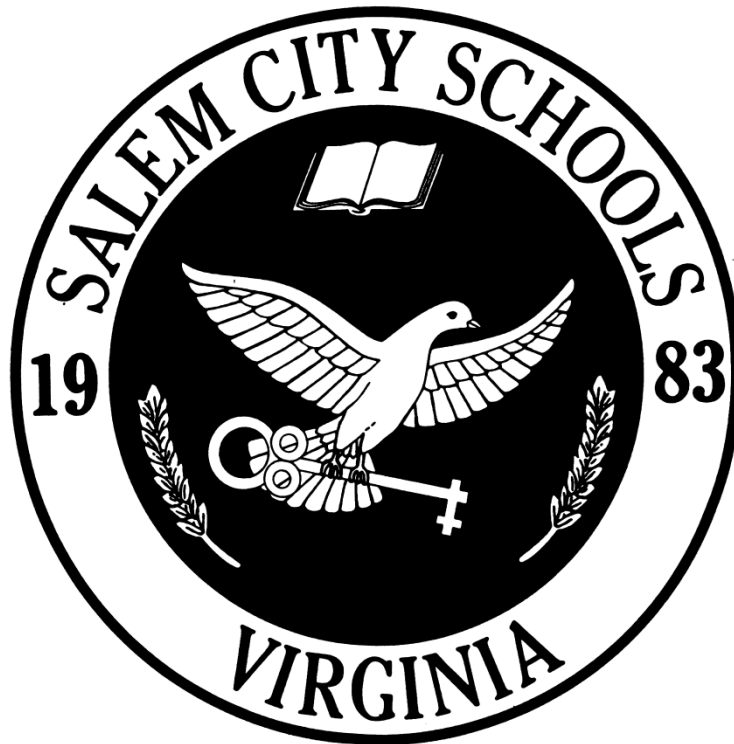


CITY OF SALEM SCHOOL DIVISION
(A Component Unit of the City of Salem)



ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2014

CITY OF SALEM SCHOOL DIVISION CENTRAL OFFICE
CITY OF SALEM DEPARTMENT OF FINANCE

CITY OF SALEM SCHOOL DIVISION

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INTRODUCTORY SECTION

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November 19, 2014

**Members of the Board of the City of Salem School Division
Salem, Virginia**

We are pleased to present to you the Annual Financial Report of the City of Salem School Division (School Division) for the fiscal year ended June 30, 2014. This report was prepared by the City of Salem Department of Finance in conformity with generally accepted accounting principles (GAAP) as promulgated by the Government 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 School Division. 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 School Division as measured by the financial activity of various funds. All disclosures necessary to enable the reader to gain the maximum understanding of the School Division's financial activity have been included. The independent certified public accounting firm of Brown, Edwards & Company, L.L.P. has audited the basic financial statements contained herein.

The Reporting Entity and Services Provided

The School Division is reported as a discretely presented component unit of the City of Salem, Virginia (City). Although the School Division is a legally separate entity, it is fiscally dependent upon the City. The City levies taxes for School Board operations and issues debt for major school capital projects. The City appropriates the School Division budget on an annual basis at the total appropriation level. In addition, the City Council appoints the five-member School Board. The School Division exercises financial accountability over the general operations of the school system, as well as the school cafeteria fund.

Profile of the School System

The School Division is a small city public education system for approximately 3,800 students. Salem's student population is represented by several ethnic categories. Approximately 80% of the students are Caucasian, 9% are African-American, 4% are Hispanic, 2% are Asian, and 5% are in other categories (including mixed). Facilities include a high school, a middle school, four elementary schools, an alternative education center and a central administrative office. Salem's School Division is recognized as a high achieving school system on the basis of standardized testing and the percentage of students who attend post-secondary educational institutions.

Specialized programs are offered for gifted students including an International Baccalaureate program for high school students. In addition, programs are offered for students with alternative education needs, vocational aspirations and disabilities. The School Division participates in a regional special education program in order to offer certain specialized special education services to students with disabilities.

Approximately 30.56% of Salem's students on a division-wide basis qualify for free and reduced lunches (June 2014) under the National School Lunch Program. Individual school percentages range from 22.82% to 46.5%.

The school system budget for fiscal year 2014 was based on a projected average daily student membership of 3,760. Actual average daily membership for the period through March 31, 2014 was 3,761.8. Average daily membership for most state revenue funding formulas is computed based on the period which begins on the first student day and extends through March 31.

Local Economic Condition and Outlook

Salem is located at the southern end of the Shenandoah Valley, 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 2014 estimated population of 25,299 accounts for approximately 8.2% of the population in its metropolitan statistical area (MSA), which includes the neighboring City of Roanoke and Counties of Botetourt, Craig, Franklin and Roanoke.

Despite continuing financial challenges during fiscal year 2014, Salem continues 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. Salem's unemployment rate of 5.2% (June 2014), a decrease of 1.4% from the prior year, was below the state rate of 5.4% and below the national unemployment rate of 6.3%. A strong educational system providing a well-educated and skilled workforce along with generally lower operating costs is a key reason why employers have chosen to relocate in Salem and the rest of the Valley. The City's effort to retain existing business and industry is an integral part of its economic development efforts.

Major Initiatives and Accomplishments

The School Board is committed to serving the needs of every child in the school system based on the child's needs. The Board's vision statement embodies the sentiment "Children First!". Salem schools also identify individualized instruction as central to the mission statement: "Every Child; Every Day."

During fiscal year 2014, a number of notable activities occurred in the division:

- All six Salem schools were fully accredited by the Virginia Department of Education.
- East Salem Elementary, West Salem Elementary and South Salem Elementary Schools met all Annual Measurable Objectives (AMO) under the *No Child Left Behind Act* based on testing in the 2013-2014 school year.
- East Salem Elementary School was again recognized as a "Distinguished Title I School" for the tenth consecutive year for exceeding Elementary and Secondary Education Act (ESEA) achievement objectives. G.W. Carver was recognized for a ninth year.
- Salem teachers continue to achieve national recognition with 24 National Board Certified teachers on staff in fiscal year 2014.
- The Salem Education Foundation and the City of Salem continued their tradition of awarding substantial scholarships to graduating seniors of the Salem High Class of 2014.
- Salem City Schools continued its participation as one of seven charter members of the Eastern States Consortium for Learning and School Excellence, a select group of school districts in the eastern United States that develop and disseminate best practices.
- Salem initiated the Growth Project late in fiscal year 2011 and continued to move forward in fiscal year 2012, 2013 and 2014 to develop measures of student growth, revise the professional employee evaluation instrument, examine forms of strategic compensation in order to better individualize instruction, monitor student outcomes, and position the division for imminent changes in education. The School Division applied for the Governor's Strategic Compensation

Grant Initiative in June of 2013 with the great work developed by the Growth Project and team of staff. Salem was awarded the largest grant in the State of \$850,000 later in August of 2013, and in fiscal year 2014 those funds were distributed to teachers based on points attained through their evaluation and collaborative projects. Two hundred eighty-seven teachers received a significant incentive compensation from this grant award.

- The School Division continues to emphasize building improvements on an on-going basis as part of its \$46.5 million Capital Improvement Plan, including the following projects: regular school bus replacements, computer and network replacements, roofing replacement as required, phased band instrument replacement, and other equipment or building upgrades. The division completed a \$1.1 million renovation of East Salem Elementary school which opened in August 2014.
- The City of Salem and Virginia Western Community College continued their partnership under the Salem City Community College Access Program to provide free tuition for qualifying graduates.
- Salem students continued to excel academically and in extracurricular areas:
 - Salem High had 8 International Baccalaureate (IB) diploma candidates, 67 IB certificate candidates, and 43 Distinguished Scholars in the Class of 2014.
 - In 2013-2014, 284 high school students took at least one IB course (791 total IB enrollments), many freshmen and sophomores took Pre-IB courses, and 582 students took at least one dual enrollment course.
 - The high school Forensics Team won the VHSL Group AA State championship for the 9th consecutive year.
 - 41 students earned an Industry Credential during the 2014 school year.
 - Average SAT scores for Salem students in both the math and verbal sections continued to meet or exceed state and national averages.
 - The Salem High yearbook staff was one of only thirty-seven nationally to win a Crown (silver) at the Columbia Scholastic Press Association national yearbook event. The yearbook also was recognized by the National Scholastic Press Association as a Pacemaker award recipient (one of only 27 high school yearbooks across the country).
 - The Salem High literary magazine was awarded All-Columbian Honors by the Columbia Scholastic Press Association.
 - Two Salem High students were placed in the Governor's School Project Forum (Science Fair) in the area of Science and Technology.
- Salem teachers and staff continue to receive recognition:
 - Laura O'Dell, High School teacher, was selected as a WISE Financial Literacy Gold Star Teacher.
 - Curtis Hicks, Assistant Superintendent of Instruction, received the Roanoke Area Youth Substance Abuse Coalition (RAYSAC) Outstanding Professional Service Award.
 - Dwayne Gauck, High School teacher, was selected as the Air Force Association's (AFA) Aerospace Teacher of the Year for the Roanoke Chapter of the AFA.
 - Christy Crotts, G.W. Carver Elementary teacher, was selected as the Air Force Association's Chapter 285 Teacher of the Year for grades K-8 STEM teachers.

Cash Management

The City is the custodian of all cash and investments of the School Division except certain petty cash, cash in hand or banks and investments of the School Activity Funds. The City uses a pooled cash concept to allow greater investment flexibility and consequently a better return on investments. Cash from all funds except those restricted for specific purposes is pooled for investment purposes with maturities planned to coincide with cash needs. Funds not immediately needed (30 days or greater) are invested in certificates of deposit or other approved investments, while funds available for periods of less than 30 days are invested with the City's lead bank as a part of its cash management program. All School Division funds are collateralized in accordance with the Virginia Security for Public Deposits Act or covered by Federal Depository Insurance.

Risk Management

The School Division utilizes a variety of techniques to identify and monitor risks and exposures for the School Division activities. Risk management is a function of the Assistant Superintendent and the Supervisor of Business. The School Division is insured for most general liability and property coverage through the Virginia Municipal League Insurance Program (VMLIP). In addition, worker's compensation is

insured through School Systems of Virginia. The City is self-insured for health coverage, which includes School Division employees. Note 8 of the financial statements provides an outline of the School Division's risk management coverage.

Independent Audit

Brown, Edwards & Company, L.L.P. has performed an annual audit of the Annual Financial Report. Their audit was conducted in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. The auditor's report, which includes their opinion on the financial statements of the School Division, is contained in the Financial Section of this report. Other auditor's reports are included in the Compliance Section.

Acknowledgements

We would like to express our appreciation to the staff of the School Division and the Department of Finance for the dedication and professionalism demonstrated daily assuring the financial integrity of the School Division and the preparation of this report. We would also like to express our appreciation to you, School Board, for the continued insight you bring to this School Division 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,



H. Alan Seibert
Superintendent



Mandy C. Hall
Supervisor of Business



Rosemarie B. Jordan
Director of Finance

**CITY OF SALEM SCHOOL DIVISION
DIRECTORY OF PRINCIPAL OFFICIALS
JUNE 30, 2014**

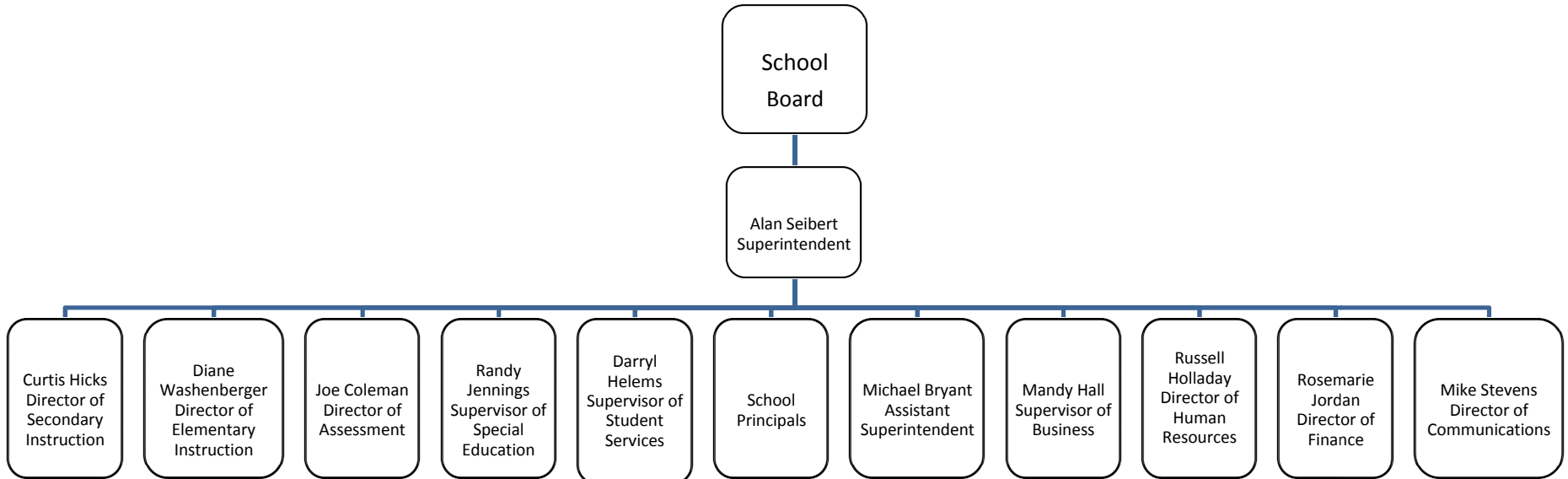
MEMBERS OF SCHOOL BOARD

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

SCHOOL ADMINISTRATION

Dr. H. Alan Seibert	Superintendent of Schools
Michael A. Bryant	Assistant Superintendent
Rosemarie B. Jordan	Director of Finance
Mandy C. Hall	Supervisor of Business
Dr. Joseph T. Coleman	Director of Assessment and School Principal
Dr. Darryl D. Helems	Supervisor of Student Services
Curtis N. Hicks	Director of Secondary Instruction
Russell L. Holladay	Director of Human Resources
Dr. Randy L. Jennings	Supervisor of Special Education
Diane D. Washenberger	Director of Elementary Instruction
Mike Stevens	Director of Communications

CITY OF SALEM SCHOOL DIVISION
ORGANIZATIONAL CHART
JUNE 30, 2014



FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the
Board of the City of Salem School Division
Salem, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Salem School Division (the "School Division"), a component unit of the City of Salem, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School Division'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 *Specifications for Audits of Counties, Cities, and Towns* 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, each major fund, and the aggregate remaining fund information of the City of Salem School Division, as of June 30, 2014, and the respective changes in financial position and, the respective budgetary comparisons for the operating and cafeteria funds 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 Analysis of Funding Progress for the Defined Benefit Pension Plan and the Analysis of Funding Progress for Other Postemployment Benefits, 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Division's basic financial statements. The introductory section and other information sections, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Matters (Continued)

Other Information (Continued)

The introductory and other information 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 19, 2014 on our consideration of the School Division'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 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 School Division's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 19, 2014

BASIC FINANCIAL STATEMENTS

**CITY OF SALEM SCHOOL DIVISION
STATEMENT OF NET POSITION
JUNE 30, 2014**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 8,464,473
Receivables	32,004
Due from other governmental units	1,155,646
Other postemployment benefits asset	66,146
Inventories	55,511
Prepaid items	24,797
<i>Restricted assets:</i>	
Cash and cash equivalents, restricted	1,859,312
<i>Capital assets:</i>	
Non-depreciable	1,527,746
Depreciable, net	47,913,820
Total assets	<u>61,099,455</u>
LIABILITIES	
Accounts payable and accrued liabilities	934,574
Accrued payroll and related liabilities	5,154,073
Self insurance claims liability	439,848
Unearned revenue	57,375
<i>Long-term liabilities due in less than one year:</i>	
Compensated absences	408,637
<i>Long-term liabilities due in more than one year:</i>	
Compensated absences	691,264
Total liabilities	<u>7,685,771</u>
NET POSITION	
Net Investment in capital assets	49,441,566
Unrestricted	3,972,118
Total net position	<u>\$ 53,413,684</u>

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

**CITY OF SALEM SCHOOL DIVISION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

					Net (Expense) Revenue and Changes in Net Position
Program Revenues					
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<i>Governmental activities:</i>					
Central administration	\$ 1,879,992	\$ 19,524	\$ -	\$ -	\$ (1,860,468)
Centralized Instructional costs	3,879,440	623,222	-	-	(3,256,218)
Instructional costs	33,968,213	191,751	6,308,170	7,000	(27,461,292)
Attendance and health services	879,534	-	-	-	(879,534)
Transportation	1,413,079	-	-	-	(1,413,079)
Food services	1,597,475	832,642	810,306	-	45,473
Federal and state grants programs	2,953,551	-	1,838,411	-	(1,115,140)
Total governmental activities	<u>\$ 46,571,284</u>	<u>\$ 1,667,139</u>	<u>\$ 8,956,887</u>	<u>\$ 7,000</u>	<u>(35,940,258)</u>
<i>General revenues:</i>					
Payments from City of Salem					25,103,243
State aid					13,144,693
Other					<u>778,599</u>
Total general revenues					<u>39,026,535</u>
Change in net position					3,086,277
Net position, beginning, as restated					<u>50,327,407</u>
Net position, ending					<u>\$ 53,413,684</u>

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

**CITY OF SALEM SCHOOL DIVISION
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	Special Revenue Funds		Capital Projects	Total Governmental Funds
	Operating	Cafeteria		
ASSETS				
Cash and cash equivalents	\$ 6,255,235	\$ 561,428	\$ -	\$ 6,816,663
Cash and cash equivalents, restricted	-	-	1,859,312	1,859,312
Receivables	25	166	-	191
Due from other governmental units	1,125,615	30,031	-	1,155,646
Inventories	-	55,511	-	55,511
Prepaid items	24,797	-	-	24,797
Total assets	<u>\$ 7,405,672</u>	<u>\$ 647,136</u>	<u>\$ 1,859,312</u>	<u>\$ 9,912,120</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 268,311	\$ 6,682	\$ 308,868	\$ 583,861
Accrued payroll and related liabilities	5,120,494	111,504	-	5,231,998
Unearned revenue	-	21,471	-	21,471
Total liabilities	<u>5,388,805</u>	<u>139,657</u>	<u>308,868</u>	<u>5,837,330</u>
FUND BALANCES				
Nonspendable	24,797	55,511	-	80,308
Committed	-	-	1,550,444	1,550,444
Assigned	1,992,070	451,968	-	2,444,038
Total fund balances	<u>2,016,867</u>	<u>507,479</u>	<u>1,550,444</u>	<u>4,074,790</u>
Total liabilities and fund balances	<u>\$ 7,405,672</u>	<u>\$ 647,136</u>	<u>\$ 1,859,312</u>	

RECONCILIATION TO THE STATEMENT OF NET POSITION

Capital assets used in governmental activities are not considered current financial resources and, therefore, are not reported in the governmental funds.	49,441,566
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences, net of sick leave	(1,021,976)
Other postemployment benefits	66,146
The internal service fund is used by management to charge the costs of employee benefits. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Position.	853,158
Net position of governmental activities	<u>\$ 53,413,684</u>

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

CITY OF SALEM SCHOOL DIVISION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	Special Revenue Funds		Capital	Total
	Operating	Cafeteria	Projects	Governmental
REVENUES				Funds
<i>Intergovernmental:</i>				
City of Salem	\$ 19,622,043	\$ -	\$ 5,481,200	\$ 25,103,243
Commonwealth of Virginia	19,452,863	25,893	-	19,478,756
Federal Government	1,838,411	784,413	-	2,622,824
<i>Other:</i>				
Charges for services	834,497	832,642	-	1,667,139
Other	765,723	12,876	7,000	785,599
Total revenues	<u>42,513,537</u>	<u>1,655,824</u>	<u>5,488,200</u>	<u>49,657,561</u>
EXPENDITURES				
Central administration	1,756,494	-	-	1,756,494
Centralized instruction costs	3,711,762	-	-	3,711,762
Instructional costs	30,340,948	-	-	30,340,948
Attendance and health services	889,226	-	-	889,226
Transportation	1,529,625	-	-	1,529,625
Food services	-	1,615,499	-	1,615,499
Federal and state grants programs	2,974,412	-	-	2,974,412
Capital projects	-	-	4,297,458	4,297,458
Total expenditures	<u>41,202,467</u>	<u>1,615,499</u>	<u>4,297,458</u>	<u>47,115,424</u>
Excess of revenues over expenditures	<u>1,311,070</u>	<u>40,325</u>	<u>1,190,742</u>	<u>2,542,137</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	1,773,406	1,773,406
Transfers out	(1,773,406)	-	-	(1,773,406)
Total other financing sources (uses)	<u>(1,773,406)</u>	<u>-</u>	<u>1,773,406</u>	<u>-</u>
Net change in fund balances	<u>(462,336)</u>	<u>40,325</u>	<u>2,964,148</u>	<u>2,542,137</u>
Fund balances, beginning	<u>2,479,203</u>	<u>467,154</u>	<u>(1,413,704)</u>	
Fund balances, ending	<u>\$ 2,016,867</u>	<u>\$ 507,479</u>	<u>\$ 1,550,444</u>	

RECONCILIATION TO THE STATEMENT OF ACTIVITIES

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	3,831,996
Depreciation expense	(2,319,233)
Governmental funds report proceeds from the sale of capital assets as an increase in financial resources while governmental activities report the gain or loss on the sale of capital assets.	
Loss from sale of assets	(1,272,617)
Compensated absences 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.	(181,212)
The internal service fund is used by management to charge the costs of employee benefits.	
The net revenue (expense) of the internal service fund is reported in governmental activities.	485,206
Change in net position of governmental activities	<u>\$ 3,086,277</u>

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

CITY OF SALEM SCHOOL DIVISION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - SPECIAL REVENUE FUND - OPERATING FUND
YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				Positive
				(Negative)
<i>Intergovernmental:</i>				
City of Salem	\$ 18,919,494	\$ 18,955,822	\$ 19,622,043	\$ 666,221
Commonwealth of Virginia	18,309,240	19,473,685	19,452,863	(20,822)
Federal Government	2,124,726	2,166,269	1,838,411	(327,858)
<i>Other:</i>				
Charges for Services	579,000	827,900	834,497	6,597
Other	721,697	2,736,055	765,723	(1,970,332)
Total revenues	<u>40,654,157</u>	<u>44,159,731</u>	<u>42,513,537</u>	<u>(1,646,194)</u>
EXPENDITURES				
Central administration	1,800,040	1,721,151	1,756,494	(35,343)
Centralized instruction costs	3,549,488	3,769,189	3,711,762	57,427
Instructional costs:				
Salem High School	9,971,660	10,148,683	9,965,723	182,960
Andrew Lewis Middle School	6,935,452	6,979,952	6,765,055	214,897
G.W. Carver Elementary School	3,541,823	3,541,849	3,634,528	(92,679)
West Salem Elementary School	3,189,996	3,218,076	3,167,012	51,064
South Salem Elementary School	3,064,627	3,065,735	3,006,075	59,660
East Salem Elementary School	3,400,838	3,431,558	3,185,659	245,899
Regional	688,697	688,697	616,896	71,801
Attendance and health services	941,204	943,372	889,226	54,146
Transportation	1,292,406	1,530,230	1,529,625	605
Federal and state grants programs	2,232,509	3,347,833	2,974,412	373,421
Non-departmental	45,417	-	-	-
Total expenditures	<u>40,654,157</u>	<u>42,386,325</u>	<u>41,202,467</u>	<u>1,183,858</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>1,773,406</u>	<u>1,311,070</u>	<u>(462,336)</u>
OTHER FINANCING USES				
Transfers out	-	(1,773,406)	(1,773,406)	-
Total other financing uses	<u>-</u>	<u>(1,773,406)</u>	<u>(1,773,406)</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (462,336)</u>	<u>\$ (462,336)</u>

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

CITY OF SALEM SCHOOL DIVISION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - SPECIAL REVENUE FUND - CAFETERIA FUND
YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				Positive
				(Negative)
<i>Intergovernmental:</i>				
Commonwealth of Virginia	\$ 33,254	\$ 33,254	\$ 25,893	\$ (7,361)
Federal Government	645,000	645,000	784,413	139,413
<i>Other:</i>				
Charges for services	908,500	908,500	832,642	(75,858)
Other	11,250	11,250	12,876	1,626
Total revenues	<u>1,598,004</u>	<u>1,598,004</u>	<u>1,655,824</u>	<u>57,820</u>
EXPENDITURES				
Food services:				
Salem High School	453,127	455,029	447,565	7,464
Andrew Lewis Middle School	360,668	359,868	352,174	7,694
G.W. Carver Elementary School	242,913	242,211	228,976	13,235
West Salem Elementary School	161,900	161,400	167,890	(6,490)
South Salem Elementary School	183,045	183,145	219,387	(36,242)
East Salem Elementary School	196,351	196,351	199,507	(3,156)
Total expenditures	<u>1,598,004</u>	<u>1,598,004</u>	<u>1,615,499</u>	<u>(17,495)</u>
Excess of revenues				
over expenditures	<u>-</u>	<u>-</u>	<u>40,325</u>	<u>40,325</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,325</u>	<u>\$ 40,325</u>

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

**CITY OF SALEM SCHOOL DIVISION
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2014**

	Internal Service Fund
ASSETS	
Cash and cash equivalents	\$ 1,647,810
Receivables	31,813
Total assets	<u>1,679,623</u>
LIABILITIES	
Accounts payable and accrued liabilities	350,713
Self insurance claims liability	439,848
Unearned revenue	35,904
Total liabilities	<u>826,465</u>
NET POSITION	
Unrestricted	853,158
Total net position	<u>\$ 853,158</u>

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

CITY OF SALEM SCHOOL DIVISION
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2014

	Internal Service Fund
OPERATING REVENUES	
Charges for services	\$ 4,876,248
Total revenues	<u>4,876,248</u>
OPERATING EXPENSES	
Claims	4,160,960
Administrative costs	<u>230,082</u>
Total operating expenses	<u>4,391,042</u>
Operating income	<u>485,206</u>
Change in net position	<u>485,206</u>
Net position, beginning, as restated	367,952
Net position, ending	<u><u>\$ 853,158</u></u>

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

**CITY OF SALEM SCHOOL DIVISION
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2014**

	Internal Service Fund
OPERATING ACTIVITIES	
Receipts from customers and users	\$ 4,880,339
Payments to City	(230,082)
Payments for claims	(3,670,950)
Net cash provided by operating activities	<u>979,307</u>
NONCAPITAL FINANCING ACTIVITIES	
Transfers out	-
Net cash used in noncapital financing activities	<u>-</u>
Cash and cash equivalents, beginning, as restated	668,503
Cash and cash equivalents, ending	<u><u>\$ 1,647,810</u></u>
CASH AND CASH EQUIVALENTS AT END OF YEAR IS COMPRISED OF THE FOLLOWING:	
Cash and cash equivalents	\$ 1,647,810
Total	<u><u>\$ 1,647,810</u></u>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	
Operating income	\$ 485,206
<i>Adjustments to reconcile operating income to net cash provided by operating activities</i>	
<i>Increase in assets:</i>	
Receivables	(31,813)
<i>Increase in liabilities:</i>	
Accounts payable and accrued liabilities	350,713
Self insurance claims liability	139,297
Unearned revenue	35,904
Net cash provided by operating activities	<u><u>\$ 979,307</u></u>

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

EXHIBIT 10

CITY OF SALEM SCHOOL DIVISION
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2014

	<u>OPEB Trust Fund</u>
ASSETS	
Investments held by trustee, fair value of pooled funds	\$ 825,416
Total assets	<u>825,416</u>
NET POSITION	
Held in trust for other postemployment benefits	<u>\$ 825,416</u>

EXHIBIT 11

CITY OF SALEM SCHOOL DIVISION
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2014

	<u>OPEB Trust Fund</u>
ADDITIONS	
Employer contributions	\$ 37,115
<i>Investment Income:</i>	
Increase in fair value of investments	89,978
Less investment expenses and transfers	<u>(1,350)</u>
Total additions	<u>125,743</u>
Net increase in plan net position	<u>125,743</u>
Net position held in trust for other postemployment benefits, beginning	<u>699,673</u>
Net position held in trust for other postemployment benefits, ending	<u>\$ 825,416</u>

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

1. Summary of Significant Accounting Policies

The Financial Reporting Entity

The City of Salem School Division (School Division), established in 1983, is a legally separate entity from the City of Salem (City). The School Division operates a high school, a middle school, four elementary schools and an alternative education center. City Council appoints School Board members and provides fiscal assistance through tax levies for operating activities and debt issuance for capital projects. The City reports the School Division as a discretely presented component unit.

School Board members are occasionally appointed to various committees as provided under state and local laws and ordinances. However, the committees are advisory in nature and the School Division is not financially accountable for these committees; therefore, they are not included in the School Division financial statements.

Government-Wide Statements

The government-wide financial statements report information on all of the non-fiduciary activities of the School Division. *Governmental activities* are normally supported by intergovernmental revenues.

The **statement of net position** presents the governmental activities on the accrual basis of accounting, which incorporates long-term assets and long-term liabilities.

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. Items not properly included 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 funds. The operation of each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, 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 two broad fund categories as follows:

Governmental Funds account for expendable financial resources. The School Division reports the following major governmental funds:

- The *special revenue funds* account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. Special revenue funds include the operating and cafeteria funds.
- The *capital projects fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities.

Proprietary Funds account for operations that are financed and operating in a manner similar to private business enterprises. The School Division reports the following enterprise fund:

- The *insurance internal service fund* accounts for funding, claims, and operating costs of the self-insurance program.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

1. Summary of Significant Accounting Policies (Continued)

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

- The *OPEB trust fund* accounts for the receipt and disbursement of assets held in trust for the other postemployment benefit (OPEB) plan of the School Division.

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.

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 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 90 days of year-end. All other revenue items are considered measurable and available when cash is received by the government. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, compensated absences, other postemployment benefit expenditures, as well as expenditures related to claims and judgments are recorded only when payment is due.

As a result of the different measurement focus and basis of accounting used in preparing the government-wide statements versus the governmental fund financial statements, a reconciliation between the government-wide and fund financial statements is necessary. The reconciliations are presented at the bottom of the governmental fund financial statements. As part of the reconciliation process, non-departmental indirect expenditures are allocated to functional expenses based on a percent of functional expenditures. Remaining non-departmental expenditures are contributions to the City of Salem for debt service and capital projects.

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 proprietary fund's principal ongoing operations. Operating revenues include charges to customers or users 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 reporting as nonoperating revenues and expenses.

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

Fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

1. Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting

The School Division's budget is presented and adopted in accordance with accounting principles generally accepted in the United States of America. The budget is a written document which presents the Board's plan for the allocation of the available financial resources into an explicit expenditure plan to sustain and improve the educational function of the School Division. The budget is based upon the educational needs and financial ability of the division, as cooperatively identified by the superintendent and his staff, the Board and the community. The following procedures are used by the School Division in establishing the budgetary data reflected in the financial statements:

- In February, the Superintendent submits to the School Board a proposed operating and capital budget for the fiscal year commencing the following July 1. This budget includes proposed expenditures and the means of financing them for the operating and cafeteria funds. The capital projects fund utilizes a project length budget in lieu of an annual budget; therefore, no annual budget for capital projects is presented.
- Public hearings are conducted to obtain citizen comments.
- Prior to March 31, the budget is adopted through passage of a resolution. The budget is then presented to the City Manager to be incorporated in the City budget. Prior to May 15, City Council approves the School Division budget.
- The School Board, with the concurrence of City Council, may amend the budget providing for additional expenditures and the means for financing them. The School Board approved additional appropriations of \$3,505,574 during the current year primarily for grants, new capital projects, re-appropriation of fund balance for encumbrances, and unforeseen operating expenditures.
- The appropriations ordinance places legal restrictions on expenditures at the fund level. City Council has adopted the policy of appropriating the School Division budget in total rather than by categories. The School Board is authorized to transfer budget amounts within the fund at its discretion. The impact of changes in market values on commodities donated by the United States Department of Agriculture can, at times, cause over expenditures in the Cafeteria Fund. The effects of these market changes are excluded from consideration of budget noncompliance.
- The Superintendent is authorized to transfer budget amounts within and between the major categories subject to School Board approval.
- Formal budgetary integration is employed as a management control device for the operating and cafeteria funds.
- All appropriations lapse on June 30 except for the capital projects fund, which carries unexpended balances into the following year.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the special revenue and capital projects funds. Encumbrances outstanding at year-end are reported as assignments of fund balances in the Special Revenue funds and as commitments of fund balance in the Capital Projects fund.

Interfund Receivables and Payables

Outstanding balances between funds are reported as due to/from other funds. Outstanding balances between the School Division and the City are reported as due to/from primary government.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

1. Summary of Significant Accounting Policies (Continued)

Inventory

Cafeteria fund inventories consist of food and supplies. Inventories are valued at cost using the first-in, first-out (FIFO) method, except for commodities received from the federal government which are valued at amounts assigned by the United States Department of Agriculture. Disbursements for inventory are considered to be expenditures at the time of use (consumption method of accounting). Inventories are offset by fund balance classification which indicates that they do not constitute spendable resources.

Prepaid Items

Prepaid items include costs incurred as of year-end which are directly related to the subsequent fiscal year and consist primarily of insurance premiums. Such costs are expensed in the subsequent fiscal year to obtain a proper matching of revenues and expenses/expenditures. Prepaid items are offset by fund balance classification which indicates that they do not constitute spendable resources.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the School Division as assets with an initial individual cost of more than \$0 for land, \$2,000 for furniture and equipment or \$5,000 for buildings and improvements and an estimated useful life of at least five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value on the date of donation. The School Division includes the cost of certain intangible assets with a definite life in the appropriate asset class.

The costs 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 constructed.

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

Furniture and equipment	5-15 years
Buildings and improvements	10-45 years

Capital Assets and Related Debt Reporting

Local governments in Virginia have a tenancy in common with the School Board whenever the locality incurs a financial obligation, excluding capital leases, for school property which is payable over more than one fiscal year. The primary government reports this debt in its financial statements while the School Division reports the capital asset.

Unearned and Unavailable Revenue

In the statement of net position, unearned revenue arises when assets are received or are billed to customers before revenue recognition criteria are satisfied. In the governmental fund balance sheet, unavailable revenue arises when assets are recognized but are not available to finance expenditures of the current fiscal period or when assets are received before revenue recognition criteria are satisfied. Unearned revenue primarily consists of payments made in advance for cafeteria meals and health insurance premiums billed to retirees in advance of the month of coverage.

Compensated Absences

The School Division has policies which allow for the accumulation and vesting of limited amounts of vacation and sick leave until termination or retirement. Amounts of such absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds when the amounts are due for payment.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

1. Summary of Significant Accounting Policies (Continued)

Other Postemployment Benefits

In connection with the School Division's funding of other postemployment benefits (OPEB), the School Division participates in the Virginia Pooled OPEB Trust (OPEB Trust Fund). The School Division'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 Trust Board of Trustees establishes investment objectives, risk tolerance and asset allocation policies based on the investment policy, market and economic conditions and generally prevailing prudent investment practices.

Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the School Division 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, such as prepaid items and inventory. 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 of Salem School Division, 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 of Salem School Division intends to use for a specified purpose; intent can be expressed by the governing body (School Board) 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.

The School Board establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. This is typically done through adoption and amendment of the budget. Assigned fund balance is established by the School Board as amounts are intended for a specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

Restricted Amounts

The City of Salem School Division 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.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Significant encumbrances as of June 30, 2014 total \$46,739 in the school operating fund, and \$779,795 in the capital projects fund.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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 liabilities, the disclosure of contingent liabilities, and reported revenues, expenditures, and expenses. Actual results could differ from those estimates.

2. 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.

3. Due from Other Governmental Units

Amounts due from other governmental units are as follows:

	Operating Fund	Cafeteria Fund	Governmental Activities
Commonwealth of Virginia			
Sales tax	\$ 606,926	\$ -	\$ 606,926
Federal Government			
Special Education – Grants to States	210,159	-	210,159
Adult Education – Grants to States	222,878	-	222,878
National School Breakfast and Lunch Programs	-	30,031	30,031
Carol White PEP Grant	9,688	-	9,688
Title I: Grants to Local Educational Agencies	30,812	-	30,812
Title II: Part A, Improving Teacher Quality State Grants	26,141	-	26,141
Other	19,011	-	19,011
	<u>\$ 1,125,615</u>	<u>\$ 30,031</u>	<u>\$ 1,155,646</u>

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

4. Capital Assets

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	\$ 1,123,637	\$ -	\$ -	\$ 1,123,637
Construction in progress	14,021,080	3,880,450	(17,497,421)	404,109
Capital assets, nondepreciable	<u>15,144,717</u>	<u>3,880,450</u>	<u>(17,497,421)</u>	<u>1,527,746</u>
Capital assets, depreciable				
Furniture and equipment	6,504,677	1,327,128	(345,802)	7,486,003
Buildings and improvements	53,663,763	16,121,839	(2,206,633)	67,578,969
Capital assets, depreciable	<u>60,168,440</u>	<u>17,448,967</u>	<u>(2,552,435)</u>	<u>75,064,972</u>
Accumulated depreciation				
Furniture and equipment	(4,040,640)	(563,599)	986,039	(3,618,200)
Buildings and improvements	(22,071,097)	(1,755,634)	293,779	(23,532,952)
Accumulated depreciation	<u>(26,111,737)</u>	<u>(2,319,233)</u>	<u>1,279,818</u>	<u>(27,151,152)</u>
Capital assets, depreciable, net	<u>34,056,703</u>	<u>15,129,734</u>	<u>(1,272,617)</u>	<u>47,913,820</u>
Capital assets, net	<u>\$ 49,201,420</u>	<u>\$ 19,010,184</u>	<u>\$ (18,770,038)</u>	<u>\$ 49,441,566</u>

Depreciation expense was charged to functions as follows:

Central administration	\$ 129,349
Instructional costs	2,045,883
Transportation	144,001
Total depreciation expense	<u>\$ 2,319,233</u>

5. Long-Term Liabilities

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated absences	\$ 905,171	\$ 254,717	\$ (59,987)	\$ 1,099,901	\$ 408,637
Other postemployment benefits	(66,146)	274,039	(274,039)	(66,146)	-
	<u>\$ 839,025</u>	<u>\$ 528,756</u>	<u>\$ (334,026)</u>	<u>\$ 1,033,755</u>	<u>\$ 408,637</u>

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

6. Fund Balances

Fund balance is classified as non-spendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School Division is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on the fund balances of the governmental funds are presented below:

	<u>School Operating Fund</u>	<u>Cafeteria Fund</u>	<u>Capital Projects Fund</u>
Fund Balances:			
Nonspendable:			
Inventories	\$ -	\$ 55,511	\$ -
Prepaid items	24,797	-	-
Committed To:			
Capital projects	-	-	1,550,444
Assigned To:			
General education	1,992,070	-	-
Food services	-	451,968	-
	<u>\$ 2,016,867</u>	<u>\$ 507,479</u>	<u>\$ 1,550,444</u>

7. Risk Management

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

Worker's Compensation

Worker's Compensation Insurance is provided through the School Systems of Virginia. 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 \$72,579.

General Liability and Other

The School Division provides general liability and other insurance through the Virginia Municipal League Insurance Program (VMLIP). General liability and business automobile have a \$1,000,000 limit. Boiler and machinery coverage and property insurance are covered as per statement of values. The School Division maintains an additional \$10,000,000 umbrella policy over all forms of liability. Total premiums for the current fiscal year were \$124,172.

Healthcare

The City's professionally administered self-insurance program provides health coverage for employees of the School Division on a cost-reimbursement basis. All active employees, and retired School employees pay a premium equivalent for participation. The premium equivalent represents a minimum of 10% 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 \$150,000 per covered individual and approximately \$9,975,155 in the aggregate.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

7. Risk Management (Continued)

Healthcare (Continued)

During the current fiscal year total claim expenses for both the City and School Division of \$8,331,624 were incurred. This represents claims processed and an estimate for claims incurred but not reported (IBNR) as of June 30, 2014. Certain claims expenses, incurred before year end and included in the estimated liability, exceeded stop loss provisions. The effect of the stop loss reimbursement has been considered in determining the estimated claims liability. The estimated liability for both the City and the School Division was \$898,880 at year-end which includes \$439,848 for the School Division.

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
2014	\$ 689,276	\$ 8,331,624	\$ 8,122,020	\$ 898,880
2013	\$ 738,264	\$ 7,948,001	\$ 7,996,989	\$ 689,276
2012	\$ 798,857	\$ 7,811,624	\$ 7,872,217	\$ 738,264

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.

8. Pension Plan

Plan Description

The School Division contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (the "System"). Professional employees of the School Division participate in a VRS statewide teacher cost-sharing pool and non-professional employees of the School Division participate as a separate group in the agent multiple-employer retirement system.

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

Within the VRS Plan, the System administers three different benefit plans for local government employees – Plan 1, Plan 2, and Hybrid. Each plan has a different eligibility and benefit structure as set out below:

VRS PLAN 1

About VRS Plan 1 – VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Hybrid Opt-In Election – VRS non-hazardous duty covered plan 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 were not eligible to elect the Hybrid Retirement Plan and remain as plan members or ORP.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

8. Pension Plan (Continued)

Plan Description (Continued)

VRS PLAN 1 (Continued)

Retirement Contributions – Members contribute up to 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5.00% member contribution; all employees will be paying the full 5.00% by July 1, 2016. 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.

Creditable Service – Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service 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.

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 creditable service. 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 calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

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 – Age 65.

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 creditable service or at age 50 with at least 30 years of creditable service. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

Earliest Reduced Retirement Eligibility – Members may retire with a reduced benefit as early as age 55 with at least five years of creditable service or age 50 with at least 10 years of creditable service.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

8. Pension Plan (Continued)

Plan Description (Continued)

VRS PLAN 1 (Continued)

Cost-of-Living Adjustment (COLA) in Retirement – The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.

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

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 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 – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

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 creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. 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 their 60 consecutive months of highest compensation as a covered employee.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

8. Pension Plan (Continued)

Plan Description (Continued)

VRS PLAN 2 (Continued)

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

Normal Retirement Age – Normal Social Security retirement age.

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 and have at least five years of creditable service or when their age and service equal 90.

Earliest Reduced Retirement Eligibility – Members may retire with a reduced benefit as early as age 60 with at least five years of creditable service.

Cost-of-Living Adjustment (COLA) in Retirement – The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.

Disability Coverage – 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. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

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. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window.

- The defined benefit is based on a member's age, creditable service 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.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

8. Pension Plan (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

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

- State employees.*
- School division employees.
- Political subdivision employees.*
- Judges appointed or elected to an original term on or after January 1, 2014.
- 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:

- Members of the State Police Officers' Retirement System (SPORS).
- Members of the Virginia Law Officers' Retirement System (VaLORS).
- 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.

Creditable Service

Defined Benefit Component: Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service 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 SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

8. Pension Plan (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

Defined Contribution Component: Under the defined contribution component, creditable service 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 creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contribution 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.

Distribution is not required by law until age 70½.

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 – The retirement multiplier is 1.00%. For members that 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.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

8. Pension Plan (Continued)

Plan Description (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 creditable service or when their age and service equal 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 creditable service.

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

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Not applicable.

Disability Coverage – Eligible political subdivision and school division (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. State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2013-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

8. Pension Plan (Continued)

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the School Division is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees.

The School Division's non-professional employees' contribution rate for the fiscal year ended June 30, 2014 was 12.91% of annual covered payroll (including the employee share). The School Division's professional employees' contribution rate for the VRS statewide teacher pool for fiscal year ended June 30, 2014 was 16.66% of annual covered payroll (including the employee share). Total employer and employee contributions made to the VRS statewide teacher pool for professional employees by the School Division for fiscal years ended June 30, 2014, 2013, and 2012 were \$3,261,270, \$3,666,828, and \$2,403,733, respectively, and were equal to the required contributions for each year.

Annual Pension Cost

For the fiscal year ended June 30, 2014, the School Division's annual pension cost of \$160,259, for VRS was equal to its required and actual contributions.

**Three-Year Trend Information
Non-Professional Staff**

<u>Fiscal Year Ending</u>	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2014	\$ 160,259	100%	\$ -
June 30, 2013	\$ 164,578	100%	\$ -
June 30, 2012	\$ 142,347	100%	\$ -

The fiscal year 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for local general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%.

The actuarial value of the School Division's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The School Division's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013 for the Unfunded Actuarial Accrued liability (UAAL) was 30 years.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

8. Pension Plan (Continued)

Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date for the School Division's non-professional employees, the plan was 89.21% funded. The actuarial accrued liability for benefits was \$4,758,374 and the actuarial value of assets was \$4,244,932 resulting in an unfunded actuarial accrued liability (UAAL) of \$513,442. The covered payroll (annual payroll of active employees covered by the plan) was \$1,279,323 and the ratio of the UAAL to the covered payroll was 40.13%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

9. Other Postemployment Benefits

In addition to salary, many employees earn benefits over their years of service that will not be received until they retire. The cost of these postemployment benefits are part of the compensation employees earn each year, rather than costs of future years when the benefits are paid and should be recognized during their years of service.

An actuarial valuation was performed as of June 30, 2013. The specific limitations, which the new actuarial valuation was based on, are outlined under the plan description.

Plan Description

The School Division participates in a single-employer defined benefit healthcare plan (Retiree Health Plan) administered and sponsored by the City. Full-time employees retiring directly from the School District with at least 15 years of service and receiving an early or regular retirement benefit from the VRS are eligible to participate in the Retiree Health Plan.

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.

School Division retirees do not receive any premium subsidy and are responsible for the cost of the entire premium.

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

The School Division participates in the Virginia Pooled 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. Financial statements may be obtained from VML/VACo Finance Program, PO Box 12164, Richmond, Virginia 23241.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

9. Other Postemployment Benefits (Continued)

As of June 30, 2013, the date of the latest actuarial valuation for the School Division, plan participation consisted of:

Active employees	535
Retired participants	56
Total participants	<u>591</u>

Funding Policy

The Retiree Health Plan is funded through member and employer contributions. School Division Retirees receiving benefits contribute 100% of the health insurance premium rate. During the current year, retired School Division members contributed \$418,316, of the total premiums through their required contributions of between \$101 and \$1,493, depending on the type of coverage and years of service.

Based on the June 30, 2013 actuarial valuation, the School Division contributed \$274,039 to the Retiree Health Plan. Included in this amount is a current year contribution of \$37,115 to the Virginia Pooled OPEB Trust representing 100% of the annual required contribution (ARC). It is the School Division's intent to reduce this asset to zero and to fully fund the ARC each year.

Annual OPEB Cost and Net OPEB Obligation

The School Division's annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed 30 years.

The following table presents the School Division's annual OPEB cost; amount contributed and changes in the net OPEB obligation for the fiscal year ended June 30, 2014.

Annual required contribution	\$ 274,697
Interest on net OPEB obligation	(4,630)
Adjustment to annual required contribution	<u>3,972</u>
Annual OPEB cost	274,039
Contributions made	<u>(274,039)</u>
Increase (decrease) in net OPEB obligation	-
Net OPEB obligation (asset), beginning	<u>(66,146)</u>
Net OPEB obligation (asset), ending	<u>\$ (66,146)</u>

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

9. Other Postemployment Benefits (Continued)

The following table presents information on the School Division's annual OPEB cost, percentage of annual OPEB cost contributed and net OPEB obligation.

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
June 30, 2014	\$ 274,039	100.0%	\$ (66,146)
June 30, 2013	\$ 294,471	97.6%	\$ (66,146)
June 30, 2012	\$ 284,897	125.7%	\$ (73,243)

Funded Status and Funding Progress

As of June 30, 2013, the School Division's most recent actuarial valuation date, the plan was 23.7% funded. The AAL for benefits was \$2,951,722 and the actuarial value of assets was \$699,672, resulting in a UAAL for benefits of \$2,252,050. The covered payroll (annual payroll of active employees covered by the plan) was \$23,283,603 and the ratio of the UAAL to the covered payroll was 9.7%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Calculations for financial reporting purposes are based on the benefits provided under terms of the substantive plan (the plan as understood by the employer and the plan members) in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective.

Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in AAL and the actuarial value of assets.

The actuarial methods and assumptions, which are the basis for the actuarial valuation, are detailed in the following schedule. The investment rate of return shown was based on the projected returns of the Virginia Pooled OPEB Trust.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

9. Other Postemployment Benefits (Continued)

Methods and Assumptions (Continued)

Actuarial methods

Actuarial cost method	Entry Age
Amortization method	Level percent of payroll
Amortization period	Open over 30 years
Asset valuation method	Cost basis
Liability valuation method	Closed group

Actuarial assumptions

Investment rate of return	7.00%
Inflation rate	2.50%
Healthcare cost trend rate	8% for fiscal year 2013 grading to 5% for fiscal year 2016

10. Commitments and Contingencies

Construction Commitments

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

	Spent to Date	Remaining Contract
South Salem School Elementary	\$ 15,000,798	\$ 50,000
East Salem Elementary School Addition/Renovation	249,568	626,432
	<u>\$ 15,250,366</u>	<u>\$ 676,432</u>

Operating Leases

The School Division entered several non-cancelable operating leases for equipment. Rent expenditures for the current year were \$31,930. At the end of the year, the future minimum rentals for the next five years are as follows:

June 30, 2015	\$ 16,498
June 30, 2016	12,826
June 30, 2017	7,368
June 30, 2018	234
June 30, 2019	-
	<u>\$ 36,926</u>

Special Purpose Grants

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

11. Jointly Governed Organizations

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, 2014, the School Division remitted \$739,431 to the Regional Board for services. Financial statements may be obtained from the Roanoke Valley Regional Board at 12 Barron Drive, Suite 1, Troutville, Virginia 24175.

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, 2014, the School Division remitted \$41,850 for services.

12. Accounting Changes and Restatements

The School Division restated the governmental activities beginning net position to reflect the segregation of funding, claims, and operating costs of the self-insurance program into an internal service fund.

	Internal Service Fund	Governmental Activities
Net position, beginning, as previously reported	\$ -	\$ 49,959,455
To segregate School health insurance internal service fund	367,952	367,952
Net position, beginning, as restated	<u>\$ 367,952</u>	<u>\$ 50,327,407</u>

13. New Accounting Standards

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* replaces the requirements of GASB Statements No. 27 and No. 50 as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The Statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. This Statement will be effective for the year ending June 30, 2015.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

13. New Accounting Standards (Continued)

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* was issued to provide governmental guidance on governmental combinations and disposals of governmental operations that does not conflict with GASB Statement No. 34. The objective of this Statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. A disposal of a government's operations results in the removal of specific activities of a government. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial Statement users to evaluate the nature and financial effects of those transactions. This Statement will be effective for the year ending June 30, 2015.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* was issued to address an issue regarding application of the transition provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions. This Statement amends GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This Statement will be effective for the year ending June 30, 2015.

Management has not yet evaluated the effects, if any, of adopting these standards.

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF SALEM SCHOOL DIVISION
REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS
JUNE 30, 2014**

**DEFINED BENEFIT PENSION PLAN
Non-Professional Staff**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (Asset) (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as of Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
June 30, 2013	\$ 4,244,932	\$ 4,758,374	\$ 513,442	89.21%	\$ 1,279,323	40.13%
June 30, 2012	\$ 4,137,362	\$ 4,624,721	\$ 487,359	89.46%	\$ 1,225,598	39.77%
June 30, 2011	\$ 4,170,371	\$ 4,369,904	\$ 199,533	95.43%	\$ 1,218,992	16.37%

**OTHER POSTEMPLOYMENT BENEFITS
All Staff**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability/(Asset) (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as of Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
June 30, 2013	\$ 699,672	\$ 2,951,722	\$ 2,252,050	23.7%	\$ 23,283,603	9.7%
June 30, 2011	\$ 460,426	\$ 3,041,121	\$ 2,580,695	15.1%	\$ 22,300,816	11.6%
July 1, 2008	\$ -	\$ 2,594,210	\$ 2,594,210	0.0%	\$ 23,509,649	11.0%

**CITY OF SALEM SCHOOL DIVISION
REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYER CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2014**

Fiscal year	Annual Required Contribution	Percentage Contributed
June 30, 2014	\$ 274,039	99.8%
June 30, 2013	\$ 295,200	97.3%
June 30, 2012	\$ 284,897	125.7%

OTHER INFORMATION SECTION

This part of the School Division's annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the government's overall health. The information included in this section is not audited.

Page

Financial Trends

These schedules contain trend information to help the reader understand how the School Division's financial performance and well-being have changed over time.

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Operating Information

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**TABLE 1
UNAUDITED**

**CITY OF SALEM SCHOOL DIVISION
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS**

	2014 (2)	2013	2012	2011	2010	2009	2008	2007	2006 (1)	2005
<u>Governmental activities</u>										
Net Investment in capital assets	\$ 49,441,566	\$ 49,201,420	\$ 37,836,389	\$ 37,885,656	\$ 38,414,499	\$ 38,497,717	\$ 39,836,700	\$ 40,661,691	\$ 41,809,002	\$ 41,972,423
Unrestricted	3,972,118	758,035	2,749,702	4,046,004	4,182,847	3,499,453	2,117,375	1,778,144	1,193,675	2,245,322
Total school division net position	<u>\$ 53,413,684</u>	<u>\$ 49,959,455</u>	<u>\$ 40,586,091</u>	<u>\$ 41,931,660</u>	<u>\$ 42,597,346</u>	<u>\$ 41,997,170</u>	<u>\$ 41,954,075</u>	<u>\$ 42,439,835</u>	<u>\$ 43,002,677</u>	<u>\$ 44,217,745</u>

Notes:

Source: City of Salem Finance Department

⁽¹⁾ As restated.

⁽²⁾ In 2014, the School Division segregated health insurance into an internal service fund.

TABLE 2
UNAUDITED

CITY OF SALEM SCHOOL DIVISION
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS

	2014 (1)	2013	2012	2011	2010	2009	2008	2007	2006	2005
EXPENSES										
Central administration	\$ 1,879,992	\$ 1,920,910	\$ 1,563,224	\$ 1,466,696	\$ 1,514,899	\$ 1,553,796	\$ 1,531,730	\$ 1,584,163	\$ 1,433,354	\$ 1,298,985
Centralized instruction costs	3,879,440	3,548,842	3,328,048	2,997,309	3,172,287	3,337,312	2,918,668	3,034,138	2,832,043	2,645,018
Instructional costs	33,968,213	32,389,924	30,692,441	29,758,175	29,386,590	32,198,604	31,246,512	30,009,920	28,633,385	26,938,020
Attendance and health services	879,534	893,663	872,551	838,160	853,611	865,647	875,542	856,256	824,682	737,688
Transportation	1,413,079	1,446,627	1,338,768	1,303,303	1,251,032	1,260,368	1,219,250	1,206,958	1,201,452	1,133,951
Food services	1,597,475	1,616,530	1,666,673	1,737,457	1,695,734	1,753,307	1,749,928	1,641,335	1,596,278	1,513,985
Federal and state grants programs	2,953,551	2,172,018	3,066,792	2,807,159	4,269,293	1,738,798	1,677,153	1,949,581	1,655,441	1,323,474
Non-departmental	-	548,520	550,000	250,000	250,000	295,753	266,490	273,835	-	-
Total governmental activities	46,571,284	44,537,034	43,078,497	41,158,259	42,393,446	43,003,585	41,485,273	40,556,186	38,176,635	35,591,121
PROGRAM REVENUES										
Charges for services	1,667,139	1,545,090	1,574,520	1,591,030	1,716,362	1,557,348	1,499,500	1,570,518	1,476,768	1,306,932
Operating grants and contributions	8,956,887	8,122,841	7,810,425	7,159,185	8,728,103	6,683,475	6,847,722	6,560,448	5,594,779	4,862,166
Capital grants and contributions	7,000	7,000	-	-	-	-	-	-	-	710,056
Total governmental activities	10,631,026	9,674,931	9,384,945	8,750,215	10,444,465	8,240,823	8,347,222	8,130,966	7,071,547	6,879,154
NET EXPENSE	<u>(35,940,258)</u>	<u>(34,862,103)</u>	<u>(33,693,552)</u>	<u>(32,408,044)</u>	<u>(31,948,981)</u>	<u>(34,762,762)</u>	<u>(33,138,051)</u>	<u>(32,425,220)</u>	<u>(31,105,088)</u>	<u>(28,711,967)</u>
GENERAL REVENUES AND										
OTHER CHANGES IN NET POSITION										
Payments from City of Salem	25,103,243	30,295,228	18,471,653	18,420,000	18,420,000	18,420,000	17,995,000	17,095,000	16,266,005	15,618,081
State aid	13,144,693	13,133,752	13,237,358	12,815,820	13,691,655	15,967,532	14,068,288	14,317,578	12,618,480	11,879,544
Other	778,599	806,487	638,972	506,538	437,502	418,325	589,003	449,800	412,632	130,337
Total governmental activities	39,026,535	44,235,467	32,347,983	31,742,358	32,549,157	34,805,857	32,652,291	31,862,378	29,297,117	27,627,962
CHANGE IN NET POSITION	<u>\$ 3,086,277</u>	<u>\$ 9,373,364</u>	<u>\$ (1,345,569)</u>	<u>\$ (665,686)</u>	<u>\$ 600,176</u>	<u>\$ 43,095</u>	<u>\$ (485,760)</u>	<u>\$ (562,842)</u>	<u>\$ (1,807,971)</u>	<u>\$ (1,084,005)</u>

Notes:

Source: City of Salem Finance Department

⁽¹⁾ In 2014, the School Division segregated health insurance into an internal service fund.

TABLE 3
UNAUDITED

CITY OF SALEM SCHOOL DIVISION
FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS

	2014 (3)	2013	2012	2011 (2)	2010	2009	2008	2007	2006 (1)	2005
FUND BALANCES										
<u>Operating Fund</u>										
Nonspendable	\$ 24,797	\$ 3,326	\$ 24,138	\$ 37,099	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Committed	-	36,863	170,452	1,225,000	-	-	-	-	-	-
Assigned	1,992,070	2,439,014	1,166,693	2,532,508	-	-	-	-	-	-
Reserved for prepaid items	-	-	-	-	14,083	-	-	-	-	-
Reserved for encumbrances	-	-	-	-	137,159	335,759	95,531	19,946	65,328	238,626
Designated for future projects	-	-	-	-	300,000	200,000	100,000	-	-	-
Designated for revenue stabilization	-	-	-	-	500,000	-	-	-	-	-
Unreserved, undesignated	-	-	-	-	2,581,647	2,663,276	1,667,848	1,820,766	763,269	1,334,703
Total operating fund	<u>\$ 2,016,867</u>	<u>\$ 2,479,203</u>	<u>\$ 1,361,283</u>	<u>\$ 3,794,607</u>	<u>\$ 3,532,889</u>	<u>\$ 3,199,035</u>	<u>\$ 1,863,379</u>	<u>\$ 1,840,712</u>	<u>\$ 828,597</u>	<u>\$ 1,573,329</u>
<u>Cafeteria Fund</u>										
Nonspendable	\$ 55,511	\$ 56,826	\$ 51,525	\$ 66,139	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Committed	-	-	23,302	-	-	-	-	-	-	-
Assigned	451,968	410,328	357,906	308,386	-	-	-	-	-	-
Reserved for inventories	-	-	-	-	40,753	60,389	68,195	44,963	40,378	27,618
Reserved for encumbrances	-	-	-	-	15,856	21,646	-	19,364	23,090	-
Unreserved, undesignated	-	-	-	-	318,852	283,711	306,211	365,182	304,039	268,255
Total Cafeteria fund	<u>\$ 507,479</u>	<u>\$ 467,154</u>	<u>\$ 432,733</u>	<u>\$ 374,525</u>	<u>\$ 375,461</u>	<u>\$ 365,746</u>	<u>\$ 374,406</u>	<u>\$ 429,509</u>	<u>\$ 367,507</u>	<u>\$ 295,873</u>
<u>Capital Projects Fund</u>										
Committed	\$ 1,550,444	\$ 1,550,586	\$ 1,681,048	\$ 693,096	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Assigned	-	-	-	-	-	-	-	-	-	-
Unassigned	-	(2,964,290)	-	-	-	-	-	-	-	-
Reserved for encumbrances	-	-	-	-	570,935	546,909	224,185	113,976	454,474	545,429
Unreserved, undesignated	-	-	-	-	530,502	174,371	406,753	41,903	73,315	380,014
Total Capital Projects fund	<u>\$ 1,550,444</u>	<u>\$ (1,413,704)</u>	<u>\$ 1,681,048</u>	<u>\$ 693,096</u>	<u>\$ 1,101,437</u>	<u>\$ 721,280</u>	<u>\$ 630,938</u>	<u>\$ 155,879</u>	<u>\$ 527,789</u>	<u>\$ 925,443</u>
 Total school division	 <u>\$ 4,074,790</u>	 <u>\$ 1,532,653</u>	 <u>\$ 3,475,064</u>	 <u>\$ 4,862,228</u>	 <u>\$ 5,009,787</u>	 <u>\$ 4,286,061</u>	 <u>\$ 2,868,723</u>	 <u>\$ 2,426,100</u>	 <u>\$ 1,723,893</u>	 <u>\$ 2,794,645</u>

Notes:

Source: City of Salem Finance Department

(1) As restated.

(2) Beginning in FY11, fund balances have been reclassified according to the requirements of GASB 54, Fund Balance Reporting and Government Fund Type Definitions.

(3) In 2014, the School Division segregated health insurance into an internal service fund.

TABLE 4
UNAUDITED

CITY OF SALEM SCHOOL DIVISION
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS

REVENUES	2014 (1)	2013	2012	2011	2010	2009	2008	2007	2006	2005
<u>Operating Fund</u>										
<i>Intergovernmental:</i>										
City of Salem	\$ 19,622,043	\$ 20,776,428	\$ 18,471,653	\$ 18,420,000	\$ 18,420,000	\$ 18,420,000	\$ 17,995,000	\$ 17,095,000	\$ 16,266,005	\$ 15,618,081
Commonwealth of Virginia	19,452,863	18,505,940	17,791,888	16,870,527	17,699,073	20,616,013	19,088,988	18,692,569	16,027,190	15,466,814
Federal Government	1,838,411	1,978,488	2,454,719	2,329,130	4,011,637	1,373,482	1,203,850	1,608,121	1,649,423	1,330,801
<i>Other:</i>	1,600,220	1,472,793	1,293,847	1,154,600	1,162,811	917,538	917,978	898,481	793,134	444,824
Total operating fund	42,513,537	42,733,649	40,012,107	38,774,257	41,293,521	41,327,033	39,205,816	38,294,171	34,735,752	32,860,520
<u>Cafeteria Fund</u>										
<i>Intergovernmental:</i>										
Commonwealth of Virginia	25,893	28,076	27,570	26,917	26,132	25,861	26,735	23,974	23,403	23,995
Federal Government	784,413	744,089	773,605	748,431	682,916	635,652	596,438	553,362	513,243	485,458
<i>Other:</i>										
Charges for services	832,642	867,703	903,493	922,353	974,623	1,022,831	1,029,365	1,075,195	1,059,334	971,131
Other	12,876	11,083	27,251	23,145	16,497	35,303	42,287	50,807	36,732	21,310
Total cafeteria fund	1,655,824	1,650,951	1,731,919	1,720,846	1,700,168	1,719,647	1,694,825	1,703,338	1,632,712	1,501,894
<u>Capital Projects Fund</u>										
<i>Intergovernmental:</i>										
City of Salem	5,481,200	9,518,800	-	-	-	-	-	-	-	-
<i>Other:</i>	7,000	7,000	-	-	-	-	98,872	-	-	-
Total capital projects fund	5,488,200	9,525,800	-	-	-	-	98,872	-	-	-
EXPENDITURES										
<u>Operating Fund</u>										
Central administration	1,756,494	1,664,724	1,414,020	1,461,269	1,505,723	1,467,700	1,530,878	1,379,411	1,243,400	1,165,163
Centralized instruction costs	3,711,762	3,499,585	3,008,025	3,136,131	3,231,442	2,922,251	3,034,138	2,832,043	2,645,018	2,259,623
<i>Instructional costs:</i>										
Salem High School	9,965,723	10,119,284	9,380,598	8,931,027	10,325,423	9,926,412	9,623,456	9,249,942	8,496,377	8,002,095
Andrew Lewis Middle School	6,765,055	6,780,842	6,078,634	5,966,676	6,859,192	6,742,401	6,457,778	6,168,605	5,762,444	5,389,410
G.W. Carver Elementary School	3,634,528	3,497,209	3,342,917	3,515,038	3,492,995	3,420,249	3,245,015	2,932,289	2,721,906	2,601,177
West Salem Elementary School	3,167,012	3,142,102	2,951,348	2,940,070	3,258,221	3,184,307	3,095,087	2,912,562	2,693,822	2,484,294
South Salem Elementary School	3,006,075	2,990,425	2,984,114	3,174,639	3,191,943	3,149,596	2,851,713	2,735,922	2,517,767	2,382,162
East Salem Elementary School	3,185,659	3,281,198	3,153,029	3,274,535	3,397,788	3,155,854	3,049,965	2,814,731	2,755,801	2,549,632
Regional Program	616,896	743,384	-	-	-	-	-	-	-	-
Attendance and health services	889,226	893,663	838,160	853,611	865,647	875,542	856,256	824,682	737,688	618,745
Transportation	1,529,625	1,282,845	1,297,167	1,426,223	1,209,606	1,324,034	1,072,352	1,071,437	1,007,797	860,523
Federal and state grants programs	2,974,412	2,203,948	2,824,695	4,456,948	1,746,188	1,688,454	1,949,581	1,655,441	1,323,474	1,282,019
Non-departmental	-	548,520	250,000	250,000	295,753	266,490	273,835	-	-	-
Capital outlay	-	-	-	-	-	-	-	-	-	27,595
Total operating fund	\$ 41,202,467	\$ 40,647,729	\$ 37,522,707	\$ 39,386,167	\$ 39,379,921	\$ 38,123,290	\$ 37,040,054	\$ 34,577,065	\$ 31,905,494	\$ 29,622,438

**TABLE 4
(CONTINUED)**

**CITY OF SALEM SCHOOL DIVISION
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS**

EXPENDITURES	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<u>Cafeteria Fund</u>										
Food services	\$ 1,615,499	\$ 1,616,530	\$ 1,688,711	\$ 1,746,782	\$ 1,729,453	\$ 1,753,307	\$ 1,749,928	\$ 1,641,336	\$ 1,596,278	\$ 1,513,985
Total cafeteria fund	1,615,499	1,616,530	1,688,711	1,746,782	1,729,453	1,753,307	1,749,928	1,641,336	1,596,278	1,513,985
<u>Capital Projects Fund</u>										
Capital projects	4,297,458	13,588,552	1,717,361	1,373,173	1,154,343	496,114	683,672	613,912	1,543,073	4,365,998
Total capital projects fund	4,297,458	13,588,552	1,717,361	1,373,173	1,154,343	496,114	683,672	613,912	1,543,073	4,365,998
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES										
Operating Fund	1,311,070	2,085,920	286,989	1,251,550	1,907,354	1,947,112	1,082,526	1,254,117	158,687	955,026
Cafeteria Fund	40,325	34,421	43,208	(25,936)	(29,285)	(33,660)	(55,103)	62,002	36,434	(12,091)
Capital Projects Fund	1,190,742	(4,062,752)	(1,717,361)	(1,373,173)	(1,154,343)	(496,114)	(584,800)	(613,912)	(1,543,073)	(4,365,998)
	2,542,137	(1,942,411)	(1,387,164)	(147,559)	723,726	1,417,338	442,623	702,207	(1,347,952)	(3,423,063)
OTHER FINANCING SOURCES (USES)										
<u>Operating Fund</u>										
Transfers out	(1,773,406)	(968,000)	(2,720,313)	(989,832)	(1,573,500)	(611,456)	(1,059,859)	(242,002)	(1,180,419)	(1,043,955)
Total operating fund	(1,773,406)	(968,000)	(2,720,313)	(989,832)	(1,573,500)	(611,456)	(1,059,859)	(242,002)	(1,180,419)	(1,043,955)
<u>Cafeteria Fund</u>										
Transfers in	-	-	15,000	25,000	39,000	25,000	-	-	35,000	35,000
Total cafeteria fund	-	-	15,000	25,000	39,000	25,000	-	-	35,000	35,000
<u>Capital Projects Fund</u>										
Transfers in	1,773,406	968,000	2,705,313	964,832	1,534,500	586,456	1,059,859	242,002	1,145,419	1,008,955
Total capital projects fund	1,773,406	968,000	2,705,313	964,832	1,534,500	586,456	1,059,859	242,002	1,145,419	1,008,955
NET CHANGE IN FUND BALANCES										
Operating Fund	(462,336)	1,117,920	(2,433,324)	261,718	333,854	1,335,656	22,667	1,012,115	(1,021,732)	(88,929)
Cafeteria Fund	40,325	34,421	58,208	(936)	9,715	(8,660)	(55,103)	62,002	71,434	22,909
Capital Projects Fund	2,964,148	(3,094,752)	987,952	(408,341)	380,157	90,342	475,059	(371,910)	(397,654)	(3,357,043)
	\$ 2,542,137	\$ (1,942,411)	\$ (1,387,164)	\$ (147,559)	\$ 723,726	\$ 1,417,338	\$ 442,623	\$ 702,207	\$ (1,347,952)	\$ (3,423,063)

Notes:

Source: City of Salem Finance Department

⁽¹⁾ In 2014, the School Division segregated health insurance into an internal service fund.

**TABLE 5
UNAUDITED**

**CITY OF SALEM SCHOOL DIVISION
MEMBERSHIP AND PER PUPIL SPENDING
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30	Membership September 30 ⁽¹⁾	Average Daily Membership March 31 ⁽¹⁾	Membership June 30 ⁽¹⁾	Average Daily Membership June 30 ⁽²⁾	Average Daily Attendance March 31 ⁽³⁾	Special Education Child Count December 1 ⁽⁴⁾	Salem Per Pupil Expenditures ⁽²⁾	State Average Per Pupil Expenditures ⁽²⁾	Composite Index
2014 ⁽⁷⁾	3,765	3,761	3,735	3,796	3,632	505	N/A	N/A	0.3628
2013 ⁽⁸⁾	3,816	3,779	3,820	3,816	3,634	517	\$10,640	\$11,257	0.3628
2012	3,867	3,839	3,863	3,841	3,686	501	\$10,447	\$10,969	0.3516
2011	3,932	3,859	3,892	3,896	3,702	503	\$9,907	\$10,793	0.3516
2010	3,905	3,915	3,907	3,935	3,788	496	\$10,152	\$11,020	0.3518
2009	3,930	3,900	3,905	3,919	3,767	486	\$10,289	\$11,316	0.3518
2008	3,948	3,922	3,911	3,936	3,778	474	\$ 9,939	\$11,037	0.3768
2007	3,978	3,968	3,966	3,966	3,827	480	\$ 9,468	\$10,584	0.3768
2006	3,893	3,890	3,902	3,908	3,755	471	\$ 9,034	\$ 9,755	0.3905
2005	3,944	3,915	3,882	3,918	3,758	484	\$ 8,386	\$ 9,202	0.3905

Census Count (including special education count) used as Basis for State Sales Tax Allocation ⁽⁵⁾

2013 ⁽⁶⁾	4,446
2012 ⁽⁶⁾	4,411
2011 ⁽⁶⁾	4,436
2008	4,328
2005	4,218
2002	4,618
1999	4,590

Notes:

N/A Not available

⁽¹⁾ Superintendent's Annual Report Table 1 and Virginia Department of Education web site (excludes part-time students)

⁽²⁾ Superintendent's Annual Report Table 15

⁽³⁾ Superintendent's Annual Report Table 8

⁽⁴⁾ Director of Student Services and Virginia Department of Education web site

⁽⁵⁾ Director of Assessment and Technology (1999-2008) and Weldon Cooper Center (2011)

⁽⁶⁾ Starting in 2011, the Weldon Cooper Center at UVA will estimate school age population in Virginia. This is the latest estimate as of July 1, 2013.

⁽⁷⁾ 2014 amounts are from Preliminary DOE reports, as the Superintendent's Annual Report was not final for FY 2014

⁽⁸⁾ 2013 Figures were adjusted to match the Superintendent's Annual Report, as those figures were preliminary when prior year audit was completed

TABLE 6
UNAUDITED

CITY OF SALEM SCHOOL DIVISION
TEACHER BASE SALARIES AND AVERAGE SALARIES
LAST TEN FISCAL YEARS

Fiscal Year Ended June 30	Minimum Salary ⁽¹⁾	Maximum Salary ⁽¹⁾	Salem Average Salary ⁽²⁾	Commonwealth Average Salary ⁽²⁾
2014	\$41,000	\$59,736	\$55,115	N/A
2013	\$41,000	\$60,482	\$56,206	\$52,942
2012	\$41,000	\$60,482	\$54,492	\$52,093
2011	\$40,392	\$57,914	\$53,186	\$51,478
2010	\$40,392	\$58,638	\$53,912	\$51,894
2009	\$40,392	\$60,104	\$53,912	\$52,309
2008	\$39,600	\$62,605	\$52,085	\$50,511
2007	\$38,600	\$60,780	\$51,211	\$49,164
2006	\$37,300	\$59,010	\$49,864	\$47,220
2005	\$35,325	\$56,740	\$47,848	\$45,377

Notes:

N/A Not available

⁽¹⁾ Salary Schedules. Includes salary for teacher with Bachelor's degree only.

⁽²⁾ Superintendent's Annual Report Table 19, latest Annual School Report,
and Virginia Department of Education web site.

TABLE 7
UNAUDITED

CITY OF SALEM SCHOOL DIVISION
SCHOOL BUILDING INFORMATION
JUNE 30, 2014

School Name	Square Footage
Salem High School	220,812
Andrew Lewis Middle School	183,000
G.W. Carver Elementary School	83,000
West Salem Elementary School	73,000
South Salem Elementary School	88,000
East Salem Elementary School	53,714
AIIMS Alternative Education Center	3,500
Central Administration Office	16,000

Note:

Source: Supervisor of Business

**TABLE 8
UNAUDITED**

**CITY OF SALEM SCHOOL DIVISION
ACCREDITATION STATUS UNDER NO CHILD LEFT BEHIND ACT
2013-2014 SCHOOL YEAR**

School Name	Virginia Accreditation Status	Met Annual Measurable Objectives (AMO) Requirements?
Salem High School	Fully Accredited	No
Andrew Lewis Middle School	Fully Accredited	No
G.W. Carver Elementary School	Fully Accredited	No
West Salem Elementary School	Fully Accredited	Yes
South Salem Elementary School	Fully Accredited	Yes
East Salem Elementary School	Fully Accredited	Yes
Division		No

Notes:

Source: Supervisor of Instructional Technology and Accountability

**TABLE 9
UNAUDITED**

**CITY OF SALEM SCHOOL DIVISION
SCHOLASTIC APTITUDE TEST (SAT) SCORES
LAST TEN YEARS**

Fiscal Year Ended June 30	Number of Students Who Took SATs	Combined Score for Verbal and Math		
		Salem	Virginia	National
2014	148	1,046	1,033	1,010
2013	159	1,036	1,030	1,010
2012	169	1,031	1,022	1,010
2011	162	1,028	1,021	1,011
2010	163	1,056	1,024	1,017
2009	145	1,037	1,043	1,037
2008	185	1,045	1,023	1,017
2007	188	1,034	1,022	1,017
2006	160	1,013	1,025	1,021
2005	197	1,035	1,030	1,028

Note:

Source: Supervisor of Instructional Technology and Accountability

**TABLE 10
UNAUDITED**

**CITY OF SALEM SCHOOL DIVISION
VIRGINIA STANDARDS OF LEARNING (SOL) TEST RESULTS
PERCENT OF STUDENTS WITH PASSING SCORES
LAST THREE YEARS**

		2014		2013		2012	
	Grade	Salem	Virginia	Salem	Virginia	Salem	Virginia
<i><u>Elementary and Middle School:</u></i>							
English: Reading	3	78	69	83	72	96	86
Mathematics	3	75	67	78	65	83	64
Science	3	88	83	92	84	96	90
History and Social Sciences	3	93	86	94	87	96	87
English: Reading	4	79	70	82	70	96	88
Mathematics	4	86	80	87	74	75	70
Virginia Studies	4	92	85	94	87	94	89
English: Reading	5	82	73	84	73	91	89
English: Writing	5	71	71	81	71	93	87
Mathematics	5	76	73	74	69	69	67
Science	5	81	73	75	75	94	88
US History to 1865	5	83	81	91	83	85	81
English: Reading	6	80	73	80	73	90	89
Mathematics	6	73	76	76	77	66	74
US History 1865 to Present	6	84	81	77	82	85	84
English: Reading	7	82	76	83	74	94	88
Mathematics	7	74	65	68	61	67	58
Civics and Economics	7	83	83	83	85	92	84
English: Reading	8	72	70	77	71	95	89
English: Writing	8	72	70	80	70	95	88
Mathematics	8	77	67	72	61	67	60
Science	8	85	74	82	76	95	92
<i><u>High School and End of Course:</u></i>							
English: Reading	9-12	93	90	92	89	95	94
English: Writing	9-12	90	84	89	87	95	93
Algebra I	9-12	81	79	81	76	81	75
Algebra II	9-12	93	82	90	76	84	69
Geometry	9-12	86	77	73	76	84	74
Biology	9-12	89	83	91	83	97	92
Chemistry	9-12	95	87	97	86	99	93
Earth Science	9-12	91	83	87	83	97	90
Virginia and US History	9-12	96	87	95	86	96	85
World History I	9-12	93	85	71	84	97	84
World History II	9-12	96	86	71	85	92	85
World Geography	9-12	88	86	90	86	89	85

Note:

Source: Virginia Department of Education website; www.doe.virginia.gov

COMPLIANCE SECTION

**CITY OF SALEM SCHOOL DIVISION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2014**

<u>Federal Grantor/Pass-through Grantor</u> <u>(Commonwealth of Virginia)/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Agriculture</u>		
<i>Department of Agriculture and Consumer Services</i>		
Food Distribution – Commodities	10.555	\$ 113,458
<i>Department of Education</i>		
School Breakfast Program	10.553	138,819
National School Lunch Program	10.555	532,136
<u>Department of Education</u>		
<i>Department of Education</i>		
Adult Education – Basic Grants to States	84.002	350,904
Title I Grants to Local Educational Agencies	84.010	453,052
Special Education – Grants to States	84.027	700,716
Career and Technical Education – Basic Grants to States	84.048	44,372
Special Education – Preschool Grants	84.173	6,547
Carol White PEP Grant	84.215	167,316
English Language Acquisition State Grants	84.365	4,905
Improving Teacher Quality State Grants	84.367	110,600
Total Expenditures of Federal Awards		<u>\$ 2,622,825</u>

Note 1 - Basis of Accounting

This schedule was prepared on the modified accrual basis of accounting.

Note 2 - Nonmonetary Assistance

Nonmonetary assistance is reported in the Schedule of Expenditures of Federal Awards at the fair market value of the food commodities disbursed. At June 30, 2014, the School Division had food commodities in inventory of \$37,486.

**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 the
Board of the City of Salem School Division
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 *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Salem School Division (the "School Division"), a component unit of the City of Salem, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School Division's basic financial statements, and have issued our report thereon dated November 19, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School Division'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 School Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the School Division'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 School Division'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 19, 2014

CITY OF SALEM SCHOOL DIVISION
SUMMARY OF COMPLIANCE MATTERS
June 30, 2014

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 School Division'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
Local Retirement Systems
Procurement Laws
Uniform Disposition of Unclaimed Property Act

State Agency Requirements:

Education

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