$ 21,192,326</u>

The Notes to Financial Statements are an integral part of this statement.

**CITY OF SALEM, VIRGINIA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-type Activities
Primary Government						
<i>Governmental activities:</i>						
General government	\$ 7,732,057	\$ 282,226	\$ 284,871	\$ 8,250	\$ (7,156,710)	\$ (7,156,710)
Judicial administration	2,427,038	117,742	1,197,818	-	(1,111,478)	(1,111,478)
Public safety	19,710,088	1,378,117	1,342,203	3,264	(16,986,504)	(16,986,504)
Public works	10,268,769	1,859,310	4,281,671	843,861	(3,283,927)	(3,283,927)
Health and welfare	4,969,943	-	2,185,114	-	(2,784,829)	(2,784,829)
Education	25,341,148	-	-	-	(25,341,148)	(25,341,148)
Parks, recreation and cultural	6,286,470	377,429	166,435	14,998	(5,727,608)	(5,727,608)
Community development	3,392,520	-	-	473,951	(2,918,569)	(2,918,569)
Interest and other fiscal charges	1,312,981	-	-	-	(1,312,981)	(1,312,981)
Total governmental activities	81,441,014	4,014,824	9,458,112	1,344,324	(66,623,754)	(66,623,754)
<i>Business-type activities:</i>						
Electric	32,282,516	38,441,256	-	78,034	\$ 6,236,774	6,236,774
Water and sewage	10,141,238	14,222,844	-	-	4,081,606	4,081,606
Civic Center	4,382,316	2,282,153	-	-	(2,100,163)	(2,100,163)
Catering and concessions	875,293	674,404	-	-	(200,889)	(200,889)
Total business-type activities	47,681,363	55,620,657	-	78,034	8,017,328	8,017,328
Total primary government	\$ 129,122,377	\$ 59,635,481	\$ 9,458,112	\$ 1,422,358	\$ (66,623,754)	\$ (58,606,426)
Component Units	\$ 47,969,085	\$ 1,647,076	\$ 10,758,674	\$ -		\$ (35,563,335)
<i>General revenues:</i>						
Property taxes					38,374,597	-
Local sales and use taxes					7,661,772	-
Business license tax					5,572,638	-
Meals tax					4,747,513	-
Utility taxes					1,190,153	-
Other taxes					3,459,728	-
Intergovernmental revenue not restricted					5,003,579	-
Unrestricted investment earnings					166,317	-
Gain on sale of capital assets					40,778	-
Payments from City of Salem					-	-
State aid					-	-
Other					-	26,166,806
Transfers					183,427	14,952,136
Total general revenues and transfers					(1,310,606)	156,517
Change in net position					(960,862)	-
Net position, beginning					68,749,721	41,275,459
Net position, ending					10,143,295	5,712,124
					155,601,901	15,480,202
					\$ 165,745,196	\$ 21,192,326

The Notes to Financial Statements are an integral part of this statement.

**CITY OF SALEM, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020**

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 42,238,158	\$ -	\$ 4,894	\$ 42,243,052
Cash and cash equivalents, restricted	-	-	28,604,041	28,604,041
Receivables, net	4,204,673	-	-	4,204,673
Due from other funds	700,000	-	-	700,000
Due from other governmental units	4,989,938	-	1,132,253	6,122,191
Inventories	698,134	-	-	698,134
Prepaid items	311,127	-	-	311,127
Total assets	<u>\$ 53,142,030</u>	<u>\$ -</u>	<u>\$ 29,741,188</u>	<u>\$ 82,883,218</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 1,980,642	\$ -	\$ 362,095	\$ 2,342,737
Accrued payroll and related liabilities	1,779,970	-	-	1,779,970
Due to other funds	-	-	700,000	700,000
Unearned revenues	1,091,546	-	-	1,091,546
Total liabilities	<u>4,852,158</u>	<u>-</u>	<u>1,062,095</u>	<u>5,914,253</u>
DEFERRED INFLOWS OF RESOURCES	<u>1,438,356</u>	<u>-</u>	<u>-</u>	<u>1,438,356</u>
FUND BALANCES				
Nonspendable	1,009,261	-	-	1,009,261
Restricted	7,407,955	-	27,358,827	34,766,782
Committed	120,291	-	-	120,291
Assigned	857,041	-	1,320,266	2,177,307
Unassigned	37,456,968	-	-	37,456,968
Total fund balances	<u>46,851,516</u>	<u>-</u>	<u>28,679,093</u>	<u>75,530,609</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 53,142,030</u>	<u>\$ -</u>	<u>\$ 29,741,188</u>	<u>\$ 82,883,218</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF SALEM, VIRGINIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS' BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2020

Total fund balance of governmental funds	\$ 75,530,609
Capital assets used in governmental activities are not considered current financial resources and, therefore, are not reported in the governmental funds.	87,652,161
Some long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	
Deferred inflows of resources for unavailable revenues	1,358,752
Other long-term assets are not due in the current period, and, therefore, are not reported in the governmental funds.	
Receivable from Roanoke Valley Resource Authority	789,921
For debt refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred outflow of resources or a deferred inflow of resources.	
Deferred amounts on refunding	411,720
Long-term liabilities related to governmental fund activities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Bonds payable	(55,483,066)
Bond premiums	(5,249,435)
Bond discounts	45,881
Accrued interest	(267,611)
Capital lease obligation	(99,520)
Compensated absences	(2,141,500)
Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.	
Deferred outflows of resources related to pension	5,843,080
Deferred inflows of resources related to pension	(1,018,366)
Net pension liability	(32,382,846)
Financial statement elements related to OPEB are applicable to future periods and, therefore, are not reported in the governmental funds.	
Deferred outflows of resources related to OPEB	490,357
Deferred inflows of resources related to OPEB	(2,762,009)
Net OPEB liability	(12,482,908)
The internal service fund is used by management to charge the costs of health and dental insurance to individual funds. The assets, liabilities and net position of the internal service fund are included with governmental activities in the Statement of Net Position.	3,041,705
Net position of governmental activities	<u><u>\$ 63,276,925</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2020

	General	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Property taxes	\$ 38,434,992	\$ -	\$ -	\$ 38,434,992
Other local taxes	22,631,803	-	-	22,631,803
Permits, fees and licenses	349,081	-	-	349,081
Fines and forfeitures	64,460	-	-	64,460
Revenue from use of money and property	1,962,110	-	30,191	1,992,301
Charges for services	3,576,056	-	-	3,576,056
Other	272,828	-	5,000	277,828
Intergovernmental	14,222,270	227,293	1,313,210	15,762,773
Total revenues	<u>81,513,600</u>	<u>227,293</u>	<u>1,348,401</u>	<u>83,089,294</u>
EXPENDITURES				
<i>Current:</i>				
General government	6,703,274	-	-	6,703,274
Judicial administration	2,180,401	-	-	2,180,401
Public safety	17,368,101	-	-	17,368,101
Public works	8,507,779	-	-	8,507,779
Health and welfare	4,779,853	-	-	4,779,853
Education	21,895,186	-	3,445,962	25,341,148
Parks, recreation and cultural	5,134,939	-	-	5,134,939
Community development	3,255,301	-	-	3,255,301
Non-departmental	2,210,715	-	-	2,210,715
Capital projects	-	-	2,768,847	2,768,847
<i>Debt service:</i>				
Principal retirement	-	3,017,446	-	3,017,446
Interest	-	928,405	-	928,405
Bond issuance costs	-	62,803	287,591	350,394
Total expenditures	<u>72,035,549</u>	<u>4,008,654</u>	<u>6,502,400</u>	<u>82,546,603</u>
Excess (deficiency) of revenues over (under) expenditures	<u>9,478,051</u>	<u>(3,781,361)</u>	<u>(5,153,999)</u>	<u>542,691</u>
OTHER FINANCING SOURCES (USES)				
Issuance of long-term debt	-	-	26,555,000	26,555,000
Issuance of refunding bonds	-	5,799,023	-	5,799,023
Payment to refunded bond escrow agent	-	(7,074,459)	-	(7,074,459)
Premium on sale of bonds	-	1,335,430	3,926,922	5,262,352
Proceeds from sale of capital assets	40,778	-	-	40,778
Issuance of capital leases	-	-	72,648	72,648
Insurance recoveries	72,653	-	-	72,653
Transfers in	3,335,767	3,721,367	823,827	7,880,961
Transfers out	(6,266,766)	-	(266,089)	(6,532,855)
Total other financing sources (uses), net	<u>(2,817,568)</u>	<u>3,781,361</u>	<u>31,112,308</u>	<u>32,076,101</u>
Net change in fund balances	<u>6,660,483</u>	<u>-</u>	<u>25,958,309</u>	<u>32,618,792</u>
Fund balances, beginning	<u>40,191,033</u>	<u>-</u>	<u>2,720,784</u>	<u>42,911,817</u>
Fund balances, ending	<u>\$ 46,851,516</u>	<u>\$ -</u>	<u>\$ 28,679,093</u>	<u>\$ 75,530,609</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF SALEM, VIRGINIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS' STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

Net changes in fund balances of governmental funds	\$ 32,618,792
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate the cost of those assets over the life of the assets.	
Capital outlay	5,043,295
Depreciation expense	(4,716,144)
The net effect of various transactions involving capital assets does not provide or use current financial resources and is not reported as revenues or expenditures in the governmental funds.	(61,480)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in governmental funds.	216,660
Revenues in governmental funds that were subject to accrual in the prior year are additions to beginning net position and, therefore, are not reported as revenues in the Statement of Activities.	
Net principal reimbursed by Roanoke Valley Resource Authority	(208,161)
Issuance of debt and other obligations provides current financial resources to governmental funds but increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Position. Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, but these amounts are deferred and amortized in the Statement of Activities.	
Bond proceeds, net of payment to refunded bond escrow agent	(25,279,564)
Issuance of capital leases	(72,648)
Principal payments	3,017,446
Bond premium	(5,262,352)
Amortization of current year bond premiums	12,917
Amortization of current year bond discounts	(3,108)
Amortization of current year deferred amounts on refunding	(65,750)
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.	
Change in accrued interest payable	56,777
Change in compensated absences	(317,389)
Governmental funds report employer pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.	
Employer pension contributions	2,886,832
Pension expense	(5,243,716)
Governmental funds report employer OPEB contributions as expenditures. However, in the Statement of Activities, the cost of OPEB benefits earned is reported as OPEB expense.	
Employer OPEB contributions	1,469,833
OPEB expense	(520,667)
The internal service fund is used by management to charge the costs of health and dental insurance to individual funds. The change in net position of the internal service fund is reported with governmental activities.	(484,744)
Change in net position of governmental activities	<u><u>\$ 3,086,829</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 37,880,695	\$ 37,880,695	\$ 38,434,992	\$ 554,297
Other local taxes	22,938,000	22,842,540	22,631,803	(210,737)
Permits, fees and licenses	297,950	297,950	349,081	51,131
Fines and forfeitures	113,500	113,500	64,460	(49,040)
Revenue from use of money and property	1,718,569	1,764,428	1,962,110	197,682
Charges for services	3,530,775	3,706,050	3,576,056	(129,994)
Other	99,000	99,000	272,828	173,828
Intergovernmental	12,224,715	15,859,159	14,222,270	(1,636,889)
Total revenues	<u>78,803,204</u>	<u>82,563,322</u>	<u>81,513,600</u>	<u>(1,049,722)</u>
EXPENDITURES				
General government	6,439,920	7,456,513	6,703,274	753,239
Judicial administration	2,317,830	2,296,640	2,180,401	116,239
Public safety	17,336,559	19,544,267	17,368,101	2,176,166
Public works	10,309,550	13,615,736	8,507,779	5,107,957
Health and welfare	3,277,441	5,088,850	4,779,853	308,997
Education	20,469,621	22,395,186	21,895,186	500,000
Parks, recreation and cultural	5,658,788	5,922,651	5,134,939	787,712
Community development	2,904,886	3,494,113	3,255,301	238,812
Non-departmental	6,586,252	4,241,978	2,210,715	2,031,263
Total expenditures	<u>75,300,847</u>	<u>84,055,934</u>	<u>72,035,549</u>	<u>12,020,385</u>
Excess of revenues over expenditures	<u>3,502,357</u>	<u>(1,492,612)</u>	<u>9,478,051</u>	<u>10,970,663</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	40,778	40,778
Insurance recoveries	-	-	72,653	72,653
Transfers in	3,323,000	3,323,000	3,335,767	12,767
Transfers out	(6,825,357)	(6,264,622)	(6,266,766)	(2,144)
Total other financing uses, net	<u>(3,502,357)</u>	<u>(2,941,622)</u>	<u>(2,817,568)</u>	<u>124,054</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ (4,434,234)</u>	<u>\$ 6,660,483</u>	<u>\$ 11,094,717</u>

The Notes to Financial Statements are an integral part of this statement.

**CITY OF SALEM, VIRGINIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2020**

	Enterprise Funds				Internal Service Fund
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total	
ASSETS					
<i>Current assets:</i>					
Cash and cash equivalents	\$ 36,018,256	\$ 17,174,484	\$ 13,307	\$ 53,206,047	\$ 4,101,611
Cash and cash equivalents, restricted	1,441,330	1,340,670	-	2,782,000	-
Receivables, net	4,826,867	1,769,074	20,804	6,616,745	45,744
Due from other funds	1,905,000	-	-	1,905,000	-
Due from component unit	3,323,382	-	-	3,323,382	-
Inventories	1,614,151	251,279	33,125	1,898,555	-
Prepaid items	-	3,826	30,221	34,047	-
Total current assets	49,128,986	20,539,333	97,457	69,765,776	4,147,355
<i>Noncurrent assets:</i>					
Receivables, net	218,268	-	-	218,268	-
<i>Capital assets:</i>					
Nondepreciable	4,663,488	4,287,724	204,601	9,155,813	-
Depreciable, net	27,747,888	52,501,464	3,602,130	83,851,482	-
Total capital assets	32,411,376	56,789,188	3,806,731	93,007,295	-
Total noncurrent assets	32,629,644	56,789,188	3,806,731	93,225,563	-
Total assets	81,758,630	77,328,521	3,904,188	162,991,339	4,147,355
DEFERRED OUTFLOWS OF RESOURCES	1,195,407	761,550	369,606	2,326,563	33,359
LIABILITIES AND DEFERRED INFLOWS					
<i>Current liabilities:</i>					
Accounts payable and accrued liabilities	3,740,419	1,716,396	27,425	5,484,240	275,429
Accrued payroll and related liabilities	157,326	151,730	66,849	375,905	7,295
Accrued interest	29,319	116,251	-	145,570	-
Self-insurance claims liability	-	-	-	-	500,659
Due to other funds	-	-	1,905,000	1,905,000	-
Unearned revenues	27,379	-	219,989	247,368	50,298
Customer security deposits	997,394	-	-	997,394	-
Bonds payable	1,308,671	2,718,643	-	4,027,314	-
Compensated absences	223,347	159,745	52,371	435,463	6,155
Total current liabilities	6,483,855	4,862,765	2,271,634	13,618,254	839,836
<i>Noncurrent liabilities:</i>					
Bonds payable	13,256,262	22,012,937	-	35,269,199	-
Compensated absences	83,362	62,387	80,838	226,587	949
Net pension liability	3,345,127	3,634,205	1,790,182	8,769,514	257,131
Net OPEB liability	1,094,085	2,035,208	601,654	3,730,947	30,135
Total noncurrent liabilities	17,778,836	27,744,737	2,472,674	47,996,247	288,215
Total liabilities	24,262,691	32,607,502	4,744,308	61,614,501	1,128,051
DEFERRED INFLOWS OF RESOURCES	332,917	699,073	203,140	1,235,130	10,958
NET POSITION					
Net investment in capital assets	18,912,259	32,496,310	3,806,731	55,215,300	-
Unrestricted (deficit)	39,446,170	12,287,186	(4,480,385)	47,252,971	3,041,705
Total net position	\$ 58,358,429	\$ 44,783,496	\$ (673,654)	\$ 102,468,271	\$ 3,041,705

The Notes to Financial Statements are an integral part of this statement.

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2020

	Enterprise Funds				Internal Service Fund
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total	
OPERATING REVENUES					
Charges for services	\$ 37,909,064	\$ 13,707,031	\$ 2,918,786	\$ 54,534,881	\$ 6,034,381
Connections and transfers	17,100	187,295	-	204,395	-
Penalties	132,579	125,129	-	257,708	-
Pole rentals	181,584	-	-	181,584	-
Commissions	-	-	10,200	10,200	-
Other	200,929	203,389	27,571	431,889	204,371
Total operating revenues	<u>38,441,256</u>	<u>14,222,844</u>	<u>2,956,557</u>	<u>55,620,657</u>	<u>6,238,752</u>
OPERATING EXPENSES					
Salaries	-	1,899,514	1,370,901	3,270,415	111,511
Fringe benefits	-	1,072,460	606,740	1,679,200	55,944
Show expenses	-	-	1,931,452	1,931,452	-
Maintenance	-	878,584	202,869	1,081,453	6,384
Billing and collection	576,162	553,879	-	1,130,041	-
Professional services	55,507	242,216	31,875	329,598	243,479
Insurance	20,895	56,735	21,160	98,790	-
Purchased power	25,425,948	-	-	25,425,948	-
Distribution - operations	894,961	-	-	894,961	-
Distribution - maintenance	2,039,758	-	-	2,039,758	-
Administration	1,128,275	356,926	104,750	1,589,951	876
Travel and training	15,652	21,048	3,694	40,394	884
Materials and supplies	-	150,101	221,063	371,164	8,768
Expendable equipment and small tools	125,572	85,198	2,471	213,241	-
Utilities	-	406,662	290,162	696,824	5,111
Miscellaneous	133,276	1,347	10,055	144,678	3,623
Depreciation	1,351,918	2,264,836	302,685	3,919,439	-
Treatment of sewage	-	1,719,338	-	1,719,338	-
Commissions	-	-	157,732	157,732	-
Claims	-	-	-	-	6,339,468
Total operating expenses	<u>31,767,924</u>	<u>9,708,844</u>	<u>5,257,609</u>	<u>46,734,377</u>	<u>6,776,048</u>
Operating income (loss)	<u>6,673,332</u>	<u>4,514,000</u>	<u>(2,301,052)</u>	<u>8,886,280</u>	<u>(537,296)</u>
NONOPERATING REVENUES (EXPENSES)					
Investment income	122,961	43,356	-	166,317	52,552
Interest expense	(394,729)	(348,353)	-	(743,082)	-
Bond issuance costs	(113,455)	(84,041)	-	(197,496)	-
Loss on sale of capital assets	(6,408)	-	-	(6,408)	-
Miscellaneous	178,922	-	4,505	183,427	-
Net nonoperating revenues (expenses)	<u>(212,709)</u>	<u>(389,038)</u>	<u>4,505</u>	<u>(597,242)</u>	<u>52,552</u>
Income (loss) before transfers	<u>6,460,623</u>	<u>4,124,962</u>	<u>(2,296,547)</u>	<u>8,289,038</u>	<u>(484,744)</u>
Capital contributions	78,034	-	-	78,034	-
Capital contributions in	-	-	37,500	37,500	-
Transfers in	1,089	-	1,986,572	1,987,661	-
Transfers out	<u>(3,160,000)</u>	<u>(175,767)</u>	<u>-</u>	<u>(3,335,767)</u>	<u>-</u>
Change in net position	<u>3,379,746</u>	<u>3,949,195</u>	<u>(272,475)</u>	<u>7,056,466</u>	<u>(484,744)</u>
Net position, beginning	<u>54,978,683</u>	<u>40,834,301</u>	<u>(401,179)</u>	<u>95,411,805</u>	<u>3,526,449</u>
Net position, ending	<u>\$ 58,358,429</u>	<u>\$ 44,783,496</u>	<u>\$ (673,654)</u>	<u>\$ 102,468,271</u>	<u>\$ 3,041,705</u>

The Notes to Financial Statements are an integral part of this statement.

**CITY OF SALEM, VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2020**

	Enterprise Funds				Internal Service Fund
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total	
OPERATING ACTIVITIES					
Receipts from customers	\$ 38,641,947	\$ 14,039,375	\$ 2,993,344	\$ 55,674,666	\$ 6,039,264
Payments to suppliers	(26,332,216)	(4,249,707)	(2,981,125)	(33,563,048)	(31,441)
Payments to employees	(2,431,834)	(2,774,838)	(1,925,616)	(7,132,288)	(150,965)
Payments for claims	-	-	-	-	(6,209,783)
Other receipts	200,929	203,389	27,571	431,889	204,371
Nonoperating revenue	178,922	-	4,505	183,427	-
Net cash provided by (used in) operating activities	10,257,748	7,218,219	(1,881,321)	15,594,646	(148,554)
NONCAPITAL FINANCING ACTIVITIES					
Interfund loan	(490,000)	-	490,000	-	-
Component unit loan	(13,345)	-	-	(13,345)	-
Transfers in	1,089	-	1,986,572	1,987,661	-
Transfers out	(3,160,000)	(175,767)	-	(3,335,767)	-
Net cash provided by (used in) noncapital financing activities	(3,662,256)	(175,767)	2,476,572	(1,361,451)	-
CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of capital assets	57,518	-	-	57,518	-
Purchases of capital assets	(3,201,944)	(4,343,176)	(634,319)	(8,179,439)	-
Proceeds from capital debt	-	1,927,254	-	1,927,254	-
Proceeds from refunding bonds	12,998,265	9,151,406	-	22,149,671	-
Payment of refunding escrow deposit	(12,888,468)	(9,061,987)	-	(21,950,455)	-
Payment of refunding issuance costs	(113,455)	(84,041)	-	(197,496)	-
Principal paid on capital debt	(1,250,097)	(2,517,665)	-	(3,767,762)	-
Interest paid on capital debt	(447,132)	(513,146)	-	(960,278)	-
Capital contributions	78,034	-	37,500	115,534	-
Net cash used in capital and related financing activities	(4,767,279)	(5,441,355)	(596,819)	(10,805,453)	-
INVESTING ACTIVITIES					
Interest received	122,961	43,356	-	166,317	52,552
Net cash provided by investing activities	122,961	43,356	-	166,317	52,552
Net increase (decrease) in cash and cash equivalents	1,951,174	1,644,453	(1,568)	3,594,059	(96,002)
Cash and cash equivalents, beginning	35,508,412	16,870,701	14,875	52,393,988	4,197,613
Cash and cash equivalents, ending	\$ 37,459,586	\$ 18,515,154	\$ 13,307	\$ 55,988,047	\$ 4,101,611
CASH AND CASH EQUIVALENTS AT END OF YEAR IS COMPRISED OF THE FOLLOWING:					
Cash and cash equivalents	\$ 36,018,256	\$ 17,174,484	\$ 13,307	\$ 53,206,047	\$ 4,101,611
Cash and cash equivalents, restricted	1,441,330	1,340,670	-	2,782,000	-
Total	\$ 37,459,586	\$ 18,515,154	\$ 13,307	\$ 55,988,047	\$ 4,101,611
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Operating income (loss)	\$ 6,673,332	\$ 4,514,000	\$ (2,301,052)	\$ 8,886,280	\$ (537,296)
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i>					
Depreciation	1,351,918	2,264,836	302,685	3,919,439	-
Nonoperating revenue	178,922	-	4,505	183,427	-
Pension expense, net of employer contributions	188,323	157,580	297,312	643,215	14,220
OPEB expense, net of employer contributions	(5,410)	3,654	(200,527)	(202,283)	268
<i>Decrease (increase) in assets:</i>					
Receivables, net	377,355	19,920	43,173	440,448	(3,653)
Inventories	(97,027)	6,201	(5,236)	(96,062)	-
Prepaid items	-	(2,790)	75,045	72,255	-
<i>Increase (decrease) in liabilities:</i>					
Accounts payable and accrued liabilities	1,549,201	218,916	(73,651)	1,694,466	237,204
Accrued payroll and related liabilities	9,532	(5,748)	(44,225)	(40,441)	(1,505)
Self-insurance claims liability	-	-	-	-	129,685
Unearned revenues	9,279	-	21,185	30,464	8,536
Customer security deposits payable	14,986	-	-	14,986	-
Compensated absences	7,337	41,650	(535)	48,452	3,987
Net cash provided by (used in) operating activities	\$ 10,257,748	\$ 7,218,219	\$ (1,881,321)	\$ 15,594,646	\$ (148,554)
<i>Noncash investing, capital, and financing activities</i>					
Capital assets financed with accounts payable	\$ 718,236	\$ 1,036,026	\$ -	\$ 1,754,262	\$ -
Capital asset contributions received	\$ 78,034	\$ -	\$ 37,500	\$ 115,534	\$ -

The Notes to Financial Statements are an integral part of this statement.

**CITY OF SALEM, VIRGINIA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2020**

	Agency Funds	OPEB Trust Fund
ASSETS		
Cash and cash equivalents	\$ 2,246,940	\$ -
Investments held by trustee, fair value of pooled funds	-	7,608,728
Receivables, net	209	-
Due from Commonwealth of Virginia	43,303	-
Total assets	<u>2,290,452</u>	<u>7,608,728</u>
LIABILITIES		
Accounts payable	73,653	-
Liability to agency	2,216,799	-
Total liabilities	<u>\$ 2,290,452</u>	<u>-</u>
NET POSITION		
Net position restricted for OPEB		<u>\$ 7,608,728</u>

**CITY OF SALEM, VIRGINIA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2020**

	OPEB Trust Fund
ADDITIONS	
Employer contributions - City	\$ 1,731,271
Employer contributions - Agency entities	89,150
<i>Investment Income</i>	
Increase in fair value of investments	218,348
Total additions	<u>2,038,769</u>
DEDUCTIONS	
Retirement benefits - City	(1,496,341)
Retirement benefits - Agency entities	(68,050)
Administrative expenses	(8,378)
Total deductions	<u>(1,572,769)</u>
Net increase in plan net position	<u>466,000</u>
Net position held in trust for other postemployment benefits, beginning	<u>7,142,728</u>
Net position held in trust for other postemployment benefits, ending	<u>\$ 7,608,728</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF NET POSITION
COMPONENT UNITS
JUNE 30, 2020

	School Division	Economic Development Authority	Total
ASSETS			
Cash and cash equivalents	\$ 18,381,477	\$ 662,415	\$ 19,043,892
Receivables, net	18,663	3,257,382	3,276,045
Due from other governmental units	1,164,837	-	1,164,837
Net pension asset	435,809	-	435,809
Inventories	98,571	-	98,571
Prepaid items	158,753	-	158,753
<i>Capital assets:</i>			
Nondepreciable	7,403,335	-	7,403,335
Depreciable, net	39,444,957	-	39,444,957
Total assets	<u>67,106,402</u>	<u>3,919,797</u>	<u>71,026,199</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>8,403,655</u>	<u>-</u>	<u>8,403,655</u>
LIABILITIES			
Accounts payable and accrued liabilities	1,963,711	3,824	1,967,535
Accrued payroll and related liabilities	4,600,839	-	4,600,839
Accrued interest	3,637	-	3,637
Self-insurance claims liability	100,000	-	100,000
Due to primary government	-	3,323,382	3,323,382
Unearned revenues	119,946	-	119,946
<i>Long-term liabilities due in less than one year:</i>			
Capital lease obligation	99,919	-	99,919
Compensated absences	297,016	-	297,016
<i>Long-term liabilities due in more than one year:</i>			
Compensated absences	516,157	-	516,157
Net pension liability	36,340,277	-	36,340,277
Net OPEB liability	6,216,445	-	6,216,445
Total liabilities	<u>50,257,947</u>	<u>3,327,206</u>	<u>53,585,153</u>
DEFERRED INFLOWS OF RESOURCES	<u>4,652,375</u>	<u>-</u>	<u>4,652,375</u>
NET POSITION			
Net investment in capital assets	46,748,373	-	46,748,373
Restricted for:			
Capital projects	529,805	-	529,805
Net pension asset	435,809	-	435,809
Unrestricted (deficit)	(27,114,252)	592,591	(26,521,661)
Total net position	<u>\$ 20,599,735</u>	<u>\$ 592,591</u>	<u>\$ 21,192,326</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
YEAR ENDED JUNE 30, 2020

Functions/Programs	Program Revenues				Primary Government			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating		School Division	Economic Development Authority		
			Grants and Contributions	Capital Grants and Contributions		Component Units		
School Division	\$ 47,644,735	\$ 1,647,076	\$ 10,758,674	\$ -	\$ (35,238,985)	\$ -	\$ (35,238,985)	
Economic Development Authority	324,350	-	-	-	-	(324,350)	(324,350)	
Total component units	\$ 47,969,085	\$ 1,647,076	\$ 10,758,674	\$ -	\$ (35,238,985)	\$ (324,350)	\$ (35,563,335)	
General revenues:								
Payments from City of Salem					25,341,148	825,658	26,166,806	
State aid					14,952,136	-	14,952,136	
Other					110,398	46,119	156,517	
Total general revenues					40,403,682	871,777	41,275,459	
Change in net position					5,164,697	547,427	5,712,124	
Net position, beginning					15,435,038	45,164	15,480,202	
Net position, ending					\$ 20,599,735	\$ 592,591	\$ 21,192,326	

The Notes to Financial Statements are an integral part of this statement.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

1. Summary of Significant Accounting Policies

The Financial Reporting Entity

The Town of Salem was established by act of the Virginia General Assembly in 1806. The City of Salem, Virginia (City) was established by act of the Virginia General Assembly in 1968. It is a political subdivision of the Commonwealth of Virginia, operating under the council-manager form of government. The City Council is elected by the voters and is comprised of five members, who elect two of their members Mayor and Vice-Mayor for a two-year term. The City is not part of a county and has taxing powers subject to statewide restrictions and tax limits. The City is the Primary Government of the reporting entity.

The City provides a full range of services including general government administration, judicial administration, public safety, public works, health and welfare, parks and recreation, community development activities and support for education. The City also owns and operates an electric distribution system, water and sewage facilities and a civic center.

Discretely Presented Component Units

The City of Salem discretely presents two component units: The City of Salem School Division and the Economic Development Authority of the City of Salem.

The City of Salem School Division (School Division) is a legally separate entity which operates four elementary schools, a middle school and a high school. School Board members are appointed by City Council. City Council also provides fiscal guidance because it levies taxes for the School Division's operations and issues debt for its capital projects. Based on these facts, the City reports the School Division as a discretely presented component unit. Separately issued financial statements may be obtained by contacting the City of Salem Schools, Director of Business, 510 South College Avenue, Salem, Virginia 24153.

During the current year, the City provided \$21,365,381 of operating support and \$529,805 of capital support to the School Division and made debt service payments of \$1,820,384 on behalf of the School Division.

The Economic Development Authority of the City of Salem (Economic Development Authority) is a legally separate entity, which operates under the direction of City Council. The City provides financial resources to the Economic Development Authority, which it then uses for economic development incentives for local businesses. Based on these facts, the City reports the Economic Development Authority as a discretely presented component unit. During the current year, the City provided \$825,658 in operating support to the Economic Development Authority. Separate financial statements are not issued for the Economic Development Authority.

Government-wide Financial Statements

The government-wide financial statements report information on all nonfiduciary activities of the Primary Government and its component unit. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the Primary Government is reported separately from the legally separate component units for which the Primary Government is financially accountable.

The **Statement of Net Position** presents both governmental and business-type activities on the accrual basis of accounting, which incorporates long-term assets and receivables, as well as long-term debt and obligations.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

1. Summary of Significant Accounting Policies (Continued)

Government-wide Financial Statements (Continued)

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments that are clearly identifiable with a specific function. Taxes, internally dedicated resources and other items not reported among program revenues are reported instead as *general revenues*.

Fund Financial Statements

These statements are organized based on funds, each of which is considered a separate accounting entity. The emphasis is on major governmental and proprietary funds. The operation of each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances/net position, revenues and expenditures/expenses, as appropriate.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the basic financial statements into three broad fund categories as follows:

Governmental Funds account for expendable financial resources, other than proprietary fund types. The City reports the following major governmental funds:

- The *General Fund* is the government's primary operating fund and accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Debt Service Fund* accounts for the accumulation of resources and payments made for principal and interest on long-term general obligation debt not being financed by the proprietary funds.
- The *Capital Projects Fund* accounts for resources to be used for the acquisition or construction of major capital facilities not being financed by the proprietary funds.

Proprietary Funds account for operations that are financed and operated in a manner similar to private business enterprises.

Enterprise Funds account for the financing of services to the general public where all or most of the operating expenses involved are recovered in the form of charges to users of such services. The City reports the following major enterprise funds:

- The *Electric Fund* accounts for the activities of the electric distribution operations.
- The *Water and Sewage Fund* accounts for the activities of the water and sewage operations.

Internal Service Funds account for the financing of goods or services provided solely to other departments within the City government on a cost-reimbursement basis. The City reports the following internal service fund:

- The *Health Insurance Fund* accounts for funding, claims, and operating costs of the City's self-insurance program and the employee health clinic. This fund is included in governmental activities for government-wide reporting purposes.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

1. Summary of Significant Accounting Policies (Continued)

Fund Financial Statements (Continued)

Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent for individuals, other governmental units or other funds. The City reports the following fiduciary funds:

- The *OPEB Trust Fund* accounts for the receipt and disbursement of assets held in trust for the other postemployment benefit (OPEB) plan of the City.
- The *Agency Funds* account for monies held in a custodial capacity on behalf of Cardinal Criminal Justice Academy and Court-Community Corrections Program. Since these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the City, these funds are not incorporated into the government-wide financial statements.

Measurement Focus and Basis of Accounting

Government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's proprietary funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the current period. General fund tax revenues are considered measurable when they have been levied and available if collected within 60 days of year-end. Interest revenues are considered measurable and available if collected within 60 days of year-end. Grant revenues are considered measurable when the legal and contractual requirements have been met and available if collected within one year of the end of the current fiscal period. All other revenue items are considered measurable and available when cash is received by the City. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, long-term debt service, compensated absences, pension, and other postemployment benefit expenditures, as well as expenditures related to claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures and proceeds of long-term debt, insurance recoveries and acquisitions under capital leases are reported as other financing sources.

As a result of the different measurement focus and basis of accounting used in preparing the government-wide statements versus the governmental funds' financial statements, a reconciliation between the government-wide and fund financial statements is necessary. The reconciliations are presented following the governmental funds' financial statements.

Proprietary fund financial statements are reported using the *economic financial resources measurement focus* and the *accrual basis of accounting*. These statements distinguish *operating* from *nonoperating* revenues and expenses. Operating revenues and expenses generally result from providing goods and services in connection with a fund's principal ongoing operations. Operating revenues include charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources, as they are needed.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

Fiduciary Fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, with the exception of agency funds which have no measurement focus but employ the *accrual basis of accounting* for purposes of asset and liability recognition.

Budgets and Budgetary Accounting

The City's budget is presented and adopted in accordance with accounting principles generally accepted in the United States of America (GAAP). The following procedures are used by the City in establishing the budgetary data reflected in the financial statements:

Annual Budget Adoption – Thirty days prior to the last council meeting in May, the City Manager submits to City Council a proposed operating and capital budget for the fiscal year commencing July 1. This budget includes proposed expenditures and the means of financing them. A public hearing is conducted to obtain citizen comments. Prior to June 30, the budgets are legally adopted through passage of an appropriation ordinance by City Council.

Projects – The Capital Projects Fund utilizes a project length budget, which is not legally enacted on an annual basis; therefore, a budgetary comparison statement is not presented.

Amendment – The City Manager is authorized to transfer amounts within and between departments and categories within the same fund. City Council must approve budget amendments between funds and any budget amendments increasing or decreasing appropriations. During the year, City Council approved \$8,194,352 of additional appropriations primarily for grants, capital outlay, unforeseen operating expenditures and the reappropriation of fund balances for encumbrances.

Integration – Formal budgetary integration is employed as a management control device for the General Fund. Formal budgetary integration is not employed for the Debt Service Fund because effective budgetary control is alternatively achieved through budgeted transfers from the General Fund to the Debt Service Fund for debt payments.

Legal Compliance – Legal budgetary control is maintained at the fund level. Department heads may use discretion to transfer from one category to another within departments under their control within the same fund as long as the total for the departments under their control does not change. The City Manager may authorize a transfer of any unencumbered balance or portion thereof from one department to another within a fund. All other transfers require approval of City Council. Actual expenditures and operating transfers out may not legally exceed budget appropriations at the fund level. All appropriations lapse on June 30 except for in the Capital Projects Fund, which carries unexpended balances through a project's life.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded in order to reserve the applicable appropriation, is employed as an extension of formal budgetary integration in the General and Capital Projects Funds. Encumbrances outstanding at year-end are reported as part of the restricted, committed, or assigned fund balances since they do not constitute expenditures or liabilities. These encumbrances are subject to reappropriation by City Council in the subsequent fiscal year. Significant encumbrances as of June 30, 2020, total \$4,604,185 in the General Fund and \$2,031,077 in the Capital Projects Fund.

Deposits and Investments

For purposes of the Statement of Cash Flows, cash and cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and investments with maturities of 90 days or less. Cash includes unrestricted and restricted, if any, cash and cash equivalents. Investments are recorded at fair value.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

1. Summary of Significant Accounting Policies (Continued)

Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts using historical collection data and specific account analysis.

Property Taxes

The City levies real estate taxes on all real estate within its boundaries, except that exempted by statute, each year as of July 1 based on 100% of estimated fair market value of the property. The City reassesses all property annually. Real estate taxes are due in equal semiannual payments on December 5 and June 5 and are considered delinquent after each due date. In the year 2020, City Council extended the June 5 due date to June 30 as a result of the coronavirus pandemic. Real estate taxes become a lien on real property the first day of the levy year. The tax rate for 2020 was \$1.20 per \$100 of assessed value.

The City levies personal property taxes on motor vehicles and business and other tangible personal property each year as of January 1. Personal property taxes are due the following May 31 and are considered delinquent after the due date. In the year 2020, City Council extended the May 31 due date to June 30 as a result of the coronavirus pandemic. Personal property taxes do not create a lien on property; however, a penalty of 10% of delinquent personal property tax or \$10, whichever is greater, is due for late payment. Interest on delinquent taxes is accrued monthly at a rate of 0.83%, or 10% annually. Personal property transactions during the year are taxed on a prorated basis. The tax rate for personal property for 2020 was \$3.40 per \$100 of assessed value. The tax rate for machinery and tools for 2020 was \$3.20 per \$100 of assessed value.

Interfund Balances

Outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide statements as internal balances. Outstanding balances between the City and its component units are reported as due to/from component unit or due to/from Primary Government. Flow of cash or goods between funds without a requirement of repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

Inventory

Governmental fund inventories consist of street and building materials and general supplies held for consumption. Inventories are valued at cost using the first-in, first-out (FIFO) method. The cost of materials and supplies is recorded as an expenditure at the time inventory is withdrawn for use.

Enterprise fund inventories consist primarily of spare parts held for consumption. Electric fund inventories are valued at cost using the average cost method. All other enterprise fund inventories are valued at cost using the FIFO method. The cost of spare parts is recorded as an expense at the time inventory is withdrawn for use.

Prepaid Items

Governmental fund prepaid items consist primarily of software maintenance and support for a subsequent period. The payments are recorded as expenditures in the fiscal year related to the agreement period.

Proprietary fund prepaid items consist primarily of fees for civic and community events held after year-end. The costs of these events are expensed in the subsequent fiscal year to obtain a proper matching of revenues and expenses.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

1. Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets, which include property, plant and equipment and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Proprietary fund capital assets are reported in the applicable fund financial statements. Capital assets are defined by the City as assets with an initial individual cost in excess of \$0 for land, \$5,000 for machinery and equipment or \$10,000 for buildings, plant and infrastructure and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value on the date of donation. The City includes the cost of certain intangible assets with a definite life in the appropriate asset class.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are completed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Machinery, furniture and equipment	5-25 years
Buildings and improvements	10-50 years
Distribution and transmission systems	35 years
Utility plant	35 years
Sewage treatment contract	40 years
Public domain infrastructure	25-50 years

Depreciation expense for capital assets is identified with a function, whenever possible, and is included as a direct expense. Upon the sale or retirement of a capital asset, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

According to the *Code of Virginia*, when a local government incurs a financial obligation payable over more than one fiscal year to fund an acquisition, construction or improvement of public school property, the local government acquires title to the school property as a tenant in common with the local school board for the term of the financial obligation. For financial reporting purposes, the local government may report the school property and related financial obligation. In these cases, at the time the financial obligation is paid in full, the net value of the school property is transferred to the local school board and reflected as program revenue and expense in the government-wide financial statements for the local school board and the local government, respectively. In the City's case, the City reports this debt in its Statement of Net Position while the School Division reports the capital asset on its Statement of Net Position.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements that present net position report a separate section for deferred outflows of resources. These items represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statements that present net position report a separate section for deferred inflows of resources. These items represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

1. Summary of Significant Accounting Policies (Continued)

Surety Bond Payable

Deposits may be received in lieu of bond insurance or letters of credit for a performance bond. The amount is included in restricted cash and accounts payable and accrued liabilities since the funds will be returned upon successful completion of the performance bond.

Unearned Revenues

Unearned revenues arise when assets are recognized before revenue recognition criteria can be satisfied and also when assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period. Grants and entitlements received before the eligibility requirements are met have been recorded as unearned revenue. Unearned revenues primarily consist of retiree health insurance premiums billed in advance, advertising, event deposits, and rentals.

Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary funds' Statement of Net Position. Bonds payable are reported net of the applicable bond premiums and discounts. Gains or losses on bond refundings are reported as deferred outflows or inflows, respectively. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Deferred amounts on refunding are deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the period incurred. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

The City and the School Division have policies to allow the accumulation and vesting of limited amounts of paid leave and extended illness leave until termination or retirement. Amounts of such absences are accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. An expenditure and liability for these amounts is reported in governmental funds when the amounts are due for payment.

Pensions

The Virginia Retirement System (VRS) Retirement Plan is a multi-employer, agent plan. The VRS Teacher Retirement Plan is a multiple-employer, cost-sharing plan. For purposes of measuring the net pension liability of both plans, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plan and the additions to/deductions from the plan's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

1. Summary of Significant Accounting Policies (Continued)

Other Postemployment Benefits – Retiree Health Plan

In connection with the City's funding of other postemployment benefits (OPEB) obligations, the City participates in the Virginia Pooled OPEB Trust (OPEB Trust Fund). The City's policy is to fully fund actuarially determined OPEB costs, which include both normal costs and amortization of unfunded accrued liability. The OPEB Trust Fund assets and investments are recorded at fair value. The OPEB Trust Fund's Board of Trustees establishes investment objectives and risk tolerance and asset allocation policies based on the investment policy, market and economic conditions and generally prevailing prudent investment practices.

Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit

The VRS Group Life Insurance Program and VRS Teacher Employee Health Insurance Credit Program are multiple-employer, cost-sharing plans. The VRS Political Subdivision Health Insurance Credit Program is a multiple-employer, agent defined benefit plan. The Group Life Insurance Program was established pursuant to §51.1-500 et seq. of the *Code of Virginia*, as amended, which provides the authority under which benefit terms are established or may be amended. The Political Subdivision Health Insurance Credit Program and Teacher Employee Health Insurance Credit Program were established pursuant to §51.1-1400 et seq. of the *Code of Virginia*, as amended, which provides the authority under which benefit terms are established or may be amended. The Group Life Insurance Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. The Political Subdivision Health Insurance Credit Program and Teacher Employee Health Insurance Program are defined benefit plans that provide a credit toward the cost of health insurance coverage for retired political subdivision employees of participating employers and teachers. For purposes of measuring the net OPEB liability for each plan, deferred outflows of resources and deferred inflows of resources related to each plan, and OPEB expense, information about the fiduciary net position of each plan and the additions to/deductions from net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is divided into three components:

- **Net investment in capital assets** – consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding which was used to finance those assets.
- **Restricted** – consists of assets where there are limitations imposed on their use through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- **Unrestricted** – all other net position is reported in this category.

Net investment in capital assets for governmental activities excludes \$40,065,411 of School Division debt, \$1,406,990 of Civic Center debt, and \$789,921 of Roanoke Valley Resource Authority (RVRA) debt reported by the City because the related assets are reported by the School Division, Civic Center, and RVRA, respectively. Noncapital debt of \$777,859, \$10,691 and \$218,300 is also excluded from the net investment in capital assets for governmental activities, the Electric Fund, and the Water and Sewage Fund, respectively.

The Nonmajor Proprietary Funds have a deficit of \$673,654 in total net position as of June 30, 2020, because sales revenue has not covered operating expenses in the Catering and Concessions Fund.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

1. Summary of Significant Accounting Policies (Continued)

Fund Balances

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** – 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 interfund loans.
- **Restricted** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** – Amounts constrained to specific purposes by the City, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purposes unless the same highest level of action is taken to remove or change the constraint.
- **Assigned** – Amounts the City intends to use for a specified purpose; intent can be expressed by the governing body (City Council) or by an official or body to which the governing body designates the authority.
- **Unassigned** – Amounts that are available for any purpose; positive amounts are reported only in the General Fund.

City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. This is typically done through amendment of the budget. Assigned fund balance is established by City Council as amounts intended for a specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes). City Council has also delegated to the City Manager and Director of Finance the authority to assign fund balance; however, before the assigned funds can be spent, such amounts, excluding appropriations related to encumbrances that are carried forward to the subsequent fiscal year, must be appropriated by City Council.

Restricted Amounts

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.

Minimum Fund Balance

The City’s fund balance policy establishes a minimum acceptable level of unassigned fund balance in the General Fund equal to ten percent of the sum of the General Fund, Debt Service Fund, and School Division operating expenditures net of the General Fund transfer to the School Division. For the purposes of this calculation, the operating expenditures are the budget as originally adopted for the current fiscal year.

Other governmental funds of the City do not have specified fund balance targets. Recommended levels of committed and/or assigned fund balance will be determined on a case by case basis, based on the needs of each fund and as recommended by officials and approved by the City Council.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

1. Summary of Significant Accounting Policies (Continued)

Estimates

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, the disclosure of contingent liabilities, and reported revenues, expenditures and expenses. Actual results could differ from those estimates.

2. Deposits and Investments

The City maintains a concentration bank account used by all nonfiduciary funds, including the School Division. Each fund's portion of this account is presented in the basic financial statements as cash and cash equivalents.

Restricted cash and cash equivalents consist of unspent bond proceeds in the City Capital Projects Fund, Electric Fund, and Water and Sewage Fund.

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development, the Asian Development Bank, the African Development Bank, prime quality commercial paper and certain corporate notes, bankers' acceptances, repurchase agreements, the State Non-Arbitrage Program (SNAP), and the Local Government Investment Pool (LGIP).

Pursuant to Sec. 2.1-234.7 of the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings and the carrying value of the position in LGIP is the same as the value of the pool shares (i.e., the LGIP maintains a stable net asset value of \$1 per share) in accordance with GASB Statement No. 79.

All deposits and investments are reflected in the statements as follows:

	Primary Government	Component Units	Total
Cash and cash equivalents	\$ 99,550,710	\$ 19,043,892	\$ 118,594,602
Cash and cash equivalents, restricted	31,386,041	-	31,386,041
	<u>\$ 130,936,751</u>	<u>\$ 19,043,892</u>	<u>\$ 149,980,643</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

2. Deposits and Investments (Continued)

As of June 30, 2020, the City's deposits and investments consisted of the following:

Investment Type	Fair Value	S&P Credit Rating
Primary Government		
Demand & time deposits	\$ 27,746,189	unrated
Cash on hand	7,985	unrated
Local Government Investment Pool (LGIP)	16,486,499	AAAm
Local Government Investment Pool (LGIP) EM	55,310,037	AAAf/S1
VA State Non-Arbitrage Program (SNAP)	31,386,041	AAAm
Total primary government	130,936,751	
Component Units		
Demand & time deposits	14,043,377	unrated
Cash on hand	515	unrated
Local Government Investment Pool (LGIP)	5,000,000	AAAm
Total component units	19,043,892	
Grand Total	\$ 149,980,643	

The City's investments are subject to credit risk, concentration of credit risk, interest rate risk, and custodial risk as described below.

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The City's investment policy states that the City shall invest only in securities allowed under the *Code of Virginia*, Virginia Security of Public Deposits Act, Section 2.2-4400 through 2.2-4411 and the *Code of Virginia*, Investment of Public Funds Act, Section 2.2-4500 through 2.2-4518.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investment in a single issuer. The City endeavors to diversify its investment portfolio to avoid incurring unreasonable risks regarding an individual financial institution or issuing entity. Target asset allocation strategies are developed by the Director of Finance to provide guidance as to appropriate levels of diversification. The City's investment policy states that, with the exception of U.S. Treasury securities and authorized pools/funds, no more than 50% of the City's total investment may be the obligations of a single financial institution.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City endeavors to diversify its investment portfolio to avoid incurring unreasonable risks regarding maturity. To the extent possible, the City attempts to match its investments with anticipated cash flow requirements. The City's investment policy states that unless matched to a specific cash flow, the City will not directly invest in securities maturing more than one year from the date of purchase.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

2. Deposits and Investments (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that all securities purchased for the City be secured through third-party custody and safekeeping procedures. Ownership shall be protected through third-party custodial safekeeping. The securities must be in the City's name or in the custodian's nominee name and identifiable on the custodian's books as belonging to the City. Further, the custodian must be a third party, not a counterparty (buyer, issuer, or seller) to the transaction. This requirement does not apply to excess checking account funds invested overnight in a bank "sweep" agreement or similar vehicle authorized under the City's investment policy.

3. Receivables

Receivables are as follows:

	Governmental Activities	Business-type Activities			Component Units
		Electric	Water and Sewage	Nonmajor Proprietary	
Tax receivables	\$ 3,255,704	\$ -	\$ -	\$ -	\$ -
Account receivables	45,744	5,136,780	1,800,775	22,727	-
Other receivables	1,460,939	-	-	-	3,276,045
Gross receivables	4,762,387	5,136,780	1,800,775	22,727	3,276,045
Allowance for uncollectibles	(511,970)	(91,645)	(31,701)	(1,923)	-
Receivables, net	<u>\$ 4,250,417</u>	<u>\$ 5,045,135</u>	<u>\$ 1,769,074</u>	<u>\$ 20,804</u>	<u>\$ 3,276,045</u>

4. Interfund Balances and Transfers

The composition of the interfund balances is as follows:

		Due from (fund)		
		Capital Projects	Nonmajor Enterprise	Total
Due to (fund)	General	\$ 700,000	\$ -	\$ 700,000
	Electric	-	1,905,000	1,905,000
	Total	\$ 700,000	\$ 1,905,000	\$ 2,605,000

The amount due to the General Fund from the Capital Projects Fund is a short-term loan issued until the Capital Projects Fund receives grant reimbursements from the state. The amount due to the Electric Fund from the Nonmajor Enterprise Funds is a short-term loan to fund operations.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

4. Interfund Balances and Transfers (Continued)

The composition of the interfund transfers is as follows:

	Transfer out (fund)				
	General	Capital Projects	Electric	Water and Sewage	Total
Transfer in (fund)					
General	\$ -	\$ -	\$ 3,160,000	\$ 175,767	\$ 3,335,767
Debt Service	3,721,367	-	-	-	3,721,367
Capital Projects	823,827	-	-	-	823,827
Electric	-	1,089	-	-	1,089
Nonmajor Enterprise	1,721,572	265,000	-	-	1,986,572
Total	\$ 6,266,766	\$ 266,089	\$ 3,160,000	\$ 175,767	\$ 9,868,622

Transfers to the General Fund include payments in lieu of taxes. Transfers to the Debt Service Fund include principal and interest payments for general government and school debt. Transfers to the Capital Projects Fund include funding for current projects. Transfers to the Electric Fund relate to debt refunding. Transfers to nonmajor enterprise funds include funding assistance for operating expenses.

5. Due from/to Primary Government and Component Unit

The amount due from a component unit by business-type activities is a loan from the Electric Fund to the Economic Development Authority. The Economic Development Authority used these funds to provide loans to two developers for rehabilitation projects within the City. In addition, a portion of the balance was used to provide economic assistance during the COVID-19 outbreak through an agreement with Total Action for Progress (TAP).

The balance outstanding as of June 30, 2020, was \$3,323,382. The loan is being repaid as follows:

- \$870,577 at end of three years maturing January 31, 2021, with interest accrued at 4% rate.
- \$2,386,805 over twenty years maturing February 1, 2039 with an interest rate of 3.79%.
- \$66,000 as economic assistance loans are repaid to TAP.

6. Due from Other Governmental Units

Amounts due from other governmental units are as follows:

	Governmental Activities	Component Units
Commonwealth of Virginia		
Personal property tax	\$ 2,588,707	\$ -
Local sales tax	1,274,654	-
Capital projects funding	1,132,253	-
Sales tax	-	534,215
Children's Services Act	559,534	-
Communications tax	145,335	-
Other	408,670	-
Federal government		
School funds	-	630,622
Lease payment from General Services Administration	10,816	-
Other	2,222	-
Roanoke Valley Resource Authority	789,921	-
	<u>\$ 6,912,112</u>	<u>\$ 1,164,837</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

7. Capital Assets

Capital asset activity for the year is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets, nondepreciable				
Land	\$ 6,518,026	\$ 52,100	\$ (37,500)	\$ 6,532,626
Construction in progress	1,353,638	3,152,405	(1,971,801)	2,534,242
Capital assets, nondepreciable	7,871,664	3,204,505	(2,009,301)	9,066,868
Capital assets, depreciable				
Machinery and equipment	24,573,094	1,997,030	(819,993)	25,750,131
Buildings and improvements	40,818,369	323,128	-	41,141,497
Leasehold improvements	42,806	-	-	42,806
Public domain infrastructure	102,362,035	1,671,420	(38,803)	103,994,652
Capital assets, depreciable	167,796,304	3,991,578	(858,796)	170,929,086
Accumulated depreciation				
Machinery and equipment	(16,959,025)	(1,374,392)	779,764	(17,553,653)
Buildings and improvements	(18,861,415)	(1,042,930)	-	(19,904,345)
Leasehold improvements	(9,037)	(2,854)	-	(11,891)
Public domain infrastructure	(52,452,001)	(2,454,105)	32,202	(54,873,904)
Accumulated depreciation	(88,281,478)	(4,874,281)	811,966	(92,343,793)
Capital assets, depreciable, net	79,514,826	(882,703)	(46,830)	78,585,293
Capital assets, net	\$ 87,386,490	\$ 2,321,802	\$ (2,056,131)	\$ 87,652,161
Business-type Activities				
Capital assets, nondepreciable				
Land	\$ 1,547,917	\$ 37,500	\$ -	\$ 1,585,417
Construction in progress	7,645,188	8,160,304	(8,235,096)	7,570,396
Capital assets, nondepreciable	9,193,105	8,197,804	(8,235,096)	9,155,813
Capital assets, depreciable				
Machinery and equipment	9,462,664	700,106	(802,615)	9,360,155
Buildings and improvements	27,187,687	660,295	(77,347)	27,770,635
Distribution and transmission	37,215,023	1,126,648	(68,911)	38,272,760
Utility plant	78,549,365	6,667,453	-	85,216,818
Sewage treatment contract	31,955,606	-	-	31,955,606
Capital assets, depreciable	184,370,345	9,154,502	(948,873)	192,575,974
Accumulated depreciation				
Machinery and equipment	(6,614,405)	(675,560)	745,582	(6,544,383)
Buildings and improvements	(11,821,061)	(741,599)	70,988	(12,491,672)
Distribution and transmission	(22,666,830)	(615,956)	68,377	(23,214,409)
Utility plant	(53,031,213)	(1,178,444)	-	(54,209,657)
Sewage treatment contract	(11,419,711)	(844,660)	-	(12,264,371)
Accumulated depreciation	(105,553,220)	(4,056,219)	884,947	(108,724,492)
Capital assets, depreciable, net	78,817,125	5,098,283	(63,926)	83,851,482
Capital assets, net	\$ 88,010,230	\$ 13,296,087	\$ (8,299,022)	\$ 93,007,295

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

7. Capital Assets (Continued)

Depreciation expense is charged to functions/programs of the primary government as follows:

Governmental Activities		Business-type Activities	
General government	\$ 274,687	Electric	\$ 1,351,918
Judicial administration	37,336	Water and sewage	2,264,836
Public safety	951,961	Civic Center	298,302
Public works	2,490,859	Catering and concessions	4,383
Parks, recreation and cultural	947,169	Total depreciation expense	<u>\$ 3,919,439</u>
Community development	14,132		
Total depreciation expense	<u>\$ 4,716,144</u>		

Current year increases to accumulated depreciation shown in the capital asset table for governmental activities exceed depreciation expense by \$158,137 because the table includes accumulated depreciation for machinery and equipment transferred to the street department from the water and sewer department, electric department, and Civic Center.

	Beginning Balance	Increases	Decreases	Ending Balance
Component Unit - School Division				
Capital assets, nondepreciable				
Land	\$ 1,123,637	\$ -	\$ -	\$ 1,123,637
Construction in progress	665,820	5,636,078	(22,200)	6,279,698
Capital assets, nondepreciable	<u>1,789,457</u>	<u>5,636,078</u>	<u>(22,200)</u>	<u>7,403,335</u>
Capital assets, depreciable				
Furniture and equipment	8,962,006	326,211	(61,142)	9,227,075
Buildings and improvements	70,384,156	350,516	-	70,734,672
Capital assets, depreciable	<u>79,346,162</u>	<u>676,727</u>	<u>(61,142)</u>	<u>79,961,747</u>
Accumulated depreciation				
Furniture and equipment	(6,200,618)	(618,231)	60,010	(6,758,839)
Buildings and improvements	(31,833,374)	(1,924,577)	-	(33,757,951)
Accumulated depreciation	<u>(38,033,992)</u>	<u>(2,542,808)</u>	<u>60,010</u>	<u>(40,516,790)</u>
Capital assets, depreciable, net	<u>41,312,170</u>	<u>(1,866,081)</u>	<u>(1,132)</u>	<u>39,444,957</u>
Capital assets, net	<u>\$ 43,101,627</u>	<u>\$ 3,769,997</u>	<u>\$ (23,332)</u>	<u>\$ 46,848,292</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

8. Deferred Outflows/Inflows of Resources

Deferred outflows/inflows of resources reported in the Statement of Net Position are as follows:

	Governmental Activities	Business-type Activities	Component Units
Deferred outflows of resources			
Deferred loss on refunding of debt	\$ 411,720	\$ 493,897	\$ -
Pension	5,874,348	1,693,585	7,542,229
OPEB	492,448	139,081	861,426
Total deferred outflows of resources	<u>\$ 6,778,516</u>	<u>\$ 2,326,563</u>	<u>\$ 8,403,655</u>
Deferred inflows of resources			
Deferred gain on refunding of debt	\$ -	\$ 186,660	\$ -
Property taxes collected in advance	79,604	-	-
Pension	1,024,275	294,889	4,135,485
OPEB	2,767,058	753,581	516,890
Total deferred inflows of resources	<u>\$ 3,870,937</u>	<u>\$ 1,235,130</u>	<u>\$ 4,652,375</u>

Deferred inflows of resources reported in the governmental funds are as follows:

	General Fund
Deferred inflows of resources	
Unavailable revenue - property taxes	\$ 1,113,004
Property taxes collected in advance	79,604
Unavailable revenue - charges for services and fees	245,748
Total deferred inflows of resources	<u>\$ 1,438,356</u>

Deferred outflows/inflows of resources reported in the proprietary funds are as follows:

	Electric	Water and Sewage	Nonmajor Proprietary Funds	Internal Service Fund
Deferred outflows of resources				
Deferred loss on refunding of debt	\$ 493,897	\$ -	\$ -	\$ -
Pension	653,110	698,360	342,115	31,268
OPEB	48,400	63,190	27,491	2,091
Total deferred outflows of resources	<u>\$ 1,195,407</u>	<u>\$ 761,550</u>	<u>\$ 369,606</u>	<u>\$ 33,359</u>
Deferred inflows of resources				
Deferred gain on refunding of debt	\$ -	\$ 186,660	\$ -	\$ -
Pension	112,816	122,023	60,050	5,909
OPEB	220,101	390,390	143,090	5,049
Total deferred inflows of resources	<u>\$ 332,917</u>	<u>\$ 699,073</u>	<u>\$ 203,140</u>	<u>\$ 10,958</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

9. Long-Term Liabilities

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. These bonds are direct obligations and pledge the full faith and credit of the government and are subject to the provisions of the Internal Revenue Code of 1986 related to arbitrage, interest and income tax regulations.

The following is a summary of changes in long-term liabilities:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds	\$ 32,959,027	\$ 32,354,023	\$ (9,829,984)	\$ 55,483,066	\$ 3,229,439
Bond premiums	-	5,262,352	(12,917)	5,249,435	337,691
Bond discounts	(48,989)	-	3,108	(45,881)	-
Bonds payable	32,910,038	37,616,375	(9,839,793)	60,686,620	3,567,130
Capital lease obligation	121,467	72,648	(94,595)	99,520	55,931
Compensated absences	1,827,228	1,522,907	(1,201,531)	2,148,604	1,201,531
Net pension liability	27,271,632	9,415,068	(4,046,723)	32,639,977	-
Net OPEB liability	12,696,942	4,155,340	(4,339,239)	12,513,043	-
	<u>\$ 74,827,307</u>	<u>\$ 52,782,338</u>	<u>\$ (19,521,881)</u>	<u>\$ 108,087,764</u>	<u>\$ 4,824,592</u>

The Debt Service Fund liquidates most long-term liabilities of governmental activities as shown above. However, a portion of compensated absences, the pension plan and other postemployment benefits (OPEB) are liquidated by the Internal Service Fund. The remaining portion of compensated absences and other postemployment benefits is liquidated by the General Fund.

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Business-type Activities					
General obligation bonds	\$ 40,780,877	\$ 20,163,231	\$ (25,544,669)	\$ 35,399,439	\$ 3,592,796
Bond premiums	-	3,913,694	(16,620)	3,897,074	434,518
Bonds payable	40,780,877	24,076,925	(25,561,289)	39,296,513	4,027,314
Compensated absences	613,598	483,915	(435,463)	662,050	435,463
Net pension liability	7,226,712	2,704,661	(1,161,859)	8,769,514	-
Net OPEB liability	3,740,506	1,153,667	(1,163,226)	3,730,947	-
	<u>\$ 52,361,693</u>	<u>\$ 28,419,168</u>	<u>\$ (28,321,837)</u>	<u>\$ 52,459,024</u>	<u>\$ 4,462,777</u>

Component Unit - School Division

Capital lease obligation	\$ 195,212	\$ -	\$ (95,293)	\$ 99,919	\$ 99,919
Compensated absences	755,480	354,709	(297,016)	813,173	297,016
Net pension liability (asset)	(505,064)	211,407	(142,152)	(435,809)	-
Net pension liability	33,092,000	11,501,792	(8,253,515)	36,340,277	-
Net OPEB liability	6,150,083	1,377,004	(1,310,642)	6,216,445	-
	<u>\$ 39,687,711</u>	<u>\$ 13,444,912</u>	<u>\$ (10,098,618)</u>	<u>\$ 43,034,005</u>	<u>\$ 396,935</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

9. Long-Term Liabilities (Continued)

Details of long-term indebtedness are as follows:

	Interest Rates	Issue Date	Maturity Date	Issue Amount	Governmental Activities	Business-type Activities
General Obligation Bonds						
2004 Public Improvement	3.00%	04/04	07/26	11,052,222	\$ -	\$ 4,415,506
2010 Taxable Build America	4.57-6.56%	12/10	02/21	2,700,000	315,000	-
2010 Public Improvement	3.00-4.25%	12/10	02/28	2,830,000	1,470,000	-
2010 Public Improvement	3.15%	09/10	03/30	3,648,124	-	2,200,543
2011 Refunding	2.14%	12/11	10/23	9,485,000	3,555,079	-
2012 Public Improvement	2.35%	12/12	08/32	9,545,000	6,204,250	-
2013 Public Improvement	1.25%	03/13	04/35	3,058,522	-	2,381,064
2013 Public Improvement	3.03%	12/13	08/33	7,275,000	5,085,000	-
2016B Public Improvement	2.50%	06/16	04/26	6,393,385	850,793	3,151,085
2018 Public Improvement	0.00%	05/18	07/39	5,015,264	-	5,015,264
2019 Public Improvement	3.24%	02/19	04/39	5,025,000	4,859,000	-
2020 Public Improvement	2.00-5.00%	06/20	05/40	26,555,000	26,555,000	-
2020 Refunding	2.00-5.00%	06/20	05/36	24,035,000	5,799,023	18,235,977
General Obligation Bonds - RVRA						
2011 Refunding	2.14%	12/11	10/23		789,921	-
					55,483,066	35,399,439
			Bond premiums		5,249,435	3,897,074
			Bond discounts		(45,881)	-
					<u>\$ 60,686,620</u>	<u>\$ 39,296,513</u>

The annual requirements to amortize bonds payable and related interest are as follows:

Fiscal Year	Governmental Activities					
	Governmental Activities		RVRA		Business-type Activities	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 3,024,914	\$ 1,652,417	\$ 204,525	\$ 14,716	\$ 3,592,796	\$ 1,073,558
2022	2,959,681	1,714,010	199,980	10,388	3,595,581	1,059,079
2023	3,038,234	1,618,671	195,435	6,156	3,706,714	930,364
2024	3,097,294	1,523,257	189,981	2,033	3,833,413	797,015
2025	3,116,455	1,432,531	-	-	3,961,736	658,277
2026-2030	16,372,253	5,180,667	-	-	12,730,324	1,413,422
2031-2035	13,073,314	2,099,354	-	-	3,382,819	67,799
2036-2040	10,011,000	652,910	-	-	596,056	-
	<u>\$ 54,693,145</u>	<u>\$ 15,873,817</u>	<u>\$ 789,921</u>	<u>\$ 33,293</u>	<u>\$ 35,399,439</u>	<u>\$ 5,999,514</u>

On November 1, 2016, the City became a member of the already established Roanoke Valley Resource Authority (RVRA). Per the amended and restated Members and Facilities Use Agreement, the City conveyed title of the City's existing transfer station and all related equipment, property, and site work to RVRA. RVRA agreed to pay the City amounts equal to the remaining debt service on the transfer station building. As of June 30, 2020, the City has \$789,921 in outstanding general obligation debt, which will contractually be repaid by RVRA over the remaining 4 year amortization of the bonds. Further details are presented in note 21.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

9. Long-Term Liabilities (Continued)

Current Year Debt Issuance

On June 17, 2020, the City issued \$50,590,000 of series 2020 general obligation public improvement and refunding bonds, consisting of public improvement bonds of \$26,555,000 and refunding bonds of \$24,035,000.

The series 2020 general obligation public improvement bonds with a par amount of \$26,555,000 and a premium of \$3,926,922 were issued for the purpose of providing funds for capital improvements at Salem High School and other school purposes, as well as various capital improvements and equipment for parks and recreation, public safety, utility, sanitation, and other City governmental purposes.

The series 2020 refunding bonds with a par amount of \$24,035,000 and a premium of \$5,249,124 were issued to advance refund a portion of the City's series 2010B Taxable Build America general obligation bonds and currently refund the outstanding portions of the City's series 2015 general obligation refunding bonds, series 2016A general obligation public improvement bonds, and series 2017A general obligation refunding bonds.

Advance Refunding of Portion of Series 2010B Taxable Build America General Obligation Bonds

The City issued \$2,005,000 of series 2020 refunding bonds with an average interest rate of 4.71% to advance refund \$2,385,000 of outstanding series 2010B Taxable Build America general obligation bonds with an average interest rate of 6.29%. The net proceeds of \$2,526,986 (with a premium of \$545,564 and after payment of \$23,578 in underwriting fees and other issuance costs) were used to purchase government securities. Those securities were placed in an irrevocable trust with an escrow agent to provide for future debt service payments for the refunded portion of the series 2010B bonds. As a result, a portion of the series 2010B bonds is considered to be defeased, and the liability has been removed from the government-wide Statement of Net Position.

The advance refunding of a portion of the series 2010B bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$141,986. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being amortized over the remaining life of the old bonds as a component of interest expense through the year 2031. The City completed the advance refunding of the series 2010B bonds to reduce its total debt service payments by \$437,655 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$409,851.

Current Refunding of Series 2015 General Obligation Refunding Bonds

The City issued \$11,675,000 of series 2020 refunding bonds with an average interest rate of 4.80% to currently refund \$14,276,000 of outstanding series 2015 general obligation refunding bonds with an average interest rate of 2.50%. The net proceeds of \$14,363,612 (with a premium of \$2,810,976 and after payment of \$122,364 in underwriting fees and other issuance costs) were used to extinguish the series 2015 bonds.

The current refunding of the series 2015 bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$552,385. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being amortized over the remaining life of the old bonds as a component of interest expense through the year 2031. The City completed the current refunding of the series 2015 bonds to reduce its total debt service payments by \$1,676,101 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,565,394.

Current Refunding of Series 2016A General Obligation Bonds

The City issued \$2,595,000 of series 2020 refunding bonds with an average interest rate of 3.90% to currently refund \$3,055,988 of outstanding series 2016A general obligation bonds with an average interest rate of 2.50%. The net proceeds of \$3,072,328 (with a premium of \$501,178 and after payment of \$23,849 in underwriting fees and other issuance costs) were used to extinguish the 2016A bonds.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

9. Long-Term Liabilities (Continued)

Current Refunding of Series 2016A General Obligation Bonds (Continued)

The current refunding of the series 2016A bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$16,341. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being amortized over the remaining life of the old bonds as a component of interest expense through the year 2036. The City completed the current refunding of the series 2016A bonds to reduce its total debt service payments by \$269,030 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$243,352.

Current Refunding of Series 2017A General Obligation Refunding Bonds

The City issued \$7,760,000 of series 2020 refunding bonds with an average interest rate of 5.00% to currently refund \$8,967,052 of outstanding series 2016A general obligation refunding bonds with an average interest rate of 2.30%. The net proceeds of \$9,061,987 (with a premium of \$1,391,406 and after payment of \$89,419 in underwriting fees and other issuance costs) were used to extinguish the series 2017A bonds.

The current refunding of the series 2017A bonds resulted in a difference between the net carrying amount of the old debt and the reacquisition price of \$187,758. This difference, reported in the accompanying financial statements as a deferred inflow of resources, is being amortized over the remaining life of the old bonds as a component of interest expense through the year 2027. The City completed the current refunding of the series 2017A bonds to reduce its total debt service payments by \$478,225 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$494,144.

Legal Debt Limit

The *Constitution of Virginia*, Article VII, Section 10(a), sets forth the City's legal debt limit as ten percent of the assessed valuation of the real estate in the City subject to taxation. As of June 30, 2020, ten percent of the assessed value of real property in the City is \$228,384,335. The City's net debt applicable to the legal debt limit is \$59,896,699, and the legal debt margin is \$168,487,686. Additional information about the City's legal debt margin is available in table 10.

10. Operating Leases

Rental Costs

The City and School Division lease office equipment and infrastructure under several non-cancellable operating lease agreements expiring at various dates through fiscal year 2023. Rent expenditures for the current year were \$59,371 and \$41,325 for the City and School Division, respectively. Scheduled minimum rental payments for the next five years are as follows:

Year Ending June 30	City of Salem	School Division
2021	\$ 58,991	\$ 11,567
2022	39,346	3,425
2023	11,725	-
	<u>\$ 110,062</u>	<u>\$ 14,992</u>

Rental Revenues

The City leases various City-owned properties and buildings under non-cancelable lease agreements through fiscal year 2027. The net book value of leased assets of \$9.0 million (cost of \$15.3 million less accumulated depreciation of \$6.3 million) is included in capital assets in the government-wide financial statements. Rent revenues for the current year were \$183,806. Certain leases contain provisions for future increased revenues based upon changes in the Cost of Living Index.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

10. Operating Leases (Continued)

Rental Revenues (Continued)

Scheduled minimum rent revenues for succeeding fiscal years are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2021	\$ 176,387
2022	176,629
2023	176,872
2024	162,251
2025	151,877
2026-2027	137,233
	<u>\$ 981,249</u>

11. Capital Leases

On November 1, 2015, the City entered into a 62 month lease agreement with C. R. Whitley, Jr. and Sandra S. Whitley, Trustees under the Whitley Living Trust, to lease the property located at 21 S. Bruffey Street, Salem, VA 24153. Under the lease agreement, the City pays \$6,991.13 monthly to the lessor, representing principal and interest payments with interest at 4.5%. Capital lease accounting is required due to transfer of ownership at the end of the lease, bargain purchase price, and net present value of payments through the term of the lease. The lease assets and obligation are accounted for as Governmental Activities. At June 30, 2020, the original cost of the land and building under the capital lease totaled \$96,700 and \$278,300, respectively, and accumulated depreciation on the building totaled \$25,511.

Scheduled minimum lease payments under the capital lease are as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
June 30, 2021	\$ 41,946
Total minimum lease payments	41,946
Less: Amount representing interest	(546)
Present value of minimum lease payments	<u>\$ 41,400</u>

On July 24, 2019, the City entered into a 60 month lease agreement with De Lage Landen Public Finance LLC to lease two Cisco Firepower 2120 NGFW Appliances. Under the lease agreement, the City pays \$14,529.60 annually to the lessor, representing principal payments only. Capital lease accounting is required due to transfer of ownership at the end of the lease, bargain purchase price, lease term greater than 75% of the useful life and the net present value of payments through the term of the lease. The lease assets and obligation are accounted for in the Statement of Net Position. At June 30, 2020, the original cost of the equipment was \$72,648 and accumulated depreciation was \$13,319.

Scheduled minimum lease payments under the capital lease are as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
June 30, 2021	\$ 14,530
June 30, 2022	14,530
June 30, 2023	14,530
June 30, 2024	14,530
Total minimum lease payments	58,120
Less: Amount representing interest	-
Present value of minimum lease payments	<u>\$ 58,120</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

11. Capital Leases (Continued)

On August 1, 2018, the School Division entered into a 36 month lease agreement with Dell Financial Services, L.L.C., to lease 1,400 Dell Chromebooks. Under the lease agreement, the School Division pays \$104,768.02 annually to the lessor, representing principal and interest payments with an implicit interest rate of 4.85%. Capital lease accounting is required due to a bargain purchase option and the net present value of payments through the term of the lease. The lease assets and obligation are accounted for in the Statement of Net Position. At June 30, 2020, the original cost of the Chromebooks was \$299,980 and accumulated depreciation was \$109,993.

Scheduled minimum lease payments under the capital lease are as follows:

Fiscal Year Ending	Amount
June 30, 2021	\$ 104,768
Total minimum lease payments	104,768
Less: Amount representing interest	(4,849)
Present value of minimum lease payments	<u>\$ 99,919</u>

12. Fund Balance

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 governmental funds. The constraints placed on fund balance for the governmental funds are presented below:

	General	Capital Projects	Total Governmental Funds
Fund Balances:			
Nonspendable:			
Inventories	\$ 698,134	\$ -	\$ 698,134
Prepays	311,127	-	311,127
	<u>1,009,261</u>	<u>-</u>	<u>1,009,261</u>
Restricted for:			
Law enforcement	474,644	380,774	855,418
Fire and rescue	172,882	698,200	871,082
Street equipment	-	1,306,424	1,306,424
Building maintenance and improvements	-	23,749,838	23,749,838
Highway maintenance	6,758,659	-	6,758,659
Parks and recreation	1,770	1,052,949	1,054,719
Economic development	-	164,758	164,758
Other purposes	-	5,884	5,884
	<u>7,407,955</u>	<u>27,358,827</u>	<u>34,766,782</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

12. Fund Balance (Continued)

	General	Capital Projects	Total Governmental Funds
Committed to:			
Law enforcement	77,082	-	77,082
Stormwater management	43,209	-	43,209
	120,291	-	120,291
Assigned to:			
Technology systems	83,813	-	83,813
Law enforcement	67,005	-	67,005
Fire and rescue	139,994	-	139,994
Street equipment	283,035	-	283,035
Building maintenance and improvements	128,318	-	128,318
Engineering	68,218	-	68,218
Public works	-	279,763	279,763
Park improvements	1,606		1,606
Parks and recreation	68,015	139,037	207,052
Economic development	-	885,556	885,556
Other purposes	17,037	15,910	32,947
	857,041	1,320,266	2,177,307
Unassigned:	37,456,968	-	37,456,968
Total fund balances	\$ 46,851,516	\$ 28,679,093	\$ 75,530,609

13. Risk Management

The risk management programs of the City and School Division are as follows:

Workers' Compensation

Workers' Compensation Insurance is provided through the Virginia Risk Sharing Association (VRSA) for the City and through VACORP for the School Division. Benefits are those afforded through the Commonwealth of Virginia as outlined in *Code of Virginia* §65.2-100. Premiums are based on covered payroll, job rates and claims experience. Total premiums for the current year were \$555,312 and \$98,433 for the City and School Division, respectively.

General Liability and Other

The City provides general liability and other insurance through VRSA. General liability and automotive liability have a \$1,000,000 limit per occurrence. Boiler and machinery coverage and property coverage are covered per statement of values. The City maintains an additional \$10,000,000 umbrella policy over all forms of liability. The City has flood insurance coverage through Selective Insurance Company of America for properties in designated flood zones or that are part of the water plant. Total premiums for the current fiscal year were \$370,650.

The School Division provides general liability and other insurance through VACORP. General liability, automobile liability, and property damage have a \$2,000,000 limit per occurrence. The School Division also has a separate student accident insurance policy through VACORP. Total premiums for the current fiscal year were \$133,325.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

13. Risk Management (Continued)

Line of Duty

The Line of Duty Act (LODA) provides benefits to local government employees who hold specified hazardous duty positions (*Code of Virginia* §9.1-400 et seq.). By statute, LODA benefits must be provided. The Virginia Department of Accounts administers the benefit. As of July 1, 2011, the General Assembly shifted the financial responsibility from the state government to local governments. The City provides an insured Line of Duty OPEB benefit plan through coverage with VRSA. In exchange for annual premiums paid while employees are in active service, VRSA covers the Line of Duty OPEB of those employees. The Line of Duty coverage provides a death benefit of \$100,000 to beneficiaries of public safety officers who die in the line of duty and a death benefit of \$25,000 to beneficiaries of public safety employees who die within five years of becoming disabled as a result of a qualifying illness as defined in the LODA. A health insurance benefit is also provided to the disabled public safety employees, their surviving spouses, and their dependents. The City retains an obligation for benefits in the event of VRSA's insolvency. The Commonwealth of Virginia has the authority to establish and amend LODA. Total premiums for the current year to VRSA for Line of Duty coverage were \$108,093.

Healthcare

The City's professionally administered self-insurance program provides health coverage for employees of the City and School Division on a cost-reimbursement basis. All active employees, retired City employees and retired School Division employees pay a premium equivalent for participation. The premium equivalent represents a minimum of 4% active or retired employee participation. The City is obligated for claims payments under the program. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$200,000 per covered individual and approximately \$9,795,350 in the aggregate.

During the current fiscal year, total claim expenses of \$8,952,998, which did not exceed the stop loss provisions, were incurred. This represents claims processed and an estimate for claims incurred but not reported (IBNR) as of June 30, 2020. The estimated liability for the City and School Division was \$491,859 and \$89,400, respectively for a total of \$581,259 at year-end.

Changes in the reported liability during the last three fiscal years are as follows:

Year Ended June 30	Beginning Balance	Claim Expenses	Claim Payments	Ending Balance
2020	\$ 936,640	\$ 8,952,998	\$ 9,308,379	\$ 581,259
2019	1,234,976	7,482,834	7,781,170	936,640
2018	787,078	8,097,155	7,649,257	1,234,976

Dental

The City's professionally administered self-insurance program provides dental coverage for employees of the City and School Division on a cost-reimbursement basis. The City began offering dental coverage through the self-insurance program on January 1, 2020. All active employees, retired City employees and retired School Division employees pay a premium equivalent for participation. The premium equivalent represents a minimum of 0% active or retired employee participation. The City is obligated for claims payments under the program.

During the current fiscal year, total claim expenses of \$220,597 were incurred. This represents claims processed and an estimate for claims incurred but not reported (IBNR) as of June 30, 2020. The estimated liability for the City and School Division was \$8,800 and \$10,600, respectively for a total of \$19,400 at year-end.

Other

There were no significant changes in insurance coverage from the prior year and no settlements that exceeded the amount of insurance coverage during the last three fiscal years.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Pension Plan

Plan Description

All full-time, salaried permanent employees of the City and all full-time, salaried permanent (non-professional) employees of the School Division are automatically covered by the VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (VRS or System) along with plans for other employer groups in the Commonwealth of Virginia. The VRS Retirement Plan is a multi-employer, agent plan.

All full-time, salaried permanent (professional) teachers of the School Division are automatically covered by the VRS Teacher Retirement Plan upon employment. This plan is administered by VRS along with plans for other employer groups in the Commonwealth of Virginia. The VRS Teacher Retirement Plan is a multiple-employer, cost-sharing plan.

Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees - Plan 1, Plan 2, and Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out below:

VRS PLAN 1

About VRS Plan 1 – Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, service credit and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, they were vested as of January 1, 2013, and they have not taken a refund.

Hybrid Opt-In Election – VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remained as VRS Plan 1 or ORP members.

Retirement Contributions – Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

Service Credit – Service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Pension Plan (Continued)

VRS PLAN 1 (Continued)

Vesting – Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of service credit. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.

Calculating the Benefit – The basic benefit is determined using the average final compensation, service credit and plan multiplier. An early retirement reduction is applied to this amount if the member is retiring with a reduced benefit. In cases where the member has elected an optional form of retirement payment, an option factor specific to the option chosen is then applied.

Average Final Compensation – A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

Service Retirement Multiplier – The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.

Normal Retirement Age – The normal retirement age is age 65 for VRS and age 60 for political subdivision hazardous duty employees.

Earliest Unreduced Retirement Eligibility – Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years of service credit or at age 50 with at least 30 years of service credit. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of service credit or age 50 with at least 25 years of service credit.

Earliest Reduced Retirement Eligibility – Members who are not in hazardous duty positions may retire with a reduced benefit at age 55 with at least five years of service credit or age 50 with at least 10 years of service credit. Hazardous duty members may retire with a reduced benefit at age 50 with at least five years of service credit.

Cost-of-Living Adjustment (COLA) in Retirement – The COLA matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.

For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of service credit, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of service credit, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Pension Plan (Continued)

VRS PLAN 1 (Continued)

The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability.
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

Disability Coverage – For members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.

Purchase of Prior Service – Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as service credit in their plan. Prior service credit counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.

VRS PLAN 2

VRS Plan 2 is the same as VRS Plan 1 except for the following:

Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Average Final Compensation – A member's average final compensation is the average of the 60 consecutive months of highest compensation as a covered employee.

Service Retirement Multiplier – For non-hazardous duty members, the retirement multiplier is 1.65% for service credit earned, purchased or granted on or after January 1, 2013.

Normal Retirement Age – The normal retirement age is normal Social Security retirement age for non-hazardous duty employees.

Earliest Unreduced Retirement Eligibility – Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age with at least five years of service credit or when their age plus service credit equals 90.

Earliest Reduced Retirement Eligibility – Members who are not in hazardous duty positions may retire with a reduced benefit as early as age 60 with at least five years of service credit.

COLA in Retirement – The COLA matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Pension Plan (Continued)

VRS PLAN 2 (Continued)

Disability Coverage – For members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.

HYBRID RETIREMENT PLAN

The Hybrid Retirement Plan is the same as VRS Plan 1 except for the following:

About the Hybrid Retirement Plan – The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.

- The defined benefit is based on a member's age, service credit and average final compensation at retirement using a formula.
- The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
- In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

Eligible Members – Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- Political subdivision employees*
- School division employees
- Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1 - April 30, 2014; the plan's effective date for opt-in members was July 1, 2014

* Non-Eligible Members – Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

- Political subdivision employees who are covered by enhanced benefits for hazardous duty employees

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.

Retirement Contributions – A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

Service Credit

Defined Benefit Component: Under the defined benefit component of the plan, service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Defined Contributions Component: Under the defined contribution component, service credit is used to determine vesting for the employer contribution portion of the plan.

Vesting

Defined Benefit Component: Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years of service credit. VRS Plan 1 or VRS Plan 2 members with at least five years of service credit who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contributions Component: Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.
- After three years, a member is 75% vested and may withdraw 75% of employer contributions.
- After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distributions are not required, except as governed by law.

Calculating the Benefit

Defined Contribution Component: The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

Average Final Compensation – Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

Service Retirement Multiplier

Defined Benefit Component: The retirement multiplier is 1.00%. For members who opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

Defined Contribution Component: Not applicable.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

Normal Retirement Age

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Unreduced Retirement Eligibility

Defined Benefit Component: Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years of service credit or when their age plus service credit equals 90.

Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Reduced Retirement Eligibility

Defined Benefit Component: Members may retire with a reduced benefit as early as age 60 with at least five years of service credit.

Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

COLA in Retirement

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Not applicable.

Disability Coverage – Employees of political subdivisions and school divisions (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Purchase of Prior Service

Defined Benefit Component: Same as VRS Plan 1, except Hybrid Retirement Plan members are ineligible for ported service.

Defined Contribution Component: Not applicable

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Pension Plan (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2018, actuarial valuation, the following employees were covered by the benefit terms of the VRS Retirement Plan:

	<u>City of Salem</u>	<u>School Division (Non-Professional)</u>
Inactive members or their beneficiaries currently receiving benefits	640	70
Inactive members:		
Vested inactive members	160	15
Non-vested inactive members	177	35
Inactive members active elsewhere in VRS	254	18
Total inactive members	591	68
Active members	475	70
Total covered employees	<u>1,706</u>	<u>208</u>

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions and school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

The City's contractually required contribution rate for the year ended June 30, 2020, was 16.26% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by the employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$3,738,493 and \$3,615,284 for the years ended June 30, 2020, and June 30, 2019, respectively.

The School Division's non-professional employees' contractually required contribution rate for the year ended June 30, 2020, was 3.69% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by the employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School Division were \$39,179 and \$40,178 for the years ended June 30, 2020, and June 30, 2019, respectively.

For the School Division's professional employees covered under the VRS Teacher Retirement Plan, each school division's contractually required contribution rate for the year ended June 30, 2020, was 15.68% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School Division were \$3,611,163 and \$3,538,775 for the years ended June 30, 2020, and June 30, 2019, respectively.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Pension Plan (Continued)

Net Pension Liability

Under the VRS Retirement Plan, the net pension liability is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. The City's and School Division's net pension liabilities under the VRS Retirement Plan were measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2018, rolled forward to the measurement date of June 30, 2019.

Under the VRS Teacher Retirement Plan, the School Division reported a liability of \$36,340,277 for its proportionate share of the net pension liability at June 30, 2020. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. The School Division's proportion of the net pension liability was based on the School Division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2019, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the School Division's proportion was 0.27613% as compared to 0.28140% at June 30, 2018.

Under the VRS Teacher Retirement Plan, the net pension liability is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GAAP, less that system's fiduciary net position. As of June 30, 2019, net pension liability amounts for the VRS Teacher Retirement Plan are as follows (amounts expressed in thousands):

	Teacher Employee Retirement Plan
Total Pension Liability	\$ 49,683,336
Plan Fiduciary Net Position	36,522,769
Employers' Net Pension Liability	<u>\$ 13,160,567</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.51%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GAAP in the System's notes to the financial statements and required supplementary information.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the VRS Retirement Plan was based on an actuarial valuation performed as of June 30, 2018, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.35%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation*

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of pension liabilities.

Mortality rates:

Largest Ten – Non-Hazardous Duty: 20% of deaths are assumed to be service-related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

All Others (Non-Ten Largest) – Non-Hazardous Duty: 15% of deaths are assumed to be service-related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest Ten – Non-Hazardous Duty:

- Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) – Updated to a more current mortality table – RP-2014 projected to 2020
- Retirement Rates – Lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal Rates – Adjusted rates to better fit experience at each year age and service through 9 years of service
- Disability Rates – Lowered rates
- Salary Scale – No change
- Line of Duty Disability – Increased rate from 14% to 20%
- Discount Rate – Decreased rate from 7.00% to 6.75%

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

All Others (Non-Ten Largest) – Non-Hazardous Duty:

- Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) – Updated to a more current mortality table – RP-2014 projected to 2020
- Retirement Rates – Lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal Rates – Adjusted rates to better fit experience at each year age and service through 9 years of service
- Disability Rates – Lowered rates
- Salary Scale – No change
- Line of Duty Disability – Increased rate from 14% to 15%
- Discount Rate – Decreased rate from 7.00% to 6.75%

Actuarial Assumptions – Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the VRS Retirement Plan was based on an actuarial valuation as of June 30, 2018, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019:

Inflation	2.50%
Salary increases, including inflation	3.50% - 4.75%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of pension liabilities.

Mortality rates:

Largest Ten – Hazardous Duty: 70% of deaths are assumed to be service-related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 years, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Pension Plan (Continued)

Actuarial Assumptions – Public Safety Employees with Hazardous Duty Benefits (Continued)

All Others (Non-Ten Largest) – Hazardous Duty: 45% of deaths are assumed to be service-related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest Ten – Hazardous Duty:

- Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) – Updated to a more current mortality table – RP-2014 projected to 2020
- Retirement Rates – Lowered rates at older ages
- Withdrawal Rates – Adjusted rates to better fit experience
- Disability Rates – Increased rates
- Salary Scale – No change
- Line of Duty Disability – Increased rate from 60% to 70%
- Discount Rate – Decreased rate from 7.00% to 6.75%

All Others (Non-Ten Largest) – Hazardous Duty:

- Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) – Updated to a more current mortality table – RP-2014 projected to 2020
- Retirement Rates – Increased age 50 rates and lowered rates at older ages
- Withdrawal Rates – Adjusted rates to better fit experience at each year age and service through 9 years of service
- Disability Rates – Adjusted rates to better fit experience
- Salary Scale – No change
- Line of Duty Disability – Decreased rate from 60% to 45%
- Discount Rate – Decreased rate from 7.00% to 6.75%

Actuarial Assumptions – VRS Teacher Retirement Plan

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation performed as of June 30, 2018, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.95%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation*

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Pension Plan (Continued)

Actuarial Assumptions – VRS Teacher Retirement Plan (Continued)

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1.0% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

- Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) – Updated to a more current mortality table – RP-2014 projected to 2020
- Retirement Rates – Lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal Rates – Adjusted rates to better fit experience at each year age and service through 9 years of service
- Disability Rates – Adjusted rates to better match experience
- Salary Scale – No change
- Discount Rate – Decreased rate from 7.00% to 6.75%

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Pension Plan (Continued)

Long-Term Expected Rate of Return (Continued)

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS - Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP - Private Investment Partnership	3.00%	6.29%	0.19%
Total	<u>100.00%</u>		<u>5.13%</u>
		Inflation	<u>2.50%</u>
		Expected arithmetic nominal return*	<u>7.63%</u>

* The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75%, which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate.

Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions, political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2019, the alternate rate was the employer contribution rate used in fiscal year 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017, actuarial valuation, whichever was greater. Through the fiscal year ending June 30, 2019, the rate contributed by the School Division for the VRS Teacher Retirement Plan was subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate.

From July 1, 2019, on, participating employers and school divisions are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

14. Pension Plan (Continued)

Changes in Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
City of Salem			
Balances at June 30, 2018	\$ 191,180,620	\$ 156,682,276	\$ 34,498,344
Changes for the year:			
Service cost	2,379,695	-	2,379,695
Interest	13,021,673	-	13,021,673
Changes of assumptions	5,416,334	-	5,416,334
Difference between expected and actual experience	901,477	-	901,477
Contributions - employer	-	3,615,284	(3,615,284)
Contributions - employee	-	1,102,819	(1,102,819)
Net investment income	-	10,202,403	(10,202,403)
Benefit payments, including refunds of employee contributions	(11,777,457)	(11,777,457)	-
Administrative expenses	-	(106,073)	106,073
Other changes	-	(6,401)	6,401
Net changes	9,941,722	3,030,575	6,911,147
Balances at June 30, 2019	\$ 201,122,342	\$ 159,712,851	\$ 41,409,491

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
School Division (Non-Professional Staff)			
Balances at June 30, 2018	\$ 5,141,323	\$ 5,646,387	\$ (505,064)
Changes for the year:			
Service cost	130,680	-	130,680
Interest	348,873	-	348,873
Changes of assumptions	134,293	-	134,293
Difference between expected and actual experience	(81,471)	-	(81,471)
Contributions - employer	-	40,178	(40,178)
Contributions - employee	-	57,762	(57,762)
Net investment income	-	369,207	(369,207)
Benefit payments, including refunds of employee contributions	(314,833)	(314,833)	-
Administrative expenses	-	(3,796)	3,796
Other changes	-	(231)	231
Net changes	217,542	148,287	69,255
Balances at June 30, 2019	\$ 5,358,865	\$ 5,794,674	\$ (435,809)

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Pension Plan (Continued)

Sensitivity of the Net Position Liability (Asset) to Changes in the Discount Rate

The following presents the City's and School Division's net pension liabilities (assets) under the VRS Retirement Plan and the School Division's proportionate share of the net pension liability under the VRS Teacher Retirement Plan using the discount rate of 6.75%, as well as what the net pension liabilities (assets) would be if they were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	Net Pension Liability (Asset)		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
City of Salem			
Retirement Plan	\$ 65,968,239	\$ 41,409,491	\$ 21,761,522
School Division			
Retirement Plan (Non-Professional Staff)	149,984	(435,809)	(905,753)
Teacher Retirement Plan	54,707,904	36,340,277	21,153,651

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2020, the City and School Division recognized pension expense of \$6,792,564 and \$(1,601), respectively, under the VRS Retirement Plan.

For the year ended June 30, 2020, the School Division recognized pension expense of \$3,269,689 under the VRS Teacher Retirement Plan. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2020, the City and School Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
City of Salem		
Differences between expected and actual experience	\$ 605,953	\$ -
Changes in assumptions	3,223,487	-
Net difference between projected and actual earnings on pension plan investments	-	1,319,164
Employer contributions subsequent to the measurement date	3,738,493	-
Total	\$ 7,567,933	\$ 1,319,164

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Pension Plan (Continued)

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources
Related to Pensions (Continued)**

	Deferred Outflows of Resources	Deferred Inflows of Resources
School Division (Non-Professional Staff)		
Differences between expected and actual experience	\$ -	\$ 51,763
Changes in assumptions	68,784	-
Net difference between projected and actual earnings on pension plan investments	-	50,211
Employer contributions subsequent to the measurement date	39,179	-
Total	<u>\$ 107,963</u>	<u>\$ 101,974</u>

School Division - Teacher Retirement Plan		
Differences between expected and actual experience	\$ -	\$ 2,327,021
Changes in assumptions	3,598,539	-
Net difference between projected and actual earnings on pension plan investments	-	797,946
Changes in proportion and differences between employer contributions and proportionate share of contributions	224,564	908,544
Employer contributions subsequent to the measurement date	3,611,163	-
Total	<u>\$ 7,434,266</u>	<u>\$ 4,033,511</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of (increase to) the net pension liability in the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	City of Salem	School Division (Non-Professional)	School Division - Teacher Retirement Plan
2021	\$ 2,679,398	\$ 16,355	\$ (310,537)
2022	(263,899)	(51,948)	(868,816)
2023	(17,946)	(1,257)	224,214
2024	112,723	3,660	509,749
2025	-	-	234,982
	<u>\$ 2,510,276</u>	<u>\$ (33,190)</u>	<u>\$ (210,408)</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

14. Pension Plan (Continued)

Payable to the Pension Plan

At June 30, 2020, \$418,057 and \$8,652 were payable to the System under the VRS Retirement Plan for the legally required contributions of the City and School Division, respectively, related to the June 2020 payroll.

At June 30, 2020, \$460,294 was payable to the System under the VRS Teacher Retirement Plan for the legally required contributions related to the June 2020 payroll.

Pension Plan Data

Information about the VRS Retirement Plan and the VRS Teacher Retirement Plan is available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2019-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

15. Summary of Pension Elements

A summary of the pension-related financial statement elements is as follows:

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units
Pension Expense				
VRS Retirement Plan	\$ 5,274,141	\$ 1,518,423	\$ 6,792,564	\$ (1,601)
VRS Teacher Retirement Plan	-	-	-	3,269,689
Total Pension Expense	<u>\$ 5,274,141</u>	<u>\$ 1,518,423</u>	<u>\$ 6,792,564</u>	<u>\$ 3,268,088</u>
Net Pension Asset				
VRS Retirement Plan	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 435,809</u>
Net Pension Liability				
VRS Retirement Plan	\$ 32,639,977	\$ 8,769,514	\$ 41,409,491	\$ -
VRS Teacher Retirement Plan	-	-	-	36,340,277
Total Pension Liability	<u>\$ 32,639,977</u>	<u>\$ 8,769,514</u>	<u>\$ 41,409,491</u>	<u>\$ 36,340,277</u>
Deferred Outflows of Resources				
Differences between expected and actual experience				
VRS Retirement Plan	\$ 470,497	\$ 135,456	\$ 605,953	\$ -
Changes in assumptions				
VRS Retirement Plan	2,502,904	720,583	3,223,487	68,784
VRS Teacher Retirement Plan	-	-	-	3,598,539
Changes in proportion and differences between employer contributions and proportionate share of contributions				
VRS Teacher Retirement Plan	-	-	-	224,564
Employer contributions subsequent to the measurement date				
VRS Retirement Plan	2,900,947	837,546	3,738,493	39,179
VRS Teacher Retirement Plan	-	-	-	3,611,163
Total Deferred Outflows of Resources	<u>\$ 5,874,348</u>	<u>\$ 1,693,585</u>	<u>\$ 7,567,933</u>	<u>\$ 7,542,229</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

15. Summary of Pension Elements (Continued)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Deferred Inflows of Resources				
Differences between expected and actual experience				
VRS Retirement Plan	\$ -	\$ -	\$ -	\$ 51,763
VRS Teacher Retirement Plan	-	-	-	2,327,021
Net difference between projected and actual earnings on pension plan investments				
VRS Retirement Plan	1,024,275	294,889	1,319,164	50,211
VRS Teacher Retirement Plan	-	-	-	797,946
Changes in proportion and differences between employer contributions and proportionate share of contributions				
VRS Teacher Retirement Plan	-	-	-	908,544
Total Deferred Inflows of Resources	<u>\$ 1,024,275</u>	<u>\$ 294,889</u>	<u>\$ 1,319,164</u>	<u>\$ 4,135,485</u>

16. Other Postemployment Benefits – Retiree Health Plan

Plan Description

The City and School Division participate in a single-employer defined benefit healthcare plan (Retiree Health Plan) administered and sponsored by the City. Full-time employees retiring directly from the City must have at least 15 years of service, unless approved for VRS disability, to participate in the Retiree Health Plan. In addition, they must be eligible for retirement under VRS.

Eligible employees and dependents covered at the time of retirement may continue participation in the Retiree Health Plan at the same premium levels as active employees. This creates a benefit to the retiree in the form of a lower insurance rate by blending retirees with active employees, also known as an implicit rate subsidy.

In addition to the implicit rate subsidy, all pre-65 retirees who retired on or before October 1, 2010 receive a premium subsidy based on their coverage election. If the retiree elects retiree-only coverage, the City contributes between 73% and 96% of the subscriber-only premium. If the retiree elects retiree/spouse, retiree/children, or family coverage, the City contributes between 40% and 57% of the retiree/spouse, retiree/children, or family premium. If the retiree elects retiree/child coverage, the City contributes between 64% and 82% of the retiree/child premium. The actual City contribution within each range depends on the health plan selected by the retiree. For individuals retiring after October 1, 2010 and who were hired before July 1, 2010, the City will contribute 3% of the retiree-only premium for each year of service up to 96% of the total retiree-only premium for the lifetime of the retiree. For employees hired on or after July 1, 2010, the City will contribute 3% of the retiree-only premium for each year of service up to 50% of the total retiree-only premium for the lifetime of the retiree.

When a retiree turns age 65 or otherwise becomes eligible for Medicare, the retiree transfers to a Medicare health supplement plan and/or drug plan. These individuals no longer receive the implicit rate subsidy; however, they still receive a premium subsidy. The City contributes 3% of the retiree-only premium for each year of service up to 96% not to exceed \$3,300. Employees hired on or after July 1, 2010 are not eligible to receive the Medicare health supplement plan and/or drug plan benefit.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

16. Other Postemployment Benefits – Retiree Health Plan (Continued)

Plan Description (Continued)

Individuals retiring after October 1, 2010 do not receive a premium subsidy for dependents and are responsible to pay the difference in the actual premium rates above the premium subsidy. School Division retirees do not receive any premium subsidy and are responsible to pay the entire premium.

The benefits and employee/employer contributions are governed by City Council or School Board policy and can be amended through Council or School Board action. The Retiree Health Plan does not issue a publicly available financial report.

The City participates in the OPEB Trust Fund, an irrevocable trust established for the purpose of accumulating assets to fund postemployment benefits other than pensions. The Virginia Pooled OPEB Trust Fund issues a separate report, which may be obtained from VML/VACo Finance Program, 919 East Main Street, Suite 1100, Richmond, Virginia 23219.

Employees Covered by Benefit Terms

As of June 30, 2019, the date of the latest actuarial valuation for the City and School Division, the following employees were covered by the benefit terms of the Retiree Health Plan:

	<u>City of Salem</u>	<u>School Division</u>
Active employees	493	526
Retired participants	283	30
Total participants	<u>776</u>	<u>556</u>

Contributions

The Retiree Health Plan is funded through member and employer contributions on a pay-as-you-go basis. City Retirees receiving benefits contribute a minimum of 4% to 27%, 18% to 36%, 43% to 60%, 43% to 60%, and 43% to 60% of the health insurance premium rate for retiree only, retiree + one minor child, retiree + spouse, retiree + children, and family coverage, respectively. The actual contribution within each range depends on the health plan selected by the retiree. School Division Retirees receiving benefits contribute 100% of the health insurance premium rate. During the current year, retired City and School Division members contributed \$502,195 and \$252,786, respectively, of the total premiums through their required contributions of between \$16.12 and \$1,707, depending on the type of coverage and years of service.

The City and School Division contributed \$1,496,341 and \$136,057, respectively, in pay-as-you-go contributions to the Retiree Health Plan for the year ended June 30, 2020. In addition, the City and School Division contributed \$234,930 and \$97,135, respectively, to the OPEB Trust Fund. It is the intent of the City and School Division to fully fund the actuarially determined contributions each year.

Net OPEB Liability

Under the Retiree Health Plan, the City's and School Division's net OPEB liabilities were measured as of June 30, 2020. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation performed as of June 30, 2019.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

16. Other Postemployment Benefits – Retiree Health Plan (Continued)

Net OPEB Liability (Continued)

The components of the net OPEB liability as of June 30, 2020, were as follows:

	City of Salem	School Division
Total OPEB liability	\$ 21,593,246	\$ 2,148,109
Plan fiduciary net position	7,232,328	1,598,570
Net OPEB liability	<u>\$ 14,360,918</u>	<u>\$ 549,539</u>
Plan fiduciary net position as a percentage of total OPEB liability	33.49%	74.42%

Actuarial Assumptions

The total OPEB liability was determined as part of the actuarial valuation at the date indicated, using the following actuarial assumptions:

Valuation date	June 30, 2019
Measurement date	June 30, 2020
Inflation	2.50%
Investment rate of return	6.5%, net of investment expense
Pre-65 healthcare cost trend rates	City: 6.20% for 2019 graded to 4.20% by 2082 School Division: 6.20% for 2019 graded to 4.20% by 2082
Post-65 healthcare cost trend rates	City: 5.30% for 2019 graded to 4.30% by 2088 School Division: N/A
Pre-retirement mortality	RP-2014 Employee Rates to age 80, Healthy Annuity Rates at ages 81 and older projected with scale BB to 2020 set back 1 year for males at 85% of rates and set back 1 year for females
Post-retirement mortality	RP-2014 Employee Rates to age 49, Healthy Annuity Rates at ages 50 and older projected with scale BB to 2020 set forward 1 year for males and set back 1 year for females with 1.5% increase compounded from ages 70 to 85

Plan Investments

In an effort to assist local governments in funding their OPEB liabilities, the Virginia Association of Counties and the Virginia Municipal League established the VACo/VML Pooled OPEB Trust (Trust). The Trust is an irrevocable trust offered to local governments and authorities and is governed by a Board of Trustees consisting of local officials of participants in the Trust. The Board of Trustees has adopted an investment policy to achieve a compound annualized rate of return over a market cycle, including current income and capital appreciation, in excess of 5 percent after inflation, in a manner consistent with prudent risk-taking. Investment decisions of the funds' assets are made by the Board of Trustees. The Board of Trustees establishes investment objectives, risk tolerance and asset allocation policies in light of the investment policy, market and economic conditions, and prevailing prudent investment practices. The Board of Trustees monitors the investments to ensure adherence to the adopted policies and guidelines, while also reviewing and evaluating the performance of the investments and its investment advisors in light of available investment opportunities, market conditions, and publicly available indices for the generally accepted evaluation and measurement of such performance. The Trust provides a diversified portfolio consisting of investments in various asset classes such as bonds, domestic equities, international equities and cash. Specific investment information for the Trust can be obtained by writing to VML/VACo Finance Program, 919 East Main Street, Suite 1100, Richmond, Virginia 23219.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

16. Other Postemployment Benefits – Retiree Health Plan (Continued)

Plan Investments (Continued)

The Trust categorizes its investments within the fair value hierarchy established by GAAP. A government is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the NAV per share (or its equivalent) of the investment. Investments in the Trust are valued using the NAV per share, which is determined by dividing the total value of the Trust by the number of outstanding shares. The NAV per share changes with the value of the underlying investments in the Trust. Generally, participants may redeem their investment at the end of a calendar quarter upon 90 days' written notice. The Trust currently invests in the following assets classes and strategies:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Geometric Long-Term Expected Rate of Return</u>
Core Fixed Income	21.00%	1.56%	1.47%
Large Cap US Equities	26.00%	4.33%	3.23%
Small Cap US Equities	10.00%	5.64%	3.82%
Global Equities	5.00%	5.27%	4.01%
Developed Foreign Equities	13.00%	5.94%	4.45%
Emerging Market Equities	5.00%	8.03%	5.28%
Hedge Funds/Absolute Return	10.00%	2.88%	2.40%
Real Estate (REITS)	7.00%	3.84%	3.13%
Commodities	3.00%	2.83%	1.27%
Assumed Inflation		2.60%	2.60%
Portfolio Real Mean Return		4.10%	3.53%
Portfolio Nominal Mean Return		6.70%	6.22%
Portfolio Standard Deviation			10.53%
Long-Term Expected Rate of Return			6.50%

At June 30, 2020, the Plan held no investments in any one organization that represented 5% or more of fiduciary net position.

Rate of Return

As of June 30, 2020, the annual money-weighted rate of return on the plan investments, net of OPEB plan investment expense, was 3.05% for the City and 3.05% for the School Division. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

16. Other Postemployment Benefits – Retiree Health Plan (Continued)

Discount Rate

The discount rate used to measure the total OPEB liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at current contribution rates. Based on the current and historical commitment of the City to fully fund actuarially determined contribution amounts, the Retiree Health Plan's fiduciary net position combined with future contributions is sufficient to cover all projected future benefit payments. The long-term expected rate of return on plan investments is 6.50% and, when applied to the periods of projected benefit payments, it is not anticipated that the Retiree Health Plan's assets will be exhausted; therefore, the expected municipal bond rate was not applied in determining the discount rate.

Changes in Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
City of Salem			
Balances at June 30, 2019	\$ 21,492,353	\$ 6,781,665	\$ 14,710,688
Changes for the year:			
Service cost	298,111	-	298,111
Interest	1,377,095	-	1,377,095
Effect of assumption changes	(77,972)	-	(77,972)
Contributions - employer	-	1,731,271	(1,731,271)
Net investment income	-	223,747	(223,747)
Benefit payments	(1,496,341)	(1,496,341)	-
Administrative expenses	-	(8,014)	8,014
Net changes	100,893	450,663	(349,770)
Balances at June 30, 2020	\$ 21,593,246	\$ 7,232,328	\$ 14,360,918
School Division			
Balances at June 30, 2019	\$ 2,089,759	\$ 1,458,940	\$ 630,819
Changes for the year:			
Service cost	74,370	-	74,370
Interest	136,316	-	136,316
Effect of assumption changes	(16,279)	-	(16,279)
Contributions - employer	-	233,192	(233,192)
Net investment income	-	44,595	(44,595)
Benefit payments	(136,057)	(136,057)	-
Administrative expenses	-	(2,100)	2,100
Net changes	58,350	139,630	(81,280)
Balances at June 30, 2020	\$ 2,148,109	\$ 1,598,570	\$ 549,539

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

16. Other Postemployment Benefits – Retiree Health Plan (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability calculated using the discount rate of 6.50%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate:

	Net OPEB Liability		
	1% Decrease (5.50%)	Current Discount (6.50%)	1% Increase (7.50%)
City of Salem	\$ 16,472,341	\$ 14,360,918	\$ 12,522,736
School Division	725,624	549,539	387,426

Sensitivity of the Net OPEB Liability to Changes in Healthcare Cost Trend Rates

The following presents the net OPEB liability calculated using the current healthcare cost trend rate as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current rate:

	Net OPEB Liability		
	1% Decrease	Current Trend Rate	1% Increase
City of Salem	\$ 13,136,643	\$ 14,360,918	\$ 15,766,518
School Division	318,174	549,539	819,802

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

For the year ended June 30, 2020, the City and School Division recognized OPEB expense of \$633,285 and \$97,346, respectively. At June 30, 2020, the City and School Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
City of Salem		
Differences between expected and actual experience	\$ -	\$ 1,549,854
Changes in assumptions	-	1,774,696
Net difference between projected and actual earnings on plan investments	236,238	-
Total	\$ 236,238	\$ 3,324,550

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

16. Other Postemployment Benefits – Retiree Health Plan (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
School Division		
Differences between expected and actual experience	\$ 13,506	\$ -
Changes in assumptions	-	209,328
Net difference between projected and actual earnings on plan investments	53,350	-
Total	<u>\$ 66,856</u>	<u>\$ 209,328</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30,	City of Salem	School Division
2021	\$ (598,277)	\$ (17,569)
2022	(598,278)	(17,571)
2023	(571,388)	(12,547)
2024	(603,311)	(19,471)
2025	(651,873)	(30,127)
Thereafter	(65,185)	(45,187)
	<u>\$ (3,088,312)</u>	<u>\$ (142,472)</u>

17. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit

Plan Description

All full-time, salaried permanent employees of the City and School Division are automatically covered by the VRS Group Life Insurance Program upon employment. This multiple-employer, cost-sharing plan is administered by the Virginia Retirement System (VRS or System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

All full-time, salaried permanent (non-professional) employees of the School Division are automatically covered by the VRS multiple-employer, agent defined Political Subdivision Health Insurance Credit Program upon employment. All full-time, salaried permanent (professional) employees of the School Division are automatically covered by the VRS multiple-employer, cost-sharing Teacher Employee Health Insurance Credit Program. The plans are administered by VRS, along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

17. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

Plan Description (Continued)

The specific information for each plan, including eligibility, coverage and benefits is set out below:

GROUP LIFE INSURANCE PROGRAM

Eligible Employees – The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:

- City of Richmond
- City of Portsmouth
- City of Roanoke
- City of Norfolk
- Roanoke City School Board

Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated member contributions and accrued interest.

Benefit Amounts – The benefits payable under the Group Life Insurance Program have several components.

- Natural Death Benefit – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.
- Accidental Death Benefit – The accidental death benefit is double the natural death benefit.
- Other Benefit Provisions – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
 - Accidental dismemberment benefit
 - Safety belt benefit
 - Repatriation benefit
 - Felonious assault benefit
 - Accelerated death benefit option

Reduction in Benefit Amounts – The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.

Minimum Benefit Amounts and Cost-of-Living Adjustment (COLA) – For covered members with at least 30 years of service credit, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$8,463 as of June 30, 2020.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

17. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM

Eligible Employees – The Political Subdivision Health Insurance Credit Program was established July 1, 1993, for retired political subdivision employees of employers who elect the benefit and who retire with at least 15 years of service credit. Eligible employees are enrolled automatically upon employment. They include:

- Full-time permanent salaried employees of the participating political subdivision who are covered under the VRS pension plan.

Benefit Amounts – The Political Subdivision Health Insurance Credit Program provides the following benefits for eligible employees:

- At Retirement – For employees who retire, the monthly benefit is \$1.50 per year of service per month with a maximum benefit of \$45.00 per month.
- Disability Retirement – For employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is \$45.00 per month.

Health Insurance Credit Program Notes:

- The monthly health insurance credit benefit cannot exceed the individual premium amount.
- No health insurance credit for premiums paid and qualified under LODA; however, the employee may receive the credit for premiums paid for other qualified health plans.
- Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree.

TEACHER EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM

Eligible Employees – The Teacher Employee Health Insurance Credit Program was established July 1, 1993, for retired teacher employees covered under VRS who retire with at least 15 years of service credit. Eligible employees are enrolled automatically upon employment. They include:

- Full-time permanent (professional) salaried employees of public school divisions covered under VRS.

Benefit Amounts – The Teacher Employee Health Insurance Credit Program provides the following benefits for eligible employees:

- At Retirement – For teachers and other professional school employees who retire with at least 15 years of service credit, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount.
- Disability Retirement – For teachers and other professional school employees who retire on disability or go on long-term disability under the VLDP, the monthly benefit is either:
 - \$4.00 per month, multiplied by twice the amount of service credit, or
 - \$4.00 per month, multiplied by the amount of service earned had the employee been active until age 60, whichever is lower.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

17. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

TEACHER EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (Continued)

Health Insurance Credit Program Notes:

- The monthly health insurance credit benefit cannot exceed the individual premium amount.
- Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree.

Employees Covered by Benefit Terms

As of the June 30, 2018, actuarial valuation, the following employees were covered by the benefit terms of the Political Subdivision Health Insurance Credit OPEB plan:

Inactive members or their beneficiaries currently receiving benefits	27
Active members	70
Total covered employees	<u>97</u>

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2020, was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Employer contributions from the City were \$122,719 and \$118,656 for the years ended June 30, 2020, and June 30, 2019, respectively. Employer contributions from the School Division for non-professional employees were \$6,639 and \$6,464 for the years ended June 30, 2020, and June 30, 2019, respectively. Employer contributions from the School Division for professional employees were \$123,275 and \$119,531 for years ended June 30, 2020, and June 30, 2019, respectively.

The contribution requirement for active employees in the Political Subdivision Health Insurance Credit Program is governed by §51.1-1402(E) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to political subdivisions by the Virginia General Assembly. The School Division's contractually required employer contribution rate for the year ended June 30, 2020, was 0.59% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the School Division were \$7,533 and \$7,318 for years ended June 30, 2020, and June 30, 2019, respectively.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

17. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

Contributions (Continued)

The contribution requirement for active employees in the Teacher Employee Health Insurance Credit Program is governed by §51.1-1401(E) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Each school division's contractually required employer contribution rate for the year ended June 30, 2020, was 1.20% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the School Division were \$284,449 and \$275,589 for years ended June 30, 2020, and June 30, 2019, respectively.

Net OPEB Liability

Under the Political Subdivision Health Insurance Credit Program, the School Division's net OPEB liability was measured as of June 30, 2019. The total OPEB liability was determined by an actuarial valuation performed as of June 30, 2018, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019.

Under the Group Life Insurance Program, the City, School Division non-professional employees, and School Division professional employees reported liabilities of \$1,883,072, \$103,169, and \$1,908,133, respectively, for their proportionate shares of the Group Life Insurance Program net OPEB liability. Under the Teacher Employee Health Insurance Credit Program, the School Division reported a liability of \$3,584,308 for its proportionate share of the Teacher Employee Health Insurance Credit Program net OPEB liability. The net OPEB liability for each plan was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation performed as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. The covered employer's proportion of the net OPEB liability was based on the covered employer's actuarially determined employer contributions to the plan for the year ended June 30, 2019, relative to the total of the actuarially determined employer contributions for all participating employers.

At June 30, 2019, the proportions of the Group Life Insurance Program for the City, School Division non-professional employees, and School Division professional employees were 0.12131%, 0.00634%, and 0.11726%, respectively, as compared to 0.11921%, 0.00676%, and 0.11861%, respectively, at June 30, 2018. At June 30, 2019, the proportion of the Teacher Employee Health Insurance Credit Program for the School Division was 0.27380%, as compared to 0.27878% at June 30, 2018.

The net OPEB liabilities for the Group Life Insurance Program and the Teacher Employee Health Insurance Credit Program represent each program's total OPEB liability determined in accordance with GAAP, less the associated fiduciary net position. As of June 30, 2019, net OPEB liability amounts are as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program	Teacher Employee HIC OPEB Program
Total OPEB liability	\$ 3,390,238	\$ 1,438,114
Plan fiduciary net position	1,762,972	129,016
Net OPEB liability	<u>\$ 1,627,266</u>	<u>\$ 1,309,098</u>
Plan fiduciary net position as a percentage of total OPEB liability	52.00%	8.97%

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

17. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

Net OPEB Liability (Continued)

The total OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net OPEB liability is disclosed in accordance with the requirements of GAAP in the System's notes to the financial statements and required supplementary information.

Actuarial Assumptions

The total OPEB liability for each plan was based on an actuarial valuation as of June 30, 2018, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019.

Inflation	2.50%
Salary increases, including inflation	
Teachers	3.50% - 5.95%
Locality – General employees	3.50% - 5.35%
Locality – Hazardous Duty employees	3.50% - 4.75%
Investment rate of return	6.75%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of the OPEB liabilities.

Mortality rates - Teachers:

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1.0% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; 115% of rates for males and females.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

17. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

Actuarial Assumptions (Continued)

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

- Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) – Updated to a more current mortality table – RP-2014 projected to 2020
- Retirement Rates – Lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal Rates – Adjusted rates to better fit experience at each year age and service through 9 years of service
- Disability Rates – Adjusted rates to better match experience
- Salary Scale – No change
- Discount Rate – Decrease rate from 7.00% to 6.75%

Mortality rates – General Employees:

Largest Ten Locality Employers:

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to age 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

Non-Largest Ten Locality Employers:

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

17. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

Actuarial Assumptions (Continued)

Largest Ten Locality Employers:

- Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) – Updated to a more current mortality table – RP-2014 projected to 2020
- Retirement Rates – Lowered retirement rates at older ages and extended final retirement age from 70 to 75
- Withdrawal Rates – Adjusted termination rates to better fit experience at each age and service year
- Disability Rates – Lowered disability rates
- Salary Scale – No change
- Line of Duty Disability – Increased rate from 14% to 20%
- Discount Rate – Decreased rate from 7.00% to 6.75%

Non-Largest Ten Locality Employers:

- Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) – Updated to a more current mortality table – RP-2014 projected to 2020
- Retirement Rates – Lowered retirement rates at older ages and extended final retirement age from 70 to 75
- Withdrawal Rates – Adjusted termination rates to better fit experience at each age and service year
- Disability Rates – Lowered disability rates
- Salary Scale – No change
- Line of Duty Disability – Increased rate from 14% to 15%
- Discount Rate – Decreased rate from 7.00% to 6.75%

Mortality rates – Hazardous Duty Employees:

Largest Ten Locality Employers:

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to age 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

Non-Largest Ten Locality Employers:

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to age 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

**CITY OF SALEM, VIRGINIA
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17. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

Actuarial Assumptions (Continued):

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest Ten Locality Employers:

- Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) – Updated to a more current mortality table – RP-2014 projected to 2020
- Retirement Rates – Lowered retirement rates at older ages
- Withdrawal Rates – Adjusted termination rates to better fit experience at each age and service year
- Disability Rates – Increased disability rates
- Salary Scale – No change
- Line of Duty Disability – Increased rate from 60% to 70%
- Discount Rate – Decreased rate from 7.00% to 6.75%

Non-Largest Ten Locality Employers:

- Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) – Updated to a more current mortality table – RP-2014 projected to 2020
- Retirement Rates – Increased age 50 rates and lowered rates at older ages
- Withdrawal Rates – Adjusted termination rates to better fit experience at each age and service year
- Disability Rates – Adjusted rates to better match experience
- Salary Scale – No change
- Line of Duty Disability – Decreased rate from 60% to 45%
- Discount Rate – Decreased rate from 7.00% to 6.75%

Long-Term Expected Rate of Return

The long-term expected rate of return on the System's investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System's investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return of each major asset class are summarized in the following table:

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

17. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

Long-Term Expected Rate of Return (Continued)

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS - Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP - Private Investment Partnership	3.00%	6.29%	0.19%
Total	<u>100.00%</u>		<u>5.13%</u>
		Inflation	<u>2.50%</u>
		* Expected arithmetic nominal return	<u>7.63%</u>

* The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75%, which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate

The discount rate used to measure the total OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the entity for OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2019, on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB plans' fiduciary net positions were projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total OPEB liabilities.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

17. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

Changes in Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
School Division - Political Subdivision Health Insurance Credit			
Balances at June 30, 2018	\$ 145,594	\$ 69,330	\$ 76,264
Changes for the year:			
Service cost	3,643	-	3,643
Interest	9,771	-	9,771
Changes in assumptions	2,818	-	2,818
Differences between expected and actual experience	(9,720)	-	(9,720)
Contributions - employer	-	7,318	(7,318)
Net investment income	-	4,257	(4,257)
Benefit payments	(12,020)	(12,020)	-
Administrative expenses	-	(90)	90
Other changes	-	(5)	5
Net changes	<u>(5,508)</u>	<u>(540)</u>	<u>(4,968)</u>
Balances at June 30, 2019	<u>\$ 140,086</u>	<u>\$ 68,790</u>	<u>\$ 71,296</u>

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the City's and School Division's proportionate shares of the Group Life Insurance Program net GLI OPEB liability, the School Division's Political Subdivision Health Insurance Credit Program net HIC OPEB liability, and the School Division's proportionate share of the Teacher Employee Health Insurance Credit Program net HIC OPEB liability using the discount rate of 6.75%, as well as what the net OPEB liabilities would be if they were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	Net OPEB Liability		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
City of Salem			
Group Life Insurance	\$ 2,473,835	\$ 1,883,072	\$ 1,403,979
School Division			
Group Life Insurance (Non-Professional)	135,536	103,169	76,921
Group Life Insurance (Professional)	2,506,758	1,908,133	1,422,664
Political Subdivision Health Insurance Credit	83,655	71,296	60,601
Teacher Employee Health Insurance Credit	4,011,450	3,584,308	3,221,451

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

17. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

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

For the year ended June 30, 2020, the City, School Division non-professional employees, and School Division professional employees recognized Group Life Insurance OPEB expense of \$30,281, \$1,787, and \$39,561, respectively. For the year ended June 30, 2020, the School Division recognized Political Subdivision Health Insurance Credit Program OPEB expense of \$1,824 and Teacher Employee Health Insurance Credit Program OPEB expense of \$283,762. Since there was a change in proportionate share between measurement dates for the Group Life Insurance Program and the Teacher Employee Health Insurance Credit Program, a portion of the OPEB expense for these plans was related to deferred amounts from changes in proportion.

At June 30, 2020, the City and School Division reported deferred outflows of resources and deferred inflows of resources related to Group Life Insurance (GLI) Program and Health Insurance Credit (HIC) Program OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
City of Salem - GLI		
Differences between expected and actual experience	\$ 126,034	\$ 24,581
Net difference between projected and actual earnings on program investments	-	38,928
Changes in assumptions	119,643	57,144
Changes in proportion	26,895	75,436
Employer contributions subsequent to the measurement date	122,719	-
Total	<u>\$ 395,291</u>	<u>\$ 196,089</u>
School Division - Non-Professional GLI		
Differences between expected and actual experience	\$ 6,861	\$ 1,338
Net difference between projected and actual earnings on program investments	-	2,119
Changes in assumptions	6,513	3,111
Changes in proportion	1,551	5,604
Employer contributions subsequent to the measurement date	6,639	-
Total	<u>\$ 21,564</u>	<u>\$ 12,172</u>
School Division - Professional GLI		
Differences between expected and actual experience	\$ 126,902	\$ 24,748
Net difference between projected and actual earnings on program investments	-	39,195
Changes in assumptions	120,468	57,539
Changes in proportion	2,442	24,213
Employer contributions subsequent to the measurement date	123,275	-
Total	<u>\$ 373,087</u>	<u>\$ 145,695</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

17. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
School Division - Political Subdivision HIC		
Differences between expected and actual experience	\$ -	\$ 17,701
Changes in assumptions	2,251	-
Net difference between projected and actual earnings on program investments	-	770
Employer contributions subsequent to the measurement date	7,533	-
Total	<u>\$ 9,784</u>	<u>\$ 18,471</u>
School Division - Teacher Employee HIC		
Differences between expected and actual experience	\$ -	\$ 20,301
Net difference between projected and actual earnings on program investments	226	-
Changes in assumptions	83,423	24,906
Changes in proportion	22,037	86,017
Employer contributions subsequent to the measurement date	284,449	-
Total	<u>\$ 390,135</u>	<u>\$ 131,224</u>

Deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in future reporting periods as follows:

	<u>City of Salem</u>
<u>Year ended June 30,</u>	<u>GLI</u>
2021	\$ (6,808)
2022	(6,807)
2023	9,680
2024	28,403
2025	39,497
Thereafter	12,518
	<u>\$ 76,483</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

17. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

Year ended June 30,	School Division			
	GLI Non-Professional	GLI Professional	Political Subdivision HIC	Teacher Employee HIC
2021	\$ (232)	\$ 2,217	\$ (7,000)	\$ (7,835)
2022	(232)	2,218	(7,069)	(7,838)
2023	655	18,819	(1,921)	(6,267)
2024	1,239	34,959	(230)	(6,793)
2025	1,072	36,092	-	(2,688)
Thereafter	251	9,812	-	5,883
	<u>\$ 2,753</u>	<u>\$ 104,117</u>	<u>\$ (16,220)</u>	<u>\$ (25,538)</u>

Payables to the OPEB Plans

At June 30, 2020, \$26,526, \$1,498, and \$29,332 were payable to the System under the Group Life Insurance Program from the City, School Division non-professional employees, and School Division professional employees, respectively, for contributions related to the June 2020 payroll.

At June 30, 2020, \$675 and \$27,584 were payable to the System under the Political Subdivision Health Insurance Credit Program and the Teacher Employee Health Insurance Program, respectively, from the School Division for contributions related to the June 2020 payroll.

Program Plan Data

Information about the Group Life Insurance Program, the Political Subdivision Health Insurance Credit Program, and the Teacher Employee Health Insurance Credit Program is available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2019-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

18. Summary of Other Postemployment Benefit Elements

A summary of the other postemployment benefit financial statement elements is as follows:

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units
OPEB Expense				
Retiree Health Plan	\$ 498,087	\$ 135,198	\$ 633,285	\$ 97,346
VRS Retirement Plan - GLI	23,511	6,770	30,281	1,787
VRS Retirement Plan - HIC	-	-	-	1,824
VRS Teacher Retirement Plan - GLI	-	-	-	39,561
VRS Teacher Retirement Plan - HIC	-	-	-	283,762
Total OPEB Expense	<u>\$ 521,598</u>	<u>\$ 141,968</u>	<u>\$ 663,566</u>	<u>\$ 424,280</u>
Net OPEB Liability				
Retiree Health Plan	\$ 11,042,709	\$ 3,318,209	\$ 14,360,918	\$ 549,539
VRS Retirement Plan - GLI	1,470,334	412,738	1,883,072	103,169
VRS Retirement Plan - HIC	-	-	-	71,296
VRS Teacher Retirement Plan - GLI	-	-	-	1,908,133
VRS Teacher Retirement Plan - HIC	-	-	-	3,584,308
Total OPEB Liability	<u>\$ 12,513,043</u>	<u>\$ 3,730,947</u>	<u>\$ 16,243,990</u>	<u>\$ 6,216,445</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

18. Summary of Other Postemployment Benefit Elements (Continued)

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units
Deferred Outflows of Resources				
Differences between expected and actual experience				
Retiree Health Plan	\$ -	\$ -	\$ -	\$ 13,506
VRS Retirement Plan - GLI	97,858	28,176	126,034	6,861
VRS Teacher Retirement Plan - GLI	-	-	-	126,902
Net difference between projected and actual earnings on program investments				
Retiree Health Plan	185,805	50,433	236,238	53,350
VRS Teacher Retirement Plan - HIC	-	-	-	226
Changes in assumptions				
VRS Retirement Plan - GLI	92,899	26,744	119,643	6,513
VRS Retirement Plan - HIC	-	-	-	2,251
VRS Teacher Retirement Plan - GLI	-	-	-	120,468
VRS Teacher Retirement Plan - HIC	-	-	-	83,423
Changes in proportion				
VRS Retirement Plan - GLI	20,883	6,012	26,895	1,551
VRS Teacher Retirement Plan - GLI	-	-	-	2,442
VRS Teacher Retirement Plan - HIC	-	-	-	22,037
Employer contributions subsequent to the measurement date				
VRS Retirement Plan - GLI	95,003	27,716	122,719	6,639
VRS Retirement Plan - HIC	-	-	-	7,533
VRS Teacher Retirement Plan - GLI	-	-	-	123,275
VRS Teacher Retirement Plan - HIC	-	-	-	284,449
Total Deferred Outflows of Resources	\$ 492,448	\$ 139,081	\$ 631,529	\$ 861,426
Deferred Inflows of Resources				
Differences between expected and actual experience				
Retiree Health Plan	\$ 1,218,982	\$ 330,872	\$ 1,549,854	\$ -
VRS Retirement Plan - GLI	19,086	5,495	24,581	1,338
VRS Retirement Plan - HIC	-	-	-	17,701
VRS Teacher Retirement Plan - GLI	-	-	-	24,748
VRS Teacher Retirement Plan - HIC	-	-	-	20,301
Net difference between projected and actual earnings on program investments				
VRS Retirement Plan - GLI	30,224	8,704	38,928	2,119
VRS Retirement Plan - HIC	-	-	-	770
VRS Teacher Retirement Plan - GLI	-	-	-	39,195
Changes in assumptions				
Retiree Health Plan	1,395,822	378,874	1,774,696	209,328
VRS Retirement Plan - GLI	44,371	12,773	57,144	3,111
VRS Teacher Retirement Plan - GLI	-	-	-	57,539
VRS Teacher Retirement Plan - HIC	-	-	-	24,906
Changes in proportion				
VRS Retirement Plan - GLI	58,573	16,863	75,436	5,604
VRS Teacher Retirement Plan - GLI	-	-	-	24,213
VRS Teacher Retirement Plan - HIC	-	-	-	86,017
Total Deferred Inflows of Resources	\$ 2,767,058	\$ 753,581	\$ 3,520,639	\$ 516,890

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

19. Commitments and Contingencies

Construction Commitments

Active construction projects at the end of the year are as follows:

	Spent To Date	Remaining Contract
Downtown Sanitary Sewer Rehabilitation	\$ 5,217,282	\$ 616,676
College Avenue Streetscapes	803,466	460,199
Metal Storage Building	224,913	39,588
Electric Substation Upgrades	343,555	11,255,136
Salem High School Renovation	4,182,541	22,168,057
	<u>\$ 10,771,757</u>	<u>\$ 34,539,656</u>

Electrical Service

On July 1, 2006, the City entered into an agreement with American Electric Power Service Corporation to purchase electricity for consumption and resale to City residents. The rates are recalculated annually based on the supplier's cost. As part of the agreement, an annual cost true-up is required based upon American Electric Power's FERC filing. The City's policy is to recognize the true-up as an expense when it is billed. The true-up for December 31, 2019 resulted in an expense of \$592,060 in the current fiscal year. The agreement expires May 31, 2026 with two possible five-year period renewals and may be terminated under certain circumstances.

On July 1, 2006, the City entered into an agreement with the United States Department of Energy to purchase electricity during American Electric Power's peak usage periods. The agreement requires a 37-month notification prior to termination.

Water and Wastewater Treatment Contract

On July 1, 1981, the City entered into an agreement with the County of Roanoke, Virginia to sell surplus water at a bulk rate determined by a mutually agreed upon formula. The agreement expires June 30, 2021. The agreement automatically renews for 10-year terms upon expiration and requires a 24-month notification prior to termination.

On November 1, 2003, the City entered into an agreement with the City of Roanoke, Virginia for the transportation and treatment of wastewater and to fund a portion of certain sewage treatment plant improvements. Rates for the former services are adjusted annually, while the costs recognized by the City for the latter have been capitalized as the sewage treatment contract in capital assets. The agreement expires October 31, 2033.

On July 1, 2004, the Western Virginia Water Authority (WVWA) was created by the County of Roanoke and the City of Roanoke. The WVWA is a full service authority that provides water and wastewater treatment to the Roanoke Valley region. This authority assumed both of the previously mentioned water and wastewater treatment contractual obligations.

Special Services

On July 1, 1973, the City entered into an agreement with the County of Roanoke, Virginia for social services, agricultural and home demonstration services and jail services. The agreement can be renewed or terminated at the end of any two-year period with proper notice.

Participation Agreement

On October 10, 2016, the City entered into a participation agreement with the Western Virginia Regional Industrial Facility Authority (WVRIFA), the County of Roanoke, and the City of Roanoke to acquire a property at Wood Haven Road to be used for an industrial park or other economic development purpose. The City's proportionate share of this agreement is 11.6% and costs will not exceed \$1,200,000 payable through 2037.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

19. Commitments and Contingencies (Continued)

Consent Order

On December 8, 2005, the Virginia Department of Environmental Quality issued a State Water Control Board Enforcement Action Special Order by Consent to the City for the purpose of resolving certain alleged violations of the State Water Control Law and the Regulations. The action requires the City to identify sources of inflow and infiltration into the sanitary sewer system that lead to overflows and Wastewater Treatment Plant bypasses and perform actions to improve the system on the approved schedule as defined in the Corrective Action Plan completed on September 28, 2007. The project costs through 2029 are anticipated to be approximately \$15.7 million.

Special Purpose Grants

Special purpose grants are subject to audit to determine compliance with their requirements. City officials believe that if any refunds are required, they will be immaterial.

Litigation

Various claims and lawsuits are pending against the City. In the opinion of management, after consulting with legal counsel, the potential loss on all claims and lawsuits will not materially affect the City's financial position.

20. Tax Abatements

Under the authority provided by the *Code of Virginia* sections 15.2-4905 and 58.1-3221, the City, along with the Economic Development Authority, entered into several performance agreements with companies to provide economic development incentive payments for rehabilitation, renovation, and replacement of commercial or industrial properties. Each company must meet certain capital expenditure and development requirements as specified in the performance agreement in order to qualify for the incentive payments. Incentive payments may include one of the following or any combination of the following:

- Annual rebate payments equal to the difference in additional real estate taxes resulting from rehabilitation, renovation, or replacement of the associated property.
- Annual rebate payments based on personal property taxes, retail sales tax, meals tax, lodging tax, and business license tax received by the City from the company.
- One-time grant payments to assist in costs of rehabilitation, renovation, or replacement of the associated property.

Rebate payments commence upon completion of the rehabilitation, renovation, or replacement, or on January 1 of the year following completion of the rehabilitation, renovation, or replacement and shall run for a period as specified in each performance agreement, typically between five and ten years. In fiscal year 2020, tax abatements for economic development incentives totaled \$36,745.

21. Jointly Governed Organizations

The following entities are considered to be jointly governed. The City has no ongoing financial responsibility or interest in jointly governed organizations.

Roanoke Valley Resource Authority

The County of Roanoke, the Cities of Roanoke and Salem, and the Town of Vinton jointly participate in the Roanoke Valley Resource Authority (RVRA), which operates the regional sanitary landfill, waste collection and transfer station, and related treatment facilities. RVRA is governed by a seven-member board, of which one member is appointed by the City. The City has control over the budget and financing for RVRA only to the extent of representation by the board member appointed. The participating localities are each responsible for their pro rata share, based on population, of any year-end operating deficit. For the fiscal year ended June 30, 2020, the City remitted \$1,010,100 to RVRA for services. Financial statements may be obtained from RVRA at 1020 Hollins Road NE, Roanoke, Virginia 24012.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

21. Jointly Governed Organizations (Continued)

Blue Ridge Behavioral Healthcare

The Counties of Botetourt, Craig and Roanoke and the Cities of Roanoke and Salem formed Blue Ridge Behavioral Healthcare (BRBH) to provide a system of comprehensive community mental health, intellectual disability and substance abuse services. BRBH is governed by a 16-member board; three members are appointed by the City. Each locality's financial obligation is based on the type and amount of services performed for individuals in the locality. For the year ended June 30, 2020, the City remitted \$160,799 to BRBH for services. Financial statements may be obtained from BRBH at 301 Elm Avenue SW, Roanoke, Virginia, 24016.

Roanoke Valley Detention Commission

The Counties of Botetourt, Franklin and Roanoke and the Cities of Roanoke and Salem formed the Roanoke Valley Detention Commission (Commission) to renovate, expand and operate a detention facility for juveniles. The Commission is governed by a six-member board, of which one member is appointed by the City. Each locality's financial obligation is based on the number of juveniles housed at the facility. The Commission has the authority to issue debt and such debt is the responsibility of the Commission. For the year ended June 30, 2020, the City remitted \$101,959 to the Commission for per diem charges. Financial statements may be obtained from the Commission at 498 Coyner Springs Road, Roanoke, Virginia 24012.

Roanoke Valley Regional Board

The Counties of Botetourt, Craig and Franklin, the City of Roanoke and the City of Salem School Division jointly participate in a regional education program for severely disabled students operated by the Roanoke Valley Regional Board (Regional Board). The Regional Board is governed by a five-member board, one from each participating locality. The School Division has control over budget and financing only to the extent of representation by the one board member appointed. Each locality's financial obligation is based on their proportionate share of students attending the regional program. For the year ended June 30, 2020, the School Division remitted \$658,182 to the Regional Board for services. Financial statements may be obtained from the Regional Board at 57 South Center Drive, Room 225, Daleville, VA 24083.

Roanoke Valley Regional Fire/EMS Training Center

The County of Roanoke, the Cities of Roanoke and Salem and the Town of Vinton jointly operate a fire/EMS training center (Center). The Center is governed by a committee designated by the participating jurisdictions. New fire/EMS recruits are required to take a 17-week training course at the facility before being assigned to a station. After completion of the training, the new recruits are state certified. Each jurisdiction is responsible for a percentage of the annual operating costs of the facility. The City of Salem is responsible for 8% of the annual operating costs. For the year ended June 30, 2020, the City remitted \$7,090 for operating costs of the facility. Financial statements may be obtained from the Center at 1220 Kessler Mill Road, Salem, Virginia 24153.

Western Virginia Regional Jail Authority

The Counties of Franklin, Montgomery and Roanoke and the City of Salem formed the Western Virginia Regional Jail Authority (Jail Authority) to develop and operate a regional jail. The Jail Authority is governed by a 12-member board; three from each participating locality. Each locality's financial obligation is based on the number of prisoner days used and a share of the capital costs to build the facility. For the year ended June 30, 2020, the City remitted \$1,046,722 for per diem charges and \$437,483 for debt service to the Jail Authority. Financial statements may be obtained from the Jail Authority at 5885 West River Road, Salem, Virginia 24153.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

21. Jointly Governed Organizations (Continued)

Roanoke Valley Broadband Authority

The Counties of Botetourt and Roanoke and the Cities of Salem and Roanoke formed the Roanoke Valley Broadband Authority (RVBA) in order to acquire, finance, construct, operate, manage, and maintain a broadband system and related facilities pursuant to the Virginia Wireless Services Authorities Act. RVBA is governed by a five-member board, of which one member is appointed by the City. Based upon participation in the fiber expansion project, the Cities of Salem and Roanoke share equally in the operating and debt service costs of the Authority. For the year ending June 30, 2020, the City remitted \$395,498 for operating costs and \$328,313 for debt service to the RVBA. Financial statements may be obtained from RVBA at 601 South Jefferson Street SW, Suite 110, Roanoke, Virginia 24011.

Western Virginia Regional Industrial Facility Authority

The Counties of Botetourt, Roanoke and Franklin, the Cities of Roanoke and Salem and the Town of Vinton formed the Western Virginia Regional Industrial Facility Authority (WVRIFA) in order to enhance the economic base of each such locality through the developing, owning and operating of one or more facilities on a cooperative basis in the region. WVRIFA is governed by a twelve-member board, of which two members are appointed by the City. Each locality's financial obligation is based on their percentage of participation in each economic development project. For the year ended June 30, 2020, the City remitted \$4,676 for operating budget member dues and \$21,460 for debt service to WVRIFA. Financial statements may be obtained from WVRIFA at PO Box 2569, Roanoke, Virginia 24010.

Roanoke Valley Governor's School

The Counties of Bedford, Botetourt, Craig, Franklin and Roanoke and the Cities of Roanoke and Salem jointly participate in a regional education program focusing on science, technology, engineering and mathematics operated by Roanoke Valley Governor's School (RVGS). RVGS is governed by a seven member board, with one member from each participating locality. The School Division has control over budget and financing only to the extent of representation by the one board member appointed. Each locality's financial obligation is based on their proportionate share of students attending RVGS. For the year ended June 30, 2020, the School Division remitted \$47,150 for services. Financial statements may be obtained from RVGS at 2104 Grandin Road, Roanoke, Virginia 24015.

22. COVID-19 Impact

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus (the COVID-19 outbreak) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The City's operations are heavily dependent on the ability to raise taxes, assess fees, and access the capital markets. Additionally, access to grants and contracts from federal and state governments may decrease or may not be available depending on appropriations. The outbreak will have a continued material adverse impact on economic and market conditions, triggering a period of global economic slowdown. This situation has depressed the tax bases and other areas in which the City received revenue during fiscal year 2020. As such, the City's financial condition and liquidity will be negatively impacted for the fiscal years 2020 and 2021.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude the pandemic will have on the City's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the City is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

23. New Accounting Standards

The GASB has issued Statement No. 84, *Fiduciary Activities*, to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The statement establishes criteria for identifying fiduciary activities of all state and local governments. The provisions of this statement are effective for fiscal years beginning after December 15, 2018, but Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, postponed the effective date of certain provisions of Statement No. 84 by one year. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

The GASB has issued Statement No. 87, *Leases*, to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The provisions of this statement are effective for fiscal years beginning after December 15, 2019, but Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, postponed the effective date of certain provisions of Statement No. 87 by eighteen months. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

The GASB has issued Statement No. 90, *Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61*, to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The provisions of this statement are effective for fiscal years beginning after December 15, 2018, but Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, postponed the effective date of certain provisions of Statement No. 90 by one year. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

The GASB has issued Statement No. 91, *Conduit Debt Obligations*, to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. The provisions of this statement are effective for fiscal years beginning after December 15, 2020, but Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, postponed the effective date of certain provisions of Statement No. 91 by one year. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

The GASB has issued Statement No. 92, *Omnibus 2020*, to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Some provisions of this statement are effective upon issuance, and other provisions of this statement are effective for fiscal years beginning after June 15, 2020. Management has not completed the process of evaluating the full impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

The GASB has issued Statement No. 93, *Replacement of Interbank Offered Rates*, to address accounting and financial reporting implications that result from the replacement of an interbank offered rate. The provisions of this statement related to the removal of the London Interbank Offered Rate are effective for reporting periods ending after December 31, 2021. All other provisions of this statement are effective for reporting periods beginning after June 15, 2020. Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, postponed the effective date of certain provisions of Statement No. 93 by one year. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

23. New Accounting Standards (Continued)

The GASB has issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This statement also provides guidance for accounting and financial reporting for availability payment arrangements. The provisions of this statement are effective for fiscal years beginning after June 15, 2022. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

The GASB has issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. This statement defines a subscription-based information technology arrangement, establishes that a subscription-based information technology arrangement results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a subscription-based information technology arrangement, and requires note disclosures regarding a subscription-based information technology arrangement. The provisions of this statement are effective for fiscal years beginning after June 15, 2022. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

The GASB has issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. The first objective of this statement is to increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform. The second objective of this statement is to mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit plans, and employee benefit plans other than pension plans or other postemployment plans as fiduciary component units in fiduciary financial statements. The third objective of this statement is to enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through these plans. Some provisions of this statement are effective immediately, and some provisions of this statement are effective for reporting periods beginning after June 15, 2021. Management has not completed the process of evaluating the full impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

REQUIRED SUPPLEMENTARY INFORMATION



The Required Supplementary Information subsection of the City of Salem, Virginia's Comprehensive Annual Financial Report includes changes in the net pension liability (asset) and related ratios, the employer's share of net pension liability for the VRS Teacher Retirement Plan, employer pension contributions for the VRS Retirement Plan and VRS Teacher Retirement Plan, changes in net OPEB liability and related ratios, and employer other postemployment benefits contributions.

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
YEAR ENDED JUNE 30, 2020

	City of Salem Plan Year				
	2019	2018	2017	2016	2015
Total pension liability					
Service cost	\$ 2,379,695	\$ 2,306,014	\$ 2,482,886	\$ 2,507,103	\$ 2,505,415
Interest	13,021,673	12,687,766	12,477,728	12,159,380	12,004,363
Difference between expected and actual experience	901,477	351,330	(1,567,004)	906,524	(2,262,692)
Changes in assumptions	5,416,334	-	279,953	-	-
Benefit payments, including refunds of employee contributions	(11,777,457)	(11,091,760)	(10,997,027)	(10,244,175)	(9,521,624)
Net change in total pension liability	9,941,722	4,253,350	2,676,536	5,328,832	2,725,462
Total pension liability - beginning	191,180,620	186,927,270	184,250,734	178,921,902	176,196,440
Total pension liability - ending	\$ 201,122,342	\$ 191,180,620	\$ 186,927,270	\$ 184,250,734	\$ 178,921,902
Plan fiduciary net position					
Contributions - employer	\$ 3,615,284	\$ 3,449,144	\$ 3,496,819	\$ 3,915,838	\$ 3,942,152
Contributions - employee	1,102,819	1,061,292	1,106,906	1,149,948	1,094,070
Net investment income	10,202,403	11,076,102	16,881,766	2,383,779	6,436,800
Benefit payments, including refunds of employee contributions	(11,777,457)	(11,091,760)	(10,997,027)	(10,244,175)	(9,521,624)
Administrative expense	(106,073)	(99,013)	(101,645)	(91,609)	(91,265)
Other	(6,401)	(9,719)	(14,845)	(1,041)	(1,350)
Net change in plan fiduciary net position	3,030,575	4,386,046	10,371,974	(2,887,260)	1,858,783
Plan fiduciary net position - beginning	156,682,276	152,296,230	141,924,256	144,811,516	142,952,733
Plan fiduciary net position - ending	\$ 159,712,851	\$ 156,682,276	\$ 152,296,230	\$ 141,924,256	\$ 144,811,516
Net pension liability - ending	\$ 41,409,491	\$ 34,498,344	\$ 34,631,040	\$ 42,326,478	\$ 34,110,386
Plan fiduciary net position as a percentage of the total pension liability	79.41%	81.96%	81.47%	77.03%	80.94%
Covered payroll	\$ 22,234,219	\$ 21,264,760	\$ 21,558,687	\$ 21,598,665	\$ 21,743,806
Net pension liability as a percentage of covered payroll	186.24%	162.23%	160.64%	195.97%	156.87%
					81.13%
					21,655,628
					\$ 127,612,084
					\$ 142,952,733
					\$ 33,243,707

Schedule is intended to show information for 10 years. Since fiscal year 2020 (plan year 2019) is the sixth year for this presentation, only five additional years of data are available. However, additional years will be included as they become available.

The amounts presented have a measurement date (plan year) of the previous fiscal year end.

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS
YEAR ENDED JUNE 30, 2020

	School Division Plan Year				
	2019	2018	2017	2016	2015
Total pension liability					
Service cost	\$ 130,680	\$ 130,240	\$ 120,806	\$ 124,227	\$ 132,051
Interest	348,873	350,464	345,744	347,691	337,943
Changes of assumptions	134,293	-	-	-	-
Difference between expected and actual experience	(81,471)	(177,270)	(39,860)	(182,245)	(45,142)
Changes in assumptions	-	-	(23,501)	-	-
Benefit payments, including refunds of employee contributions	(314,833)	(337,479)	(334,040)	(300,945)	(270,236)
Net change in total pension liability	217,542	(34,045)	69,149	(11,272)	154,616
Total pension liability - beginning	5,141,323	5,175,368	5,106,219	5,117,491	4,962,875
Total pension liability - ending	<u>\$ 5,358,865</u>	<u>\$ 5,141,323</u>	<u>\$ 5,175,368</u>	<u>\$ 5,106,219</u>	<u>\$ 5,117,491</u>
Plan fiduciary net position					
Contributions - employer	\$ 40,178	\$ 51,406	\$ 51,554	\$ 92,100	\$ 93,028
Contributions - employee	57,762	61,121	61,318	58,188	59,073
Net investment income	369,207	399,866	608,458	86,505	228,863
Benefit payments, including refunds of employee contributions	(314,833)	(337,479)	(334,040)	(300,945)	(270,236)
Administrative expense	(3,796)	(3,562)	(3,661)	(3,256)	(3,202)
Other	(231)	(350)	(535)	(37)	(47)
Net change in plan fiduciary net position	148,287	171,002	383,094	(67,445)	107,479
Plan fiduciary net position - beginning	5,646,387	5,475,385	5,092,291	5,159,736	5,052,257
Plan fiduciary net position - ending	<u>\$ 5,794,674</u>	<u>\$ 5,646,387</u>	<u>\$ 5,475,385</u>	<u>\$ 5,092,291</u>	<u>\$ 5,159,736</u>
Net pension liability (asset) - ending	<u>\$ (435,809)</u>	<u>\$ (505,064)</u>	<u>\$ (300,017)</u>	<u>\$ 13,928</u>	<u>\$ (42,245)</u>
Plan fiduciary net position as a percentage of the total pension liability	108.13%	109.82%	105.80%	99.73%	100.83%
Covered payroll	\$ 1,088,835	\$ 1,187,206	\$ 1,190,624	\$ 1,173,248	\$ 1,185,071
Net pension liability (asset) as a percentage of covered payroll	(40.03%)	(42.54%)	(25.20%)	1.19%	(3.56%)

Schedule is intended to show information for 10 years. Since fiscal year 2020 (plan year 2019) is the sixth year for this presentation, only five additional years of data are available. However, additional years will be included as they become available.

The amounts presented have a measurement date (plan year) of the previous fiscal year end.

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
YEAR ENDED JUNE 30, 2020**

Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
	(a)	(b)	(a-b)	(c)	(b/c)
City of Salem					
2020	\$ 3,738,493	\$ 3,738,493	\$ -	\$ 22,991,962	16.26%
2019	3,615,284	3,615,284	-	22,234,219	16.26%
2018	3,449,144	3,449,144	-	21,264,760	16.22%
2017	3,496,819	3,496,819	-	21,558,687	16.22%
2016	3,915,838	3,915,838	-	21,598,665	18.13%
2015	3,942,152	3,942,152	-	21,743,806	18.13%
School Division (Non-Professional Staff)					
2020	\$ 39,179	\$ 39,179	\$ -	\$ 1,061,762	3.69%
2019* **	40,178	40,178	-	1,088,835	3.69%
2018	51,406	51,406	-	1,187,206	4.33%
2017	51,554	51,554	-	1,190,624	4.33%
2016	92,100	92,100	-	1,173,248	7.85%
2015	93,028	93,028	-	1,185,071	7.85%

Schedule is intended to show information for 10 years. Since 2020 is the sixth year for this presentation, only five additional years of data are available. However, additional years will be included as they become available.

* Revised to reflect actual 2019 amounts as shown in the VRS actuarial report rather than estimated amounts used in the prior year CAFR.

** Prior to 2019, VRS contributions were made over twelve months for all employees, regardless of contract term. In fiscal year 2019, the School Division began contributing to VRS over each employee's contract term. For employees with contract terms less than twelve months, contributions and covered payroll recognized in fiscal year 2019 include amounts accrued for July and August of 2018, in addition to the full annual amount for fiscal year 2019.

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
VRS TEACHER RETIREMENT PLAN
YEAR ENDED JUNE 30, 2020**

Plan Year Ended June 30	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Covered Payroll	Employer's Share of the Net Pension Liability as a % of Covered Payroll	Plan Fiduciary Net Position as a % of the Total Pension Liability
		(a)	(b)	(a/b)	
2019	0.27613%	\$ 36,340,277	\$ 22,568,718	161.02%	73.51%
2018	0.28140%	33,092,000	22,299,761	148.40%	74.81%
2017	0.27878%	34,284,000	21,639,120	158.44%	72.92%
2016	0.28026%	39,276,000	21,368,521	183.80%	68.28%
2015	0.28555%	35,941,000	21,230,718	169.29%	70.68%
2014	0.29170%	35,251,000	19,575,450	180.08%	70.88%

Schedule is intended to show information for 10 years. Since fiscal year 2020 (plan year 2019) is the sixth year for this presentation, only five additional years of data are available. However, additional years will be included as they become available.

The amounts presented have a measurement date (plan year) of the previous fiscal year end.

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
VRS TEACHER RETIREMENT PLAN
YEAR ENDED JUNE 30, 2020**

Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
	(a)	(b)	(a-b)	(c)	(b/c)
2020	\$ 3,611,163	\$ 3,611,163	\$ -	\$ 23,030,376	15.68%
2019* **	3,538,775	3,538,775	-	22,568,718	15.68%
2018	3,639,321	3,639,321	-	22,299,761	16.32%
2017	3,172,295	3,172,295	-	21,639,120	14.66%
2016	3,004,414	3,004,414	-	21,368,521	14.06%
2015	3,078,454	3,078,454	-	21,230,718	14.50%

Schedule is intended to show information for 10 years. Since 2020 is the sixth year for this presentation, only five additional years of data are available. However, additional years will be included as they become available.

* Revised to reflect actual 2019 amounts as shown in the VRS actuarial report rather than estimated amounts used in the prior year CAFR.

** Prior to 2019, VRS contributions were made over twelve months for all employees, regardless of contract term. In fiscal year 2019, the School Division began contributing to VRS over each employee's contract term. For employees with contract terms less than twelve months, contributions and covered payroll recognized in fiscal year 2019 include amounts accrued for July and August of 2018, in addition to the full annual amount for fiscal year 2019.

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
RETIREE HEALTH PLAN
YEAR ENDED JUNE 30, 2020

	City of Salem				School Division			
	2020	2019	2018	2017	2020	2019	2018	2017
Total OPEB liability								
Service cost	\$ 298,111	\$ 319,409	\$ 376,793	\$ 352,143	\$ 74,370	\$ 73,179	\$ 71,941	\$ 67,235
Interest	1,377,095	1,612,928	1,723,845	1,688,424	136,316	158,451	151,536	145,477
Effect of economic/demographic gains or losses	-	(2,149,293)	-	-	-	17,662	-	-
Effect of assumption changes	(77,972)	(2,370,696)	-	-	(16,279)	(255,288)	-	-
Benefit payments	(1,496,341)	(1,461,997)	(1,589,537)	(1,533,462)	(136,057)	(151,400)	(136,054)	(125,858)
Net change in total OPEB liability	100,893	(4,049,649)	511,101	507,105	58,350	(157,396)	87,423	86,854
Total OPEB liability - beginning	21,492,353	25,542,002	25,030,901	24,523,796	2,089,759	2,247,155	2,159,732	2,072,878
Total OPEB liability - ending	\$ 21,593,246	\$ 21,492,353	\$ 25,542,002	\$ 25,030,901	\$ 2,148,109	\$ 2,089,759	\$ 2,247,155	\$ 2,159,732
Plan fiduciary net position								
Contributions - employer	\$ 1,731,271	\$ 1,698,429	\$ 1,824,467	\$ 1,772,562	\$ 233,192	\$ 248,535	\$ 233,189	\$ 211,531
Net investment income	223,747	289,012	527,316	601,076	44,595	59,924	105,580	116,176
Benefit payments	(1,496,341)	(1,461,997)	(1,589,537)	(1,533,462)	(136,057)	(151,400)	(136,054)	(125,858)
Administrative expense	(8,014)	(7,245)	(6,596)	(5,982)	(2,100)	(1,894)	(1,717)	(1,579)
Net change in plan fiduciary net position	450,663	518,199	755,650	834,194	139,630	155,165	200,998	200,270
Plan fiduciary net position - beginning	6,781,665	6,263,466	5,507,816	4,673,622	1,458,940	1,303,775	1,102,777	902,507
Plan fiduciary net position - ending	\$ 7,232,328	\$ 6,781,665	\$ 6,263,466	\$ 5,507,816	\$ 1,598,570	\$ 1,458,940	\$ 1,303,775	\$ 1,102,777
Net OPEB liability - ending	\$ 14,360,918	\$ 14,710,688	\$ 19,278,536	\$ 19,523,085	\$ 549,539	\$ 630,819	\$ 943,380	\$ 1,056,955
Plan fiduciary net position as a percentage of the total OPEB liability	33.49%	31.55%	24.52%	22.00%	74.42%	69.81%	58.02%	51.06%
Covered-employee payroll	\$ 23,606,599	\$ 23,606,599	\$ 22,779,070	\$ 22,779,070	\$ 23,962,730	\$ 23,962,730	\$ 23,076,891	\$ 23,076,891
Net OPEB liability as a percentage of covered-employee payroll	60.83%	62.32%	84.63%	85.71%	2.29%	2.63%	4.09%	4.58%
Annual money-weighted rate of return, net of investment expense	3.05%	4.59%	9.55%	12.83%	3.05%	4.59%	9.52%	12.79%

Schedule is intended to show information for 10 years. Since 2020 is the fourth year for this presentation, only three additional years of data are available. However, additional years will be included as they become available.

2020 data reflects totals for the City and excludes \$89,150 and \$68,050 of contributions and benefit payments, respectively, of agency entities.

Notes to Schedule:

There have been no significant changes to the benefit provisions since the prior actuarial valuation.

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS
RETIREE HEALTH PLAN
YEAR ENDED JUNE 30, 2020**

Year Ended June 30	Actuarially Determined Contribution*	Contributions in Relation to Actuarially Determined Contribution*	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
	(a)	(b)	(a-b)	(c)	(b/c)
City of Salem					
2020	\$ 1,159,709	\$ 1,731,271	\$ (571,562)	\$ 23,606,599	7.33%
2019	1,111,485	1,698,429	(586,944)	23,606,599	7.19%
2018	1,516,523	1,824,467	(307,944)	22,779,070	8.01%
2017	1,475,809	1,772,562	(296,753)	22,779,070	7.78%
School Division					
2020	\$ 120,718	\$ 233,192	\$ (112,474)	\$ 23,962,730	0.97%
2019	114,675	248,535	(133,860)	23,962,730	1.04%
2018	140,801	233,189	(92,388)	23,076,891	1.01%
2017	136,700	211,531	(74,831)	23,076,891	0.92%

Schedule is intended to show information for 10 years. Since 2020 is the fourth year for this presentation, only three additional years of data are available. However, additional years will be included as they become available.

* Contribution amounts for the City of Salem do not include contributions for agency fund related entities.

Notes to Schedule

There have been no significant changes to the benefit provisions since the prior actuarial valuation.

Methods and assumptions used to determine contribution rates:

Valuation date	June 30, 2019
Measurement date	June 30, 2020
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll
Amortization period	Closed over 28 years
Asset valuation method	Market value
Investment rate of return	6.50%
Projected long-term salary increases	3.00%

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM
YEAR ENDED JUNE 30, 2020

	School Division Plan Year		
	2019	2018	2017
Total HIC OPEB liability			
Service cost	\$ 3,643	\$ 2,543	\$ 2,412
Interest	9,771	11,059	10,832
Changes in assumptions	2,818	-	370
Differences between expected and actual experience	(9,720)	(20,255)	-
Benefit payments	(12,020)	(11,482)	(9,254)
Net change in total HIC OPEB liability	(5,508)	(18,135)	4,360
Total HIC OPEB liability - beginning	145,594	163,729	159,369
Total HIC OPEB liability - ending	\$ 140,086	\$ 145,594	\$ 163,729
Plan fiduciary net position			
Contributions - employer	\$ 7,318	\$ 8,875	\$ 8,704
Net investment income	4,257	4,693	6,952
Benefit payments	(12,020)	(11,482)	(9,254)
Administrative expense	(90)	(108)	(109)
Other	(5)	(359)	359
Net change in plan fiduciary net position	(540)	1,619	6,652
Plan fiduciary net position - beginning	69,330	67,711	61,059
Plan fiduciary net position - ending	\$ 68,790	\$ 69,330	\$ 67,711
Net OPEB liability - ending	\$ 71,296	\$ 76,264	\$ 96,018
Plan fiduciary net position as a percentage of the total OPEB liability	49.11%	47.62%	41.36%
Covered payroll	\$ 1,240,339	\$ 1,286,232	\$ 1,261,449
Net OPEB liability as a percentage of covered payroll	5.75%	5.93%	7.61%

Schedule is intended to show information for 10 years. Since fiscal year 2020 (plan year 2019) is the third year for this presentation, only two additional years of data are available. However, additional years will be included as they become available.

The amounts presented have a measurement date (plan year) of the previous fiscal year end.

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS
POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM
YEAR ENDED JUNE 30, 2020**

Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
	(a)	(b)	(a-b)	(c)	(b/c)
2020	\$ 7,533	\$ 7,533	\$ -	\$ 1,276,780	0.59%
2019* **	7,318	7,318	-	1,240,339	0.59%
2018	8,875	8,875	-	1,286,232	0.69%

Schedule is intended to show information for 10 years. Since 2020 is the third year for this presentation, only two additional years of data are available. However, additional years will be included as they become available.

* Revised to reflect actual 2019 amounts as shown in the VRS actuarial report rather than estimated amounts used in the prior year CAFR.

** Prior to 2019, VRS contributions were made over twelve months for all employees, regardless of contract term. In fiscal year 2019, the School Division began contributing to VRS over each employee's contract term. For employees with contract terms less than twelve months, contributions and covered payroll recognized in fiscal year 2019 include amounts accrued for July and August of 2018, in addition to the full annual amount for fiscal year 2019.

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
GLI AND TEACHER EMPLOYEE HIC PROGRAMS
YEAR ENDED JUNE 30, 2020**

Plan Year Ended June 30	Employer's Proportion of the Net OPEB Liability	Employer's Proportionate Share of the Net OPEB Liability (a)	Covered Payroll (b)	Employer's Share of the Net OPEB Liability as a % of Covered Payroll (a/b)	Plan Fiduciary Net Position as a % of the Total OPEB Liability
City of Salem - Group Life Insurance Program					
2019	0.12131%	\$ 1,883,072	\$ 22,818,462	8.25%	52.00%
2018	0.11921%	1,726,760	21,687,115	7.96%	51.22%
2017	0.12390%	1,778,837	22,853,532	7.78%	48.86%
School Division - Group Life Insurance Program (Non-Professional Staff)					
2019	0.00634%	\$ 103,169	\$ 1,243,077	8.30%	52.00%
2018	0.00676%	102,000	1,286,154	7.93%	51.22%
2017	0.00687%	103,000	1,268,277	8.12%	48.86%
School Division - Group Life Insurance Program (Professional Staff)					
2019	0.11726%	\$ 1,908,133	\$ 22,986,731	8.30%	52.00%
2018	0.11861%	1,801,000	22,553,654	7.99%	51.22%
2017	0.11835%	1,781,000	21,829,358	8.16%	48.86%
School Division - Teacher Employee Health Insurance Credit Program					
2019	0.27380%	\$ 3,584,308	\$ 22,965,750	15.61%	8.97%
2018	0.27878%	3,540,000	22,545,854	15.70%	8.08%
2017	0.27639%	3,506,000	21,812,560	16.07%	7.04%

Schedule is intended to show information for 10 years. Since fiscal year 2020 (plan year 2019) is the third year for this presentation, only two additional years of data are available. However, additional years will be included as they become available.

The amounts presented have a measurement date (plan year) of the previous fiscal year end.

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS
GLI AND TEACHER EMPLOYEE HIC PROGRAMS
YEAR ENDED JUNE 30, 2020**

Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
	(a)	(b)	(a-b)	(c)	(b/c)

City of Salem - Group Life Insurance Program

2020	\$	122,719	\$	122,719	\$	-	\$	23,599,808	0.52%
2019*		118,656		118,656		-		22,818,462	0.52%
2018		112,773		112,773		-		21,687,115	0.52%

School Division - Group Life Insurance Program (Non-Professional Staff)

2020	\$	6,639	\$	6,639	\$	-	\$	1,276,731	0.52%
2019* **		6,464		6,464		-		1,243,077	0.52%
2018		6,688		6,688		-		1,286,154	0.52%

School Division - Group Life Insurance Program (Professional Staff)

2020	\$	123,275	\$	123,275	\$	-	\$	23,706,731	0.52%
2019* **		119,531		119,531		-		22,986,731	0.52%
2018		117,279		117,279		-		22,553,654	0.52%

School Division - Teacher Employee Health Insurance Credit Program

2020	\$	284,449	\$	284,449	\$	-	\$	23,704,083	1.20%
2019* **		275,589		275,589		-		22,965,750	1.20%
2018		277,314		277,314		-		22,545,854	1.23%

Schedule is intended to show information for 10 years. Since 2020 is the third year for this presentation, only two additional years of data are available. However, additional years will be included as they become available.

* Revised to reflect actual 2019 amounts as shown in the VRS actuarial report rather than estimated amounts used in the prior year CAFR.

** Prior to 2019, VRS contributions were made over twelve months for all employees, regardless of contract term. In fiscal year 2019, the School Division began contributing to VRS over each employee's contract term. For employees with contract terms less than twelve months, contributions and covered payroll recognized in fiscal year 2019 include amounts accrued for July and August of 2018, in addition to the full annual amount for fiscal year 2019.

CITY OF SALEM, VIRGINIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2020

1. Changes of Benefit Terms

Pension

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation.

Other Postemployment Benefits (OPEB)

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

2. Changes of Assumptions

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest Ten – Non-Hazardous Duty:

- Updated mortality table to RP-2014 projected to 2020
- Lowered retirement rates at older ages and extended final retirement age from 70 to 75
- Updated withdrawal rates to better fit experience at each age and service year
- Lowered rates of disability retirement
- No changes to salary rates
- Increased Line of Duty Disability rates from 14% to 20%
- Decreased discount rate from 7.00% to 6.75%
- Applicable to: Pension, GLI OPEB, and HIC OPEB

Largest Ten – Hazardous Duty/Public Safety Employees:

- Updated mortality table to RP-2014 projected to 2020
- Lowered rates of retirement at older ages
- Updated withdrawal rates to better fit experience at each age and service year
- Increased disability rates
- No changes to salary rates
- Increased Line of Duty disability rates from 60% to 70%
- Decreased discount rate from 7.00% to 6.75%
- Applicable to: Pension, GLI OPEB, and LODA OPEB

All Others (Non-Ten Largest) – Non-Hazardous Duty:

- Updated mortality table to RP-2014 projected to 2020
- Lowered rates of retirement at older ages and changed final retirement from 70 to 75
- Updated withdrawal rates to better fit experience at each age and service year
- Lowered disability rates
- No changes to salary rates
- Increased Line of Duty disability rate from 14% to 15%
- Decreased discount rate from 7.00% to 6.75%
- Applicable to: Pension, GLI OPEB, and HIC OPEB

**CITY OF SALEM, VIRGINIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2020**

2. Changes of Assumptions (Continued)

All Others (Non-Ten Largest) – Hazardous Duty/Public Safety Employees:

- Updated mortality table to RP-2014 projected to 2020
- Increased retirement rate at age 50 and lowered rates at older ages
- Updated withdrawal rates to better fit experience at each age and service year
- Updated disability rates to better fit experience
- No changes to salary rates
- Lowered Line of Duty rate from 60% to 45%
- Decreased discount rate from 7.00% to 6.75%
- Applicable to: Pension, GLI OPEB, and LODA OPEB

Teacher cost-sharing pool

- Updated mortality table to RP-2014 projected to 2020
- Lowered retirement rates at older ages and changed final retirement from 70 to 75
- Updated withdrawal rates to better fit experience at each year age and service through 9 years of service
- Updated disability rates to better fit experience
- No changes to salary rates
- Decreased discount rate from 7.00% to 6.75%
- Applicable to: Pension, GLI OPEB, and HIC OPEB

OTHER SUPPLEMENTARY INFORMATION



The Other Supplementary Information subsection of the City of Salem, Virginia's Comprehensive Annual Financial Report includes the Combining Statement of Net Position; Combining Statement of Revenues, Expenses, and Changes in Fund Net Position; and Combining Statement of Cash Flows for the Nonmajor Proprietary Funds. This subsection also includes the Combining Statement of Fiduciary Assets and Liabilities and the Combining Statement of Changes in Fiduciary Assets and Liabilities for the Agency Funds; and the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance for the Economic Development Authority of the City of Salem.

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2020

	Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
ASSETS AND DEFERRED OUTFLOWS			
<i>Current assets:</i>			
Cash and cash equivalents	\$ 8,183	\$ 5,124	\$ 13,307
Receivables, net	14,576	6,228	20,804
Inventories	-	33,125	33,125
Prepaid items	30,221	-	30,221
Total current assets	52,980	44,477	97,457
<i>Capital assets:</i>			
Nondepreciable	204,601	-	204,601
Depreciable, net	3,564,721	37,409	3,602,130
Total capital assets	3,769,322	37,409	3,806,731
Total assets	3,822,302	81,886	3,904,188
DEFERRED OUTFLOWS OF RESOURCES	290,955	78,651	369,606
LIABILITIES			
<i>Current liabilities:</i>			
Accounts payable and accrued liabilities	26,816	609	27,425
Accrued payroll and related liabilities	59,755	7,094	66,849
Due to other funds	1,600,000	305,000	1,905,000
Unearned revenues	219,989	-	219,989
Compensated absences	43,502	8,869	52,371
Total current liabilities	1,950,062	321,572	2,271,634
<i>Noncurrent liabilities:</i>			
Compensated absences	74,826	6,012	80,838
Net pension liability	1,395,005	395,177	1,790,182
Net OPEB liability	501,167	100,487	601,654
Total noncurrent liabilities	1,970,998	501,676	2,472,674
Total liabilities	3,921,060	823,248	4,744,308
DEFERRED INFLOWS OF RESOURCES	170,608	32,532	203,140
NET POSITION			
Net investment in capital assets	3,769,322	37,409	3,806,731
Unrestricted (deficit)	(3,747,733)	(732,652)	(4,480,385)
Total net position	\$ 21,589	\$ (695,243)	\$ (673,654)

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2020

	Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
OPERATING REVENUES			
Charges for services	\$ 2,256,508	\$ 662,278	\$ 2,918,786
Commissions	10,200	-	10,200
Other	15,445	12,126	27,571
Total operating revenues	<u>2,282,153</u>	<u>674,404</u>	<u>2,956,557</u>
OPERATING EXPENSES			
Salaries	1,006,537	364,364	1,370,901
Fringe benefits	496,012	110,728	606,740
Show expenses	1,931,452	-	1,931,452
Maintenance	201,529	1,340	202,869
Professional services	18,358	13,517	31,875
Insurance	19,948	1,212	21,160
Administration	91,141	13,609	104,750
Travel and training	3,694	-	3,694
Materials and supplies	23,544	197,519	221,063
Expendable equipment and small tools	1,833	638	2,471
Utilities	289,966	196	290,162
Miscellaneous	-	10,055	10,055
Depreciation	298,302	4,383	302,685
Commissions	-	157,732	157,732
Total operating expenses	<u>4,382,316</u>	<u>875,293</u>	<u>5,257,609</u>
Operating loss	<u>(2,100,163)</u>	<u>(200,889)</u>	<u>(2,301,052)</u>
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	4,505	-	4,505
Net nonoperating revenues	<u>4,505</u>	<u>-</u>	<u>4,505</u>
Loss before transfers	<u>(2,095,658)</u>	<u>(200,889)</u>	<u>(2,296,547)</u>
Capital contributions in	37,500	-	37,500
Transfers in	1,838,367	148,205	1,986,572
Change in net position	<u>(219,791)</u>	<u>(52,684)</u>	<u>(272,475)</u>
Net position, beginning	241,380	(642,559)	(401,179)
Net position, ending	<u>\$ 21,589</u>	<u>\$ (695,243)</u>	<u>\$ (673,654)</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2020

	Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
OPERATING ACTIVITIES			
Receipts from customers	\$ 2,308,263	\$ 685,081	\$ 2,993,344
Payments to suppliers	(2,569,605)	(411,520)	(2,981,125)
Payments to employees	(1,424,946)	(500,670)	(1,925,616)
Other receipts	15,445	12,126	27,571
Nonoperating revenue (expense)	4,505	-	4,505
Net cash used in operating activities	(1,666,338)	(214,983)	(1,881,321)
NONCAPITAL FINANCING ACTIVITIES			
Interfund Loan	425,000	65,000	490,000
Transfers in	1,838,367	148,205	1,986,572
Net cash provided by noncapital financing activities	2,263,367	213,205	2,476,572
CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(634,319)	-	(634,319)
Capital contributions	37,500	-	37,500
Net cash used in capital and related financing activities	(596,819)	-	(596,819)
Net increase (decrease) in cash and cash equivalents	210	(1,778)	(1,568)
Cash and cash equivalents, beginning	7,973	6,902	14,875
Cash and cash equivalents, ending	<u>\$ 8,183</u>	<u>\$ 5,124</u>	<u>\$ 13,307</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR IS COMPRISED OF THE FOLLOWING:			
Cash and investments	\$ 8,183	\$ 5,124	\$ 13,307
Total	<u>\$ 8,183</u>	<u>\$ 5,124</u>	<u>\$ 13,307</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES			
Operating loss	\$ (2,100,163)	\$ (200,889)	\$ (2,301,052)
<i>Adjustments to reconcile operating loss to net cash used in operating activities</i>			
Depreciation	298,302	4,383	302,685
Nonoperating revenue (expense)	4,505	-	4,505
Pension expense, net of employer contributions	228,787	68,525	297,312
OPEB expense, net of employer contributions	(158,718)	(41,809)	(200,527)
<i>Decrease (increase) in assets:</i>			
Receivables, net	20,370	22,803	43,173
Inventories	-	(5,236)	(5,236)
Prepaid items	75,045	-	75,045
<i>Increase (decrease) in liabilities:</i>			
Accounts payable and accrued liabilities	(63,185)	(10,466)	(73,651)
Accrued payroll and related liabilities	(15,588)	(28,637)	(44,225)
Unearned revenues	21,185	-	21,185
Compensated absences	23,122	(23,657)	(535)
Net cash used in operating activities	<u>\$ (1,666,338)</u>	<u>\$ (214,983)</u>	<u>\$ (1,881,321)</u>
<i>Noncash investing, capital, and financing activities</i>			
Capital asset contributions received	<u>\$ 37,500</u>	<u>\$ -</u>	<u>\$ 37,500</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2020

	Cardinal Criminal Justice Academy	Court- Community Corrections Program	Total Agency Funds
ASSETS			
Cash and cash equivalents	\$ 586,623	\$ 1,660,317	\$ 2,246,940
Receivables, net	71	138	209
Due from Commonwealth of Virginia	-	43,303	43,303
Total assets	<u>\$ 586,694</u>	<u>\$ 1,703,758</u>	<u>\$ 2,290,452</u>
LIABILITIES			
Accounts payable	\$ 13,175	\$ 60,478	\$ 73,653
Liability to agency	573,519	1,643,280	2,216,799
Total liabilities	<u>\$ 586,694</u>	<u>\$ 1,703,758</u>	<u>\$ 2,290,452</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
YEAR ENDED JUNE 30, 2020

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<u>CARDINAL CRIMINAL JUSTICE ACADEMY</u>				
ASSETS				
Cash and cash equivalents	\$ 553,112	\$ 723,315	\$ (689,804)	\$ 586,623
Receivables, net	261	71	(261)	71
Total assets	<u>\$ 553,373</u>	<u>\$ 723,386</u>	<u>\$ (690,065)</u>	<u>\$ 586,694</u>
LIABILITIES				
Accounts payable	\$ 13,681	\$ 111,964	\$ (112,470)	\$ 13,175
Liability to agency	539,692	611,422	(577,595)	573,519
Total liabilities	<u>\$ 553,373</u>	<u>\$ 723,386</u>	<u>\$ (690,065)</u>	<u>\$ 586,694</u>
<u>COURT-COMMUNITY CORRECTIONS PROGRAM</u>				
ASSETS				
Cash and cash equivalents	\$ 1,503,209	\$ 1,711,669	\$ (1,554,561)	\$ 1,660,317
Receivables, net	826	538	(1,226)	138
Due from Commonwealth of Virginia	61,605	1,070,256	(1,088,558)	43,303
Total assets	<u>\$ 1,565,640</u>	<u>\$ 2,782,463</u>	<u>\$ (2,644,345)</u>	<u>\$ 1,703,758</u>
LIABILITIES				
Accounts payable	\$ 36,295	\$ 466,014	\$ (441,831)	\$ 60,478
Liability to agency	1,529,345	2,316,449	(2,202,514)	1,643,280
Total liabilities	<u>\$ 1,565,640</u>	<u>\$ 2,782,463</u>	<u>\$ (2,644,345)</u>	<u>\$ 1,703,758</u>
<u>TOTAL AGENCY FUNDS</u>				
ASSETS				
Cash and cash equivalents	\$ 2,056,321	\$ 2,434,984	\$ (2,244,365)	\$ 2,246,940
Receivables, net	1,087	609	(1,487)	209
Due from Commonwealth of Virginia	61,605	1,070,256	(1,088,558)	43,303
Total assets	<u>\$ 2,119,013</u>	<u>\$ 3,505,849</u>	<u>\$ (3,334,410)</u>	<u>\$ 2,290,452</u>
LIABILITIES				
Accounts payable	\$ 49,976	\$ 577,978	\$ (554,301)	\$ 73,653
Liability to agency	2,069,037	2,927,871	(2,780,109)	2,216,799
Total liabilities	<u>\$ 2,119,013</u>	<u>\$ 3,505,849</u>	<u>\$ (3,334,410)</u>	<u>\$ 2,290,452</u>

CITY OF SALEM, VIRGINIA
 BALANCE SHEET
 ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF SALEM
 GOVERNMENTAL FUND
 JUNE 30, 2020

ASSETS

Cash and cash equivalents	\$ 662,415
Receivables, net	3,257,382
Total assets	<u>3,919,797</u>

LIABILITIES

Accounts payable and accrued liabilities	3,824
Due to primary government	3,323,382
Total liabilities	<u>3,327,206</u>

FUND BALANCE

Committed	505,000
Assigned	87,591
Total fund balance	<u>592,591</u>
 Total liabilities and fund balance	 <u>\$ 3,919,797</u>

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF SALEM
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2020

REVENUES

Revenue from use of money and property	\$ 46,119
Intergovernmental	825,658
Total revenues	<u>871,777</u>

EXPENDITURES

Community development	<u>324,350</u>
Total expenditures	<u>324,350</u>

Net change in fund balance	<u>547,427</u>
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Fund balance, beginning	<u>45,164</u>
Fund balance, ending	<u><u>\$ 592,591</u></u>



The Statistical Section of the City of Salem, Virginia's Comprehensive Annual Financial Report presents additional detail, context, and historical information to assist in understanding the information in the financial statements, note disclosures and required supplementary information.

Contents	Page
Financial Trends.....	140
<i>These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</i>	
Revenue Capacity.....	145
<i>These schedules contain information to help the reader assess the City's most significant local revenue sources, property tax and sale of electricity.</i>	
Debt Capacity.....	148
<i>These schedules present information to help the reader assess the affordability of the City's current level of outstanding debt and the government's ability to issue additional debt in the future.</i>	
Demographic and Economic Information.....	150
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.</i>	
Operating Information.....	152
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the government provides and the activities it performs.</i>	

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TABLE 1
UNAUDITEDCITY OF SALEM, VIRGINIA
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
			(1)		(2), (3)	(2), (3), (4)	(3), (5)	(3)	(3)	
Governmental Activities										
Net investment in capital assets	\$ 73,890,772	\$ 75,906,865	\$ 75,637,028	\$ 76,704,584	\$ 80,613,041	\$ 82,468,633	\$ 84,803,933	\$ 87,305,352	\$ 87,296,728	\$ 88,456,284
Restricted	34,766,782	5,868,862	4,211,042	4,247,628	1,962,017	4,246,340	2,987,926	1,896,959	1,260,230	1,416,694
Unrestricted	(45,380,629)	(21,585,631)	(30,860,648)	(24,252,734)	(33,750,410)	(44,779,654)	(22,664,736)	(20,157,809)	(10,590,213)	(12,606,292)
Total governmental net position	\$ 63,276,925	\$ 60,190,096	\$ 48,987,422	\$ 56,699,478	\$ 48,824,648	\$ 41,935,319	\$ 65,127,123	\$ 69,044,502	\$ 77,966,745	\$ 77,266,686
Business-type activities										
Net investment in capital assets	\$ 55,215,300	\$ 52,850,038	\$ 49,386,338	\$ 46,775,751	\$ 44,477,804	\$ 42,195,035	\$ 42,936,315	\$ 43,413,519	\$ 44,265,414	\$ 44,172,488
Restricted	-	-	-	-	-	-	-	-	-	1,989,529
Unrestricted	47,252,971	42,561,767	37,549,539	34,837,935	29,574,731	24,406,951	27,531,700	24,273,387	18,453,692	18,896,375
Total business-type activities net position	\$ 102,468,271	\$ 95,411,805	\$ 86,935,877	\$ 81,613,686	\$ 74,052,535	\$ 66,601,986	\$ 70,468,015	\$ 67,686,906	\$ 62,719,106	\$ 65,058,392
Primary Government										
Net investment in capital assets	\$ 129,106,072	\$ 128,756,903	\$ 125,023,367	\$ 123,480,335	\$ 125,090,845	\$ 124,663,668	\$ 127,740,248	\$ 130,718,871	\$ 131,562,142	\$ 132,628,772
Restricted	34,766,782	5,868,862	4,211,042	4,247,628	1,962,017	4,246,340	2,987,926	1,896,959	1,260,230	3,406,223
Unrestricted	1,872,342	20,976,136	6,688,890	10,585,201	(4,175,679)	(20,372,703)	4,866,964	4,115,578	7,863,479	6,290,083
Total Primary Government net position	\$ 165,745,196	\$ 155,601,901	\$ 135,923,299	\$ 138,313,164	\$ 122,877,183	\$ 108,537,305	\$ 135,595,138	\$ 136,731,408	\$ 140,685,851	\$ 142,325,078

Notes:

Source: City of Salem Finance Department

(1) In 2018, the City implemented GASB Statement No. 75 requiring recognition of the net OPEB liability.

(2) Net investment in capital assets of governmental activities and business-type activities were restated to record deferred loss on refunding of debt from the 2015 refunding bonds.

(3) Net investment in capital assets of governmental activities was restated to record deferred loss on refunding of debt from the 2011 refunding bonds.

(4) In 2015, the City implemented GASB Statement No. 68 requiring recognition of the net pension liability.

(5) In 2014, the City implemented GASB Statement No. 65 requiring debt issuance costs to be expensed as incurred and also segregated health insurance into internal service funds.

TABLE 2
UNAUDITED

CITY OF SALEM, VIRGINIA
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(accrual basis of accounting)

	2020 (1)	2019	2018	2017	2016 (2), (3)	2015 (2), (3)	2014 (3), (4), (5)	2013 (3), (6)	2012 (3)	2011
Expenses										
<i>Governmental activities:</i>										
General government	\$ 7,732,057	\$ 5,999,310	\$ 6,388,884	\$ 6,864,181	\$ 5,943,899	\$ 6,335,563	\$ 6,248,574	\$ 6,450,069	\$ 6,583,782	\$ 6,110,416
Judicial administration	2,427,038	2,019,802	2,009,007	2,072,538	1,934,263	1,921,789	2,026,034	1,952,657	1,866,052	1,887,444
Public safety	19,710,088	15,953,011	15,776,102	17,011,463	15,753,795	16,192,190	17,532,682	17,279,490	16,492,831	15,818,359
Public works	10,268,769	9,434,930	11,617,750	12,228,329	16,652,913	12,758,967	13,399,134	13,809,579	14,421,981	13,915,318
Health and welfare	4,969,943	4,014,354	3,318,498	3,026,330	2,974,663	3,050,634	2,578,984	2,709,561	2,430,955	2,738,894
Education	25,341,148	21,032,249	20,170,298	19,760,242	19,739,512	19,151,270	25,103,243	30,295,228	18,471,653	18,420,000
Parks, recreation and cultural	6,286,470	6,300,706	6,129,809	5,937,858	5,335,902	5,127,367	5,279,886	5,436,335	5,284,647	5,495,431
Community development	3,392,520	3,173,232	3,429,290	3,296,760	2,107,808	2,006,736	2,388,701	2,327,751	2,076,325	1,834,749
Interest and other fiscal changes	1,312,981	1,008,095	950,247	988,059	1,011,115	1,093,989	1,118,286	1,060,727	988,094	1,151,867
Total governmental activities	81,441,014	68,935,689	69,789,885	71,185,760	71,453,870	67,638,505	75,675,524	81,321,397	68,616,320	67,372,478
<i>Business-type activities:</i>										
Electric	32,282,516	33,022,574	31,361,242	31,628,232	30,200,956	33,901,497	34,182,987	33,171,403	36,047,453	35,145,346
Water and sewage	10,141,238	9,538,640	9,206,719	9,776,628	10,000,056	10,568,840	10,999,420	10,671,798	10,952,702	11,034,638
Civic Center	4,382,316	4,291,121	4,708,634	4,046,125	4,103,577	2,888,263	2,600,249	2,838,499	2,472,731	2,374,165
Catering and concessions	875,293	937,758	981,396	933,894	980,147	851,760	856,866	849,306	903,039	878,171
Total business-type activities	47,681,363	47,790,093	46,257,991	46,384,879	45,284,736	48,210,360	48,639,522	47,531,006	50,375,925	49,432,320
Total Primary Government	\$ 129,122,377	\$ 116,725,782	\$ 116,047,876	\$ 117,570,639	\$ 116,738,606	\$ 115,848,865	\$ 124,315,046	\$ 128,852,403	\$ 118,992,245	\$ 116,804,798
Program revenues										
<i>Governmental activities:</i>										
Charges for services										
Public safety	\$ 1,378,117	\$ 1,487,180	\$ 1,358,612	\$ 1,237,985	\$ 1,281,509	\$ 1,237,901	\$ 1,103,765	\$ 1,069,969	\$ 991,473	\$ 911,073
Public works	1,859,310	1,488,934	1,528,945	2,563,620	4,706,219	4,351,157	3,695,667	3,523,970	3,560,239	3,418,637
Other activities	777,397	981,634	1,162,193	1,254,639	779,384	849,596	1,009,342	1,034,129	1,005,691	782,662
Operating grants and contributions	9,458,112	8,466,964	8,207,848	8,318,690	7,623,373	7,567,973	6,975,699	7,436,195	7,124,704	7,159,171
Capital grants and contributions	1,344,324	566,366	1,403,327	202,451	80,406	192,430	391,399	2,003,251	595,986	1,517,633
Total governmental activities	14,817,260	12,991,078	13,660,925	13,577,385	14,470,891	14,199,057	13,175,872	15,067,514	13,278,093	13,789,176
<i>Business-type activities:</i>										
Charges for services										
Electric	38,441,256	39,719,859	40,153,923	39,437,330	38,080,149	39,715,705	39,861,201	40,280,161	36,824,320	35,726,379
Water and sewage	14,222,844	14,165,379	14,009,576	13,530,659	13,537,310	13,658,281	12,645,216	11,729,755	11,114,241	9,988,563
Civic Center	2,282,153	2,745,582	3,106,144	2,475,661	2,313,348	799,948	934,047	775,437	880,306	912,697
Catering and concessions	674,404	778,605	922,287	819,571	935,973	791,311	779,220	781,469	856,919	858,714
Capital grants and contributions										
Electric	78,034	-	124,385	-	-	47,196	27,380	-	-	39,929
Civic Center	-	-	51,133	-	-	-	-	-	-	-
Water and sewage	-	-	-	-	-	-	-	-	-	-
Total business-type activities	55,698,691	57,409,425	58,367,448	56,263,221	54,866,780	55,012,441	54,268,735	53,566,822	49,689,008	47,526,282
Total Primary Government	\$ 70,515,951	\$ 70,400,503	\$ 72,028,373	\$ 69,840,606	\$ 69,337,671	\$ 69,211,498	\$ 67,444,607	\$ 68,634,336	\$ 62,967,101	\$ 61,315,458

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Net (expense) revenue										
Total governmental activities	\$ (66,623,754)	\$ (55,944,611)	\$ (56,128,960)	\$ (57,608,375)	\$ (56,982,979)	\$ (53,439,448)	\$ (62,499,652)	\$ (66,253,883)	\$ (55,338,227)	\$ (53,583,302)
Total business-type activities	8,017,328	9,619,332	12,109,457	9,878,342	9,582,044	6,802,081	5,629,213	6,035,816	(686,917)	(1,906,038)
Total primary government	<u>\$ (58,606,426)</u>	<u>\$ (46,325,279)</u>	<u>\$ (44,019,503)</u>	<u>\$ (47,730,033)</u>	<u>\$ (47,400,935)</u>	<u>\$ (46,637,367)</u>	<u>\$ (56,870,439)</u>	<u>\$ (60,218,067)</u>	<u>\$ (56,025,144)</u>	<u>\$ (55,489,340)</u>
General Revenues and Other Changes in Net Position										
<i>Governmental activities:</i>										
Taxes										
Property taxes	\$ 38,374,597	\$ 36,825,133	\$ 35,688,231	\$ 35,631,665	\$ 34,610,154	\$ 33,371,609	\$ 32,666,172	\$ 32,272,995	\$ 32,480,280	\$ 32,068,912
Local sales and use taxes	7,661,772	7,296,272	7,015,296	7,174,034	6,638,448	6,688,509	6,432,110	6,083,030	5,891,941	5,707,813
Business license tax	5,572,638	5,615,337	5,333,382	5,320,865	5,391,215	5,088,724	5,078,755	5,107,863	4,751,638	4,564,531
Meals tax	4,747,513	5,085,168	4,802,780	4,718,631	4,715,137	4,464,873	4,277,741	4,118,041	3,242,532	2,551,880
Utility taxes	1,190,153	1,203,020	1,208,943	1,182,963	1,169,894	1,217,299	1,150,691	1,153,190	1,124,383	1,123,400
Other taxes	3,459,728	4,042,474	3,997,697	3,908,064	3,869,411	3,497,219	3,184,568	2,924,694	2,604,603	2,805,271
Intergovernmental revenue not restricted	5,003,579	3,951,338	3,952,121	3,941,937	3,989,413	3,942,960	3,961,782	3,859,380	3,747,854	3,747,722
Unrestricted investment earnings	1,707,740	994,037	752,672	554,437	269,350	164,585	143,186	134,650	127,210	129,640
Gain on sale of property	40,778	44,471	35,647	20,985	100,081	389,290	33,051	1,198	-	-
Other	641,479	757,329	626,372	676,502	986,182	586,008	554,303	606,657	411,355	603,696
Transfers	1,310,606	1,332,706	2,008,304	2,353,122	2,133,023	2,266,120	1,694,330	1,069,822	1,656,490	(3,338,110)
Total governmental activities	<u>69,710,583</u>	<u>67,147,285</u>	<u>65,421,445</u>	<u>65,483,205</u>	<u>63,872,308</u>	<u>61,677,196</u>	<u>59,176,689</u>	<u>57,331,640</u>	<u>56,038,286</u>	<u>49,964,755</u>
<i>Business-type activities:</i>										
Unrestricted investment earnings	166,317	189,302	78,511	35,931	93	158	172	168	4,121	8,049
Gain on sale of property	-	-	8,483	-	1,435	8,225	5,013	1,638	-	-
Transfers	(1,310,606)	(1,332,706)	(2,008,304)	(2,353,122)	(2,133,023)	(2,266,120)	(1,694,330)	(1,069,822)	(1,656,490)	3,338,110
Total business-type activities	<u>(960,862)</u>	<u>(1,143,404)</u>	<u>(1,921,310)</u>	<u>(2,317,191)</u>	<u>(2,131,495)</u>	<u>(2,257,737)</u>	<u>(1,689,145)</u>	<u>(1,068,016)</u>	<u>(1,652,369)</u>	<u>3,346,159</u>
Total Primary Government	<u>\$ 68,749,721</u>	<u>\$ 66,003,881</u>	<u>\$ 63,500,135</u>	<u>\$ 63,166,014</u>	<u>\$ 61,740,813</u>	<u>\$ 59,419,459</u>	<u>\$ 57,487,544</u>	<u>\$ 56,263,624</u>	<u>\$ 54,385,917</u>	<u>\$ 53,310,914</u>
Changes in Net Position										
Total governmental activities	\$ 3,086,829	\$ 11,202,674	\$ 9,292,485	\$ 7,874,830	\$ 6,889,329	\$ 8,237,748	\$ (3,322,963)	\$ (8,922,243)	\$ 700,059	\$ (3,618,547)
Total business-type activities	7,056,466	8,475,928	10,188,147	7,561,151	7,450,549	4,544,344	3,940,068	4,967,800	(2,339,286)	1,440,121
Total Primary Government	<u>\$ 10,143,295</u>	<u>\$ 19,678,602</u>	<u>\$ 19,480,632</u>	<u>\$ 15,435,981</u>	<u>\$ 14,339,878</u>	<u>\$ 12,782,092</u>	<u>\$ 617,105</u>	<u>\$ (3,954,443)</u>	<u>\$ (1,639,227)</u>	<u>\$ (2,178,426)</u>

Notes:

- (1) Education expenses of governmental activities include \$3,445,962 of bond funds transferred to the School Division to fund capital projects.
- (2) Interest and other fiscal charges of governmental activities and Electric expenses of business-type activities were restated to record amortization of the deferred loss on refunding of debt from the 2015 refunding bonds.
- (3) Interest and other fiscal charges of governmental activities were restated to record amortization of the deferred loss on refunding of debt from the 2011 refunding bonds.
- (4) Education expenses of governmental activities include \$5,481,200 of bond funds transferred to the School Division to fund capital projects.
- (5) In 2014, the City implemented GASB Statement No. 65 requiring debt issuance costs to be expensed as incurred and also segregated health insurance into internal service funds.
- (6) Education expenses of governmental activities include \$9,518,800 of bond funds transferred to the School Division to fund capital projects.

TABLE 3
UNAUDITED

CITY OF SALEM, VIRGINIA
FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
General Fund							(1)			
Nonspendable	\$ 1,009,261	\$ 862,437	\$ 694,658	\$ 588,204	\$ 567,605	\$ 514,556	\$ 421,117	\$ 447,097	\$ 497,206	\$ 554,962
Restricted	7,407,955	5,868,862	4,071,765	4,245,248	1,959,638	4,180,415	2,661,958	1,896,731	1,244,986	1,287,008
Committed	120,291	110,092	94,789	89,261	76,219	-	-	-	519,817	-
Assigned	857,041	697,043	741,677	672,251	743,727	505,633	465,178	941,626	1,256,103	1,588,768
Unassigned	37,456,968	32,652,599	28,803,322	22,212,433	15,701,124	9,797,393	5,271,609	3,517,718	3,469,721	3,351,935
Total General Fund	\$ 46,851,516	\$ 40,191,033	\$ 34,406,211	\$ 27,807,397	\$ 19,048,313	\$ 14,997,997	\$ 8,819,862	\$ 6,803,172	\$ 6,987,833	\$ 6,782,673
All Other Governmental Funds										
Restricted	\$ 27,358,827	\$ 1,983,825	\$ 935,933	\$ 2,894,061	\$ 4,193,169	\$ 65,925	\$ 325,968	\$ 228	\$ 15,244	\$ 129,686
Committed	-	-	-	54,458	81,754	96,503	125,651	115,000	39,436	-
Assigned	1,320,266	736,959	551,356	342,149	63,848	-	8,291	-	-	-
Unassigned	-	-	-	-	-	-	-	(432,316)	-	-
Total all other governmental funds	\$ 28,679,093	\$ 2,720,784	\$ 1,487,289	\$ 3,290,668	\$ 4,338,771	\$ 162,428	\$ 459,910	\$ (317,086)	\$ 54,680	\$ 129,686

Notes:

Source: City of Salem Finance Department

(1) In 2014, the City segregated health insurance into internal service funds.

TABLE 4
UNAUDITEDCITY OF SALEM, VIRGINIA
CHANGES IN FUND BALANCE, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Revenues						(1)	(1)	(2)		
Taxes	\$ 61,066,795	\$ 60,404,459	\$ 58,583,459	\$ 58,668,891	\$ 57,116,158	\$ 54,697,901	\$ 53,203,553	\$ 52,276,472	\$ 50,284,343	\$ 48,794,986
Permits, fees and licenses	349,081	343,811	313,860	277,582	394,968	394,827	218,804	198,742	202,342	218,094
Fines and forfeitures	64,460	109,705	137,911	145,820	116,417	127,002	163,584	163,584	160,816	164,161
Revenue from use of money and property	1,992,301	1,293,449	1,049,368	842,624	531,379	511,980	697,565	697,140	642,067	677,805
Charges for services	3,576,056	3,212,585	3,118,065	4,192,436	6,075,639	5,632,172	4,956,368	4,925,221	4,700,364	4,463,860
Other	277,828	250,381	496,510	409,131	357,115	153,748	160,095	247,149	104,701	284,324
Intergovernmental	15,762,773	13,165,857	13,360,836	12,652,827	11,603,416	11,638,740	11,289,569	13,129,214	11,462,504	12,562,674
Total revenues	83,089,294	78,780,247	77,060,009	77,189,311	76,195,092	73,156,370	70,652,715	71,627,522	67,557,137	67,165,904
Expenditures										
General government	6,703,274	6,152,838	5,679,004	6,410,086	5,918,110	6,062,763	5,689,510	5,881,344	5,792,852	4,900,770
Judicial administration	2,180,401	2,092,625	2,033,068	2,018,898	2,026,255	1,913,666	1,919,961	1,866,050	1,801,429	1,788,821
Public safety	17,368,101	16,112,960	15,741,300	16,403,627	15,824,899	15,779,717	16,358,165	16,371,685	15,353,250	14,792,022
Public works	8,507,779	8,289,463	9,796,765	8,452,569	14,672,498	10,709,120	11,087,740	11,502,485	11,988,380	11,656,775
Health and welfare	4,779,853	3,877,830	3,202,498	2,909,343	2,827,459	2,900,389	2,465,194	2,672,631	2,391,628	2,682,090
Education	25,341,148	21,026,377	20,170,298	19,760,242	19,739,512	19,151,270	25,103,243	30,295,228	18,471,653	18,420,000
Parks, recreation and cultural	5,134,939	5,225,517	5,106,766	5,071,566	4,482,414	4,401,263	4,323,040	4,508,319	4,403,170	4,203,452
Community development	3,255,301	4,582,992	3,340,911	3,178,844	1,087,606	1,062,184	857,219	829,081	981,483	879,709
Non-departmental	2,210,715	2,018,406	1,978,778	2,085,343	3,240,075	3,248,409	2,759,940	2,867,807	2,658,955	2,908,441
Capital projects	2,768,847	4,866,835	3,302,614	1,674,861	2,187,595	697,503	1,788,469	2,377,884	1,571,118	3,703,365
<i>Debt service:</i>										
Principal retirement	3,017,446	3,056,511	3,055,319	3,082,999	2,988,314	3,018,738	2,647,514	7,765,685	2,623,661	2,606,810
Interest	928,405	831,282	908,720	960,419	941,386	1,101,829	980,558	824,824	970,434	930,767
Bond issuance cost	350,394	73,849	-	-	32,987	10,377	15,500	45,750	31,900	117,689
Total expenditures	82,546,603	78,227,485	74,316,041	72,008,797	75,969,110	70,057,228	75,996,053	87,808,773	69,039,913	69,590,711
Excess (deficiency) of revenues over (under) expenditures	542,691	552,762	2,743,968	5,180,514	225,982	3,099,142	(5,343,338)	(16,181,251)	(1,482,776)	(2,424,807)
Other Financing Sources (Uses)										
Issuance of long-term debt	26,555,000	5,025,000	-	-	5,281,400	-	7,275,000	9,518,800	-	6,540,000
Issuance of refunding bonds	5,799,023	-	-	-	-	1,932,097	-	5,036,200	9,485,000	3,339,279
Payment to refunded bond escrow agent	(7,074,459)	-	-	-	-	(1,921,720)	-	-	(9,513,728)	(3,430,000)
Premium on sale of bonds	5,262,352	-	-	-	-	-	-	-	-	248,757
Discount on sale of bonds	-	-	-	-	-	-	-	-	-	(48,989)
Proceeds from sale of capital assets	40,778	41,167	34,084	177,345	211,254	505,014	-	-	-	-
Issuance of capital leases	72,648	-	-	-	375,000	-	-	-	-	-
Insurance recoveries	72,653	66,682	9,079	-	-	-	-	-	-	-
Transfers in	7,880,961	7,552,251	7,383,186	7,676,999	7,930,241	7,766,233	6,832,903	5,626,851	6,458,723	5,683,661
Transfers out	(6,532,855)	(6,219,545)	(5,374,882)	(5,323,877)	(5,797,218)	(5,500,113)	(5,131,569)	(4,557,029)	(4,817,065)	(8,950,187)
Total other financing sources, net	32,076,101	6,465,555	2,051,467	2,530,467	8,000,677	2,781,511	8,976,334	15,624,822	1,612,930	3,382,521
Net change in fund balances	\$ 32,618,792	\$ 7,018,317	\$ 4,795,435	\$ 7,710,981	\$ 8,226,659	\$ 5,880,653	\$ 3,632,996	\$ (556,429)	\$ 130,154	\$ 957,714
Debt service as a percentage of noncapital expenditures	5.09%	5.53%	5.62%	5.87%	5.44%	6.06%	4.93%	10.16%	5.37%	5.39%

Notes:

Source: City of Salem Finance Department

(1) In 2014, the City segregated health insurance into internal service funds.

(2) Principal retirement includes the current refunding of a general obligation note for \$5,010,000.

TABLE 5
UNAUDITED

CITY OF SALEM
ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS

Fiscal Year	Real Estate			Personal Property			Machinery and Tools			Public Service Corporation			Mobile Homes			Total Taxable			Total Direct Tax Rate
	Assessed Value	Tax	Rate	Assessed Value	Tax	Rate	Assessed Value	Tax	Rate	Assessed Value	Tax	Rate	Assessed Value	Tax	Rate	Assessed Value	Tax	Rate	
2020	\$ 2,223,003,261	\$ 1.20		\$ 319,099,250	\$ 3.40		\$ 98,084,487	\$ 3.20		\$ 60,840,085	\$ 1.20		\$ 758,822	\$ 1.20		\$ 2,701,785,905		\$ 1.54	
2019	2,144,567,539	1.18		310,426,127	3.25		91,646,255	3.20		53,418,469	1.18		749,392	1.18		2,600,807,782		1.51	
2018	2,092,863,676	1.18		306,890,700	3.25		97,999,444	3.20		51,247,569	1.18		816,174	1.18		2,549,817,563		1.50	
2017	2,054,446,049	1.18		312,495,313	3.25		89,186,639	3.20		44,507,648	1.18		984,368	1.18		2,501,620,017		1.51	
2016	2,022,951,024	1.18		295,173,346	3.25		91,322,128	3.20		41,308,358	1.18		1,059,063	1.18		2,451,813,919		1.50	
2015	2,012,050,247	1.18		282,311,121	3.25		91,977,805	3.20		40,513,445	1.18		1,195,515	1.18		2,428,048,133		1.50	
2014	2,003,007,334	1.18		276,846,201	3.20		91,226,535	3.20		41,408,575	1.18		1,249,050	1.18		2,413,737,695		1.49	
2013	1,997,447,800	1.18		267,755,307	3.20		84,169,172	3.20		42,281,759	1.18		1,431,949	1.18		2,393,085,987		1.47	
2012	1,977,986,400	1.18		267,877,285	3.20		90,287,324	3.20		37,468,284	1.18		1,668,743	1.18		2,375,288,036		1.48	
2011	1,973,655,843	1.18		265,450,351	3.20		80,706,659	3.20		37,993,502	1.18		1,460,966	1.18		2,359,267,321		1.48	

Note:

Source: City of Salem Finance Department
Tax rates are per \$100 of assessed value.

TABLE 6
UNAUDITED

CITY OF SALEM, VIRGINIA
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN CALENDAR YEARS

Calendar Year Ended December 31,	Taxes Levied for the Calendar Year	Collected within the		Supplemental Assessments & Exonerations Levied in Subsequent Years	Collections in Subsequent Years	Total Collections to Date	
		Calendar Year of the Levy	Percentage of Levy			Amount	Percentage of Levy
		Amount					
2020	\$ 39,175,662	\$ 35,634,651	90.96%	\$ -	-	\$ 35,634,651	90.96%
2019	36,274,839	35,191,478	97.01%	179,372	994,178	36,185,656	99.26%
2018	35,837,963	34,375,408	95.92%	(345,210)	1,011,820	35,387,228	99.70%
2017	35,253,119	34,012,836	96.48%	(69,236)	1,107,086	35,119,922	99.82%
2016	33,896,364	32,608,317	96.20%	(19,524)	1,211,040	33,819,357	99.83%
2015	33,407,499	31,903,905	95.50%	-	1,328,851	33,232,756	99.48%
2014	32,905,743	31,229,276	94.91%	(83,736)	1,551,278	32,780,554	99.87%
2013	32,537,416	30,854,728	94.83%	64,769	1,685,992	32,540,720	99.81%
2012	32,672,916	31,351,991	95.96%	32,561	1,324,039	32,676,030	99.91%
2011	32,104,079	30,836,144	96.05%	105,503	1,290,264	32,126,408	99.74%

Notes:

Source: City of Salem Finance Department

In 2020, the due date for the second half of Real Estate and Personal Property was extended to June 30th due to the COVID-19 pandemic.

**TABLE 7
UNAUDITED**

**CITY OF SALEM, VIRGINIA
PRINCIPAL REAL ESTATE PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO**

Taxpayer	2020			2011		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Lewis-Gale Medical Center LLC (1)	\$64,080,400	1	2.81%	\$ 36,118,600	1	1.85%
Yokohama Industries	14,410,100	2	0.63%	16,142,400	3	0.83%
Lowes/VALO LLC	13,451,800	3	0.59%	12,462,800	4	0.64%
Spartan Square	11,617,600	4	0.51%	7,944,600	9	0.45%
Carter Machinery/Carthy Corp/Mount Sinai	11,629,500	5	0.51%	7,586,000	10	0.39%
U.S. Food Service, Inc.	10,754,600	6	0.47%	10,524,500	6	0.54%
Chateau Riviera Apts/CSW Associates	9,995,800	7	0.44%	9,190,500	7	0.47%
General Electric	9,344,200	8	0.41%	10,665,400	5	0.55%
Salem Terrace/White Whale	8,682,900	9	0.38%	8,690,500	8	0.44%
Valley Properties and L & M Properties LLC	8,435,900	10	0.37%			
Lewis-Gale Clinic/HRT				22,095,300	2	1.12%

Notes:

Source: City of Salem Real Estate Valuation Department

(1) In 2018, Lewis-Gale Medical Center LLC acquired the assets of Lewis-Gale Hospital HCA and Lewis Gale Clinic/HRT.

**TABLE 8
UNAUDITED**

**CITY OF SALEM, VIRGINIA
PRINCIPAL ELECTRIC CUSTOMERS
CURRENT YEAR AND NINE YEARS AGO**

Customer	2020			2011		
	Services Billed	Rank	Percentage of Total Services Billed	Services Billed	Rank	Percentage of Total Services Billed
Lewis Gale Hospital HCA	\$ 2,424,690	1	6.38%	\$1,671,411	1	4.71%
Roanoke College	1,526,494	2	4.02%	1,229,663	2	3.46%
Graham White	857,018	3	2.26%	744,214	3	2.10%
Integer (Formerly Lake Region Medical)	848,706	4	2.23%			
U.S. Food Service, Inc.	751,846	5	1.98%	661,493	5	1.86%
Rowe Furniture/Salem Frame	566,779	6	1.49%	688,418	4	1.94%
Kroger	564,351	7	1.49%	508,667	7	1.43%
Sewell Products	554,493	8	1.46%	464,804	8	1.31%
Carter Machinery Co.	526,786	9	1.39%	433,667	9	1.22%
Novozymes	450,121	10	1.19%			
Old VA Brick Co.				517,035	6	1.46%
Wal-Mart, Inc.				325,728	10	0.92%

Note:

Source: City of Salem Finance Department

TABLE 9
UNAUDITED

CITY OF SALEM, VIRGINIA
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities	Business-Type Activities	Total Primary Government	Capital Lease Obligation
	General Obligation Bonds	General Obligation Bonds		
	(1)			
2020	\$ 60,686,620	\$ 39,296,513	\$ 99,983,133	\$ 99,520
2019	32,910,038	40,780,877	73,690,915	121,467
2018	30,897,265	41,669,640	72,566,905	198,016
2017	33,916,905	45,723,894	79,640,799	271,203
2016	36,971,375	49,665,950	86,637,325	341,175
2015	34,681,163	47,663,394	82,344,557	-
2014	37,640,582	49,258,943	86,899,525	-
2013	32,625,067	50,697,384	83,322,451	-
2012	25,470,726	53,677,900	79,148,626	-
2011	27,913,904	55,461,508	83,375,412	-

Fiscal Year	Total Taxable Assessed Value	Percentage of Estimated Actual Value of Taxable Property	Population	Bonded Debt Per Capita	Per Capita Personal Income	Percentage of Bonded Debt Per Capita to Per Capita Personal Income
	(2)		(3)		(3)	
2020	\$ 2,701,785,905	3.70%	25,301	\$ 3,952	\$ 52,248	8.00%
2019	2,600,807,782	2.83%	25,643	2,874	49,860	6.00%
2018	2,549,817,563	2.85%	25,862	2,806	48,384	6.00%
2017	2,501,620,017	3.18%	25,549	3,117	48,047	6.00%
2016	2,451,813,919	3.53%	25,432	3,407	45,577	7.00%
2015	2,428,048,133	3.39%	25,483	3,231	43,418	7.00%
2014	2,413,737,695	3.60%	25,299	3,435	42,288	8.00%
2013	2,393,085,987	3.48%	25,267	3,298	40,688	8.00%
2012	2,375,288,036	3.33%	25,145	3,148	39,866	8.00%
2011	2,359,267,321	3.53%	24,970	3,339	39,866	8.00%

Notes:

Source: City of Salem Finance Department

Details regarding the City's outstanding debt can be found in the notes to the financial statements.

The City is independent from any county, town, or other political subdivisions of the Commonwealth of Virginia. There is no overlapping general obligation debt or taxing powers.

(1) Outstanding debt for the School Division is included with Governmental Activities.

(2) See Table 5 for actual value of taxable property.

(3) See Table 11 for population and per capita personal income.

TABLE 10
UNAUDITED

CITY OF SALEM, VIRGINIA
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS

Fiscal Year	Assessed Value of Real Property	Debt Limit 10% of Assessed Value	Total General Obligation Bonds	Amount of Debt Applicable to Limit				Net Debt Applicable to Limit as a Percent of Debt Limit
				Enterprise Bonds	RVRA Supported Debt	Net Debt Applicable to Limit	Legal Debt Margin	
				(2)		(3)		
2020	\$ 2,283,843,346	\$ 228,384,335	\$ 99,983,133	\$ (39,296,513)	\$ (789,921)	\$ 59,896,699	\$ 168,487,636	26.23%
2019	2,197,986,008	219,798,601	73,690,915	(40,780,877)	(998,082)	31,911,956	187,886,645	14.52%
2018	2,144,111,245	214,411,125	72,566,905	(41,669,640)	(1,209,879)	29,687,386	184,723,739	13.85%
2017	2,098,953,697	209,895,370	79,640,799	(45,723,894)	(1,425,312)	32,491,593	177,403,777	15.48%
2016	2,064,259,382	206,425,938	86,637,325	(49,665,950)	-	36,971,375	169,454,563	17.91%
2015	2,052,563,692	205,256,369	82,344,557	(47,663,394)	-	34,681,163	170,575,206	16.90%
2014	2,044,415,909	204,441,591	86,899,525	(49,258,943)	-	37,640,582	166,801,009	18.41%
2013	2,039,729,559	203,972,956	83,322,451	(50,697,384)	-	32,625,067	171,347,889	15.99%
2012	2,015,454,684	201,545,468	79,148,626	(53,677,900)	-	25,470,726	176,074,742	12.64%
2011	2,011,649,345	201,164,935	83,375,412	(55,461,508)	-	27,913,904	173,251,031	13.88%

Notes:

Source: City of Salem Finance Department

(1) Includes real estate and public service corporation assessments from table 5.

(2) The Enterprise Fund bonds are backed by the full faith and credit of the City but are expected to be paid from the revenue and receipts of the Enterprise Funds.

(3) School debt is included in the amount of debt applicable to limit.

TABLE 11
UNAUDITED

CITY OF SALEM, VIRGINIA
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS

Fiscal Year Ended	Population	Total Personal Income (In Thousands)	Per Capita Personal Income	Public School Enrollment	Unemployment Rate
(1)	(2)	(3)	(3)	(4)	(5)
2020	25,301	\$ 6,254,966	\$ 52,248	3,882	7.7%
2019	25,643	5,962,802	49,860	3,872	2.9%
2018	25,862	5,785,780	48,384	3,889	3.4%
2017	25,549	5,758,037	48,047	3,843	4.1%
2016	25,432	5,435,865	45,577	3,751	4.0%
2015	25,483	5,159,100	43,418	3,797	5.2%
2014	25,299	4,984,547	42,288	3,770	5.2%
2013	25,267	4,789,030	40,688	3,823	6.6%
2012	25,145	4,672,291	39,866	3,867	6.5%
2011	24,970	4,672,291	39,866	3,892	6.1%

Notes:

- (1) Population, public school enrollment and unemployment rate figures are based on fiscal years ending June 30. Per capita personal income figures are as of November 2019.
- (2) Population is based on intercensal estimates of the resident population for counties of Virginia: April 1, 2000 to July 1, 2010. U.S. Census Bureau, Population Division. Population for 2011 through 2020 was obtained from U.S. Census Bureau Population Estimates Program.
- (3) Bureau of Economic Analysis (BEA). Total personal income reported is for Roanoke County and the City of Salem. No data is available for the City of Salem only. Per capita personal income was computed using Census Bureau midyear population estimates.
- (4) Director of Business, School Division
- (5) Virginia Employment Commission

TABLE 12
UNAUDITED

CITY OF SALEM, VIRGINIA
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

Employer	2020			2011		
	Employees	Rank	Percentage of Total City Employment (1)	Employees	Rank	Percentage of Total City Employment (1)
Veterans Administration Medical Center	2,200	1	11.33%	1,950	1	8.81%
Lewis-Gale Hospital HCA	1,317	2	6.78%	1,419	2	6.41%
Virginia Department of Transportation	811	3	4.18%	768	4	3.47%
Yokohama Industries	711	4	3.66%	950	3	4.29%
Lewis-Gale Physicians	650	5	3.35%			
City of Salem Schools	570	6	2.94%	587	7	2.65%
City of Salem	498	7	2.56%	515	8	2.33%
Roanoke College	433	8	2.23%	481	9	2.17%
Integer	419	9	2.16%			
Carter Machinery	396	10	2.04%			
General Electric				750	5	3.39%
Liberty Medical				625	6	2.82%
U.S. Food Service, Inc.				431	10	1.95%

Notes:

Source: City of Salem Economic Development Department, Virginia Employment Commission

(1) Calculated using data provided by Virginia Employment Commission

TABLE 13
UNAUDITED

CITY OF SALEM, VIRGINIA
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS

Function	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
General government	77	71	76	70	69	69	67	66	66	69
Judicial administration	22	21	19	20	18	19	19	19	21	20
Public safety	166	167	153	152	157	157	159	162	160	161
Public works	84	84	82	79	89	88	94	94	100	105
Parks, recreation and cultural	34	33	32	30	32	32	31	32	32	32
Community development	3	3	3	3	2	3	3	3	3	3
Electric	28	29	28	27	27	29	27	26	26	28
Water and sewage	48	49	48	47	48	52	49	49	51	52
Civic Center	19	18	15	15	16	17	17	17	18	18
Catering and concessions	3	4	4	4	4	4	4	4	4	4
Total	484	479	460	447	462	470	470	472	481	492

Note:

Source: City of Salem Finance Department

TABLE 14
UNAUDITED

CITY OF SALEM, VIRGINIA
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS

Function	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
General government										
<i>Finance</i>										
Accounts payable checks issued	10,983	10,817	9,926	10,942	9,238	8,601	9,280	8,937	11,002	12,260
<i>Human resources</i>										
Positions filled (full-time and temporary)	138	156	164	158	154	140	184	142	146	143
<i>Registrar</i>										
Number of registered voters	17,158	16,785	16,887	16,704	16,584	16,282	16,695	16,625	16,678	16,436
<i>Fleet</i>										
Pieces of equipment maintained	573	576	568	575	567	583	576	572	573	565
Judicial administration										
<i>Sheriff</i>										
Inmates housed	2,373	2,790	2,961	3,132	2,681	2,730	2,885	2,776	2,668	2,587
Inmate transports	1,039	1,479	1,489	1,333	1,222	1,137	1,240	1,062	1,069	1,276
Courts worked	500	462	525	680	595	614	699	686	648	691
Public safety										
<i>Police</i>										
Calls for service	35,830	30,790	32,905	31,651	27,017	27,018	27,990	39,519	36,549	33,903
Accidents	917	1,079	1,026	1,015	1,108	983	1,053	905	919	1,063
DUI Arrests	66	109	137	91	92	63	68	107	62	95
<i>Fire</i>										
Emergency responses - fire	4,638	4,095	3,811	3,467	3,019	3,203	3,181	3,337	3,241	3,661
Emergency responses - medic units	6,321	5,851	5,261	4,885	4,292	3,809	3,446	3,569	3,358	3,632
Hazardous conditions responses	136	101	125	113	127	80	77	125	105	137
<i>Building inspections</i>										
Residential construction permits	177	181	188	175	158	150	198	106	122	123
Commercial construction permits	98	126	133	120	133	139	148	110	116	124
Public works										
<i>Refuse collection</i>										
Refuse collected (tons per year)*	17,424	16,409	16,261	18,208	88,565	80,827	82,905	80,609	81,427	81,485
Tons recycled	4,350	7,419	9,139	9,152	5,060	1,404	1,386	2,315	2,844	1,764
<i>Other public works</i>										
Tons of asphalt used in resurfacing	-	-	13,263	-	15,453	-	639	5,770	7,507	5,821
Square yards of milling completed	1,208	-	219,862	-	302,937	-	10,718	92,988	143,962	99,960
Tons of salt used	85	915	1,330	315	848	705	769	1,098	183	817
Leaves collected (loads)	335	302	350	113	295	360	293	316	369	494
Parks, recreation and cultural										
<i>Parks and recreation</i>										
Tournaments hosted	23	58	52	48	52	47	58	62	58	49
Special events held	29	35	28	26	25	26	24	24	24	24
Youth sports teams	130	135	148	151	151	155	164	170	205	225
Adult sports teams	34	30	27	28	29	27	29	39	37	44
<i>Library</i>										
Circulation	147,646	194,000	212,350	227,443	230,454	240,516	252,237	271,600	295,911	285,337
Children's program attendance	5,077	9,516	10,901	7,226	8,972	3,622	3,616	3,924	4,926	6,891
Patron visits to the library	102,485	152,091	167,389	170,879	172,012	178,323	195,878	211,605	226,696	232,559
New patrons	773	769	904	879	968	1,049	1,138	1,373	1,315	1,288
Internet sessions	41,008	55,932	39,884	28,554	25,944	27,571	28,965	33,885	51,033	52,397
Electric										
Number of customer accounts	13,217	13,129	13,084	12,838	12,880	13,021	13,204	13,198	13,202	13,163
Water										
Number of customer accounts	9,665	9,636	9,482	9,567	9,486	9,381	9,372	9,375	9,365	9,341
Million gallons sold to customers	859	910	861	850	932	989	876	838	955	1,004
Sewage										
Number of customer accounts	9,108	9,072	9,041	9,018	8,952	8,929	8,824	8,823	8,803	8,764
Waste/water treated (million gallons/day)	7.3	8.7	6.0	7.2	9.1	6.8	7.8	7.0	7.0	6.5
Civic Center										
Concerts	13	13	15	13	11	6	9	11	13	13
Meetings	475	614	599	660	852	778	721	614	792	936
Tickets sold	66,954	78,745	93,510	88,662	93,373	73,668	82,929	83,638	87,006	102,678
Arena utilization days	108	155	162	202	215	198	191	175	173	178

Notes:

Source: Various City of Salem Departments

*In FY2017, Roanoke Valley Resource Authority (RVRA) started managing waste disposal services instead of the City Transfer Station.

TABLE 15
UNAUDITED

CITY OF SALEM, VIRGINIA
CAPITAL ASSET STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS

Function	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Public safety										
Police station	1	1	1	1	1	1	1	1	1	1
Law enforcement vehicles	52	53	48	47	47	46	48	47	47	47
Fire stations	3	3	3	3	3	3	3	3	3	3
Fire trucks	5	6	7	7	7	6	6	6	6	6
Ambulances	4	4	4	4	4	4	4	4	4	5
Public works										
Primary streets (lane miles)	68	68	68	68	68	68	68	68	68	68
Secondary streets (lane miles)	272	272	272	272	272	272	272	272	272	272
Alleys (lane miles)	12	12	12	12	12	12	12	12	12	12
Garbage trucks	17	17	16	16	16	16	14	13	12	12
Parks, recreation and cultural										
Community center/senior center	1	1	1	1	1	1	1	1	1	1
Parks/athletic fields	15	15	15	15	15	15	15	15	15	15
Acres of parks maintained	495	495	495	495	495	495	495	495	495	495
Library	1	1	1	1	1	1	1	1	1	1
Golf course	1	1	1	1	1	1	1	1	1	1
Dog park	1	1	1	1	1	1	1	1	1	-
Electric										
Substations	11	11	11	11	11	11	11	11	11	11
Overhead distribution lines (miles)	161	163	163.1	166	165	172	172	172	172	172
Underground distribution lines (miles)	41	42	42.4	40	42	38	38	38	38	38
Transmission lines (miles)	17	17	17	17	17	17	17	17	17	17
Water and sewage										
Water treatment plant	1	1	1	1	1	1	1	1	1	1
Water distribution lines (miles)	176	176	176	176	176	175	175	175	175	182
Sanitary sewer lines (miles)	171	170	170	170	170	170	170	170	177	177

Notes:

Source: City of Salem Finance Department

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COMPLIANCE SECTION



The Compliance Section of the City of Salem, Virginia's Comprehensive Annual Financial Report includes reports from the independent auditors.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Members of City Council
City of Salem, Virginia
Salem, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Salem, Virginia (the "City"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 16, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 16, 2020

CITY OF SALEM, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2020

As more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the City's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia:

Budget and Appropriation Laws
Cash and Investment Laws
Conflicts of Interest Act
Debt Provisions
Local Retirement Systems
Procurement Laws
Uniform Disposition of Unclaimed Property Act
Sheriff Internal Controls
Comprehensive Services Act

State Agency Requirements:

Education
Highway Maintenance Funds

CITY OF SALEM, VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2020

There were no compliance findings noted as part of the audit performed in accordance with Government Auditing Standards.

**Department of Finance
City of Salem, Virginia**

Rosemarie B. Jordan, CPA

Director of Finance

Accounting/Accounts Payable/Purchasing

Patricia L. Bidanset
Ellen T. Bowen, CPA
Yen T. Ha
Amy R. Morris, CPA
Mary Ann Penney, CPA
Tammy H. Todd, CPA, CPFO
Andrea C. Franklin
Kari L. Sutphin

Senior Accountant
Financial Services Supervisor
Senior Accountant
Special Projects Accountant
Accounting Supervisor
Assistant Director of Finance
Accounting Technician
Buyer

Administrative

Alyson R. Chaisson

Finance Administrative Secretary/
Accounting Technician

Payroll

Tara N. Pugh
Carrington R. Sumner

Payroll Technician
Payroll Manager