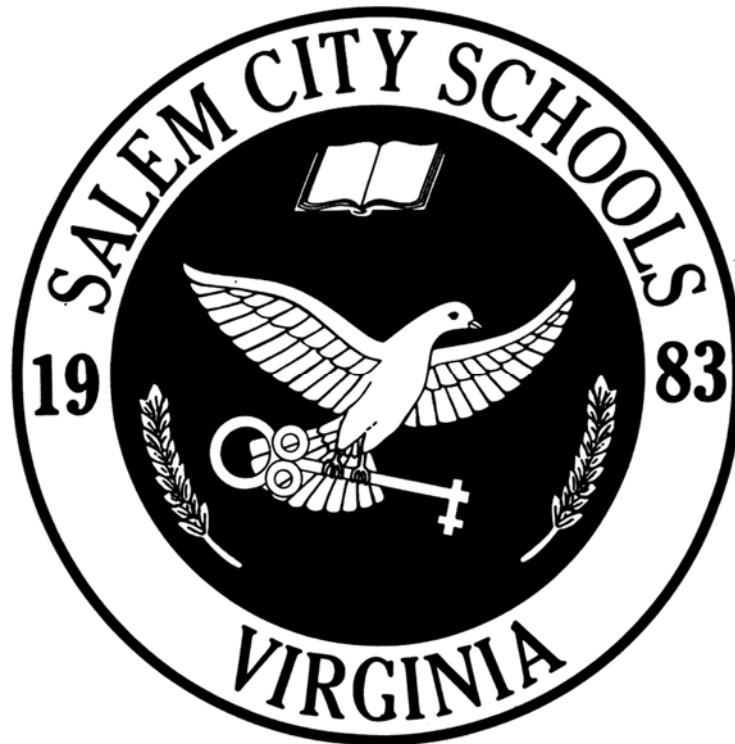


CITY OF SALEM SCHOOL DIVISION
(A Component Unit of the City of Salem, Virginia)



ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2016

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

**CITY OF SALEM SCHOOL DIVISION
TABLE OF CONTENTS**

	Page
INTRODUCTORY SECTION	
Letter of Transmittal	4
Directory of Principal Officials	8
Organizational Chart	9
FINANCIAL SECTION	
Report of Independent Auditor	11
 <i>Basic Financial Statements</i>	
Government-Wide Financial Statements	
Exhibit 1 Statement of Net Position	15
Exhibit 2 Statement of Activities	16
Governmental Funds' Financial Statements	
Exhibit 3 Balance Sheet	17
Exhibit 4 Reconciliation of the Governmental Funds' Balance Sheet to the Statement of Net Position	18
Exhibit 5 Statement of Revenues, Expenditures, and Changes in Fund Balances	19
Exhibit 6 Reconciliation of the Governmental Funds' Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	20
Exhibit 7 Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual - Special Revenue Fund - Operating Fund	21
Exhibit 8 Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual - Special Revenue Fund - Cafeteria Fund	22
Proprietary Funds' Financial Statements	
Exhibit 9 Statement of Net Position	23
Exhibit 10 Statement of Revenues, Expenses and Changes in Net Position	24
Exhibit 11 Statement of Cash Flows	25
Fiduciary Funds' Financial Statements	
Exhibit 12 Statement of Fiduciary Net Position	26
Exhibit 13 Statement of Changes in Fiduciary Net Position	26
Notes to Financial Statements	27
 <i>Required Supplementary Information</i>	
Exhibit 14 Schedule of Funding Progress for Other Postemployment Benefits	57
Exhibit 15 Schedule of Employer Contributions for Other Postemployment Benefits	57
Exhibit 16 Schedule of Changes in Net Pension Liability (Asset) and Related Ratios	58
Exhibit 17 Schedule of Employer Pension Contributions	59
Exhibit 18 Schedule of Employer's Share of Net Pension Liability - VRS Teacher Retirement Plan	60
Exhibit 19 Schedule of Employer Pension Contributions - VRS Teacher Retirement Plan	61
Notes to Required Supplementary Information	62

**CITY OF SALEM SCHOOL DIVISION
TABLE OF CONTENTS**

	Page
OTHER INFORMATION SECTION	
Table 1	Net Position by Component.....65
Table 2	Changes in Net Position.....66
Table 3	Fund Balances - Governmental Funds.....67
Table 4	Changes in Fund Balances - Governmental Funds.....68
Table 5	Membership and Per Pupil Spending.....70
Table 6	Teacher Base Salaries and Average Salaries.....71
Table 7	School Building Information.....71
Table 8	Accreditation Status.....72
Table 9	Scholastic Aptitude Test (SAT) Scores.....72
Table 10	Virginia Standards of Learning (SOL) Test Results.....73
COMPLIANCE SECTION	
Schedule of Expenditures of Federal Awards.....75	
Report of Independent Auditor on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government</i> <i>Auditing Standards</i>76	

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INTRODUCTORY SECTION

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November 17, 2016

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) as of and for the fiscal year ended June 30, 2016. This report was prepared by the City of Salem Department of Finance in conformity with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Governmental Accounting Standards Board (GASB).

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the 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 Cherry Bekaert LLP 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.

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 77% of the students are Caucasian, 11% are African-American, 4% are Hispanic, 2% are Asian, and 6% 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 31.35% of Salem's students on a division-wide basis qualify for free and reduced lunches (September 2015) under the National School Lunch Program. Individual school percentages range from 22.48% to 48.93%.

The school system budget for fiscal year 2016 was based on a projected average daily student membership of 3,760. Actual average daily membership for the period through March 31, 2016 was 3,716. 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 in Virginia's Blue Ridge Mountains, approximately 190 miles west of Richmond and 250 miles southwest of Washington, DC. Its position in the southeastern United States gives the City ready access, within a 500-mile radius, to nearly two-thirds of the total population of the United States. In addition, the City lies at the region's crossroads of major rail and highway systems, with passenger and freight service through the Roanoke-Blacksburg Regional Airport, 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 2016 estimated population of 25,432 accounts for approximately 8.2% of the population in its metropolitan statistical area, which includes the neighboring City of Roanoke and Counties of Botetourt, Craig, Franklin and Roanoke.

Financial results for the City reflect positive trends over the past year. 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 4.0% (June 2016), 1.2% lower than the prior year, was equal to the state rate and slightly below the national unemployment rate of 5.1%. A strong educational system providing a well-educated and skilled workforce along with generally lower operating costs are key reasons why employers have chosen to relocate to 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 2016, a number of notable activities occurred in the division:

- All six Salem schools were fully accredited by the Virginia Department of Education.
- Salem teachers continued to achieve national recognition with 25 National Board Certified teachers on staff in fiscal year 2016. Achievement of National Board Certification means that the teachers have met the highest standards for their profession.
- The Salem Education Foundation and the City continued their tradition of awarding substantial scholarships to graduating seniors of the Salem High Class of 2016.
- 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.
- The School Division continued to emphasize building improvements on an on-going basis as part of its \$44.3 million Capital Improvement Plan, including the following projects: building renovations, regular school bus replacements, technology infrastructure and computer replacement, roofing replacement as required, phased band instrument replacement, and other equipment or building upgrades.
- The City and Virginia Western Community College continued their partnership under the Salem City Community College Access Program to provide free tuition for qualifying graduates.
- South Salem Elementary, West Salem Elementary and Salem High School earned the VIP Distinguished Achievement Award from the Virginia Board of Education.

- Salem students continued to excel academically and in extracurricular areas:
 - Salem High School had 3 International Baccalaureate (IB) diploma candidates, 95 IB certificate candidates, and 51 Distinguished Scholars in the Class of 2016.
 - In 2015-2016, 244 high school students took at least one IB course (695 total IB enrollments), many freshmen and sophomores took Pre-IB courses, and 377 students took at least one dual enrollment course.
 - The high school Forensics Team won the VHSL Group AA State championship for the 11th consecutive year.
 - 296 students earned an Industry Credential during the 2015-2016 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 School yearbook staff was one of only 36 nationally to win a Crown (silver) at the Columbia Scholastic Press Association national yearbook event.
 - Four Salem High School students were placed in the Governor's School Project Forum (Science Fair) in the area of Science and Technology.
 - The Salem High School choral and band programs received the prestigious Blue Ribbon Award for Superior Music from the Virginia Music Educators Association.
 - The Salem High School football team won its seventh Virginia High School League (VHSL) Division 4A State Championship.
 - Two Salem High School students received first place finishes and state championship titles in the State Skills USA competition.
- Salem teachers and staff continue to receive recognition:
 - Ms. Natalie DiFusco-Funk, a teacher at West Salem Elementary School, was named Virginia's 2016 Teacher of the Year.
 - Dr. Alan Seibert, Division Superintendent, was named Virginia's Curriculum Leader of the Year by the Virginia Association of Supervision and Curriculum Development.
 - Ms. Regina Meredith, Counseling Coordinator at Salem High School, was named Virginia's Counselor of the Year by the Virginia Counselors Association.
 - Salem football coach, Stephen Magenbauer, was named the Virginia High School League (VHSL) Group 4A Coach of the Year.
 - Mr. Derek Wray, Automotive Technology teacher at Salem High School, was named 2016 teacher of the year for the Salem School Division.
 - Mrs. Melissa Cook, 7th grade math teacher at Andrew Lewis Middle School, was recognized as being one of the valley's top teachers by the Air Force Association.

Cash Management

The City is the custodian of all cash and investments of the School Division except certain petty cash, cash in hand or bank accounts 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 Director of Business. The School Division is insured for most general liability and property coverage through the Virginia Municipal League Insurance Program. 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

Cherry Bekaert LLP has performed an annual audit of the basic financial statements and other supplementary information contained within the Annual Financial Report. Their audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. The report of the independent auditor, which includes their opinion on the financial statements of the School Division, is contained in the Financial Section of this report. Other auditor 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, Cherry Bekaert LLP, for their cooperation and input in our efforts.

Respectfully Submitted,



H. Alan Seibert
Superintendent



Mandy C. Hall
Director of Business



Rosemarie B. Jordan
Director of Finance

**CITY OF SALEM SCHOOL DIVISION
DIRECTORY OF PRINCIPAL OFFICIALS
JUNE 30, 2016**

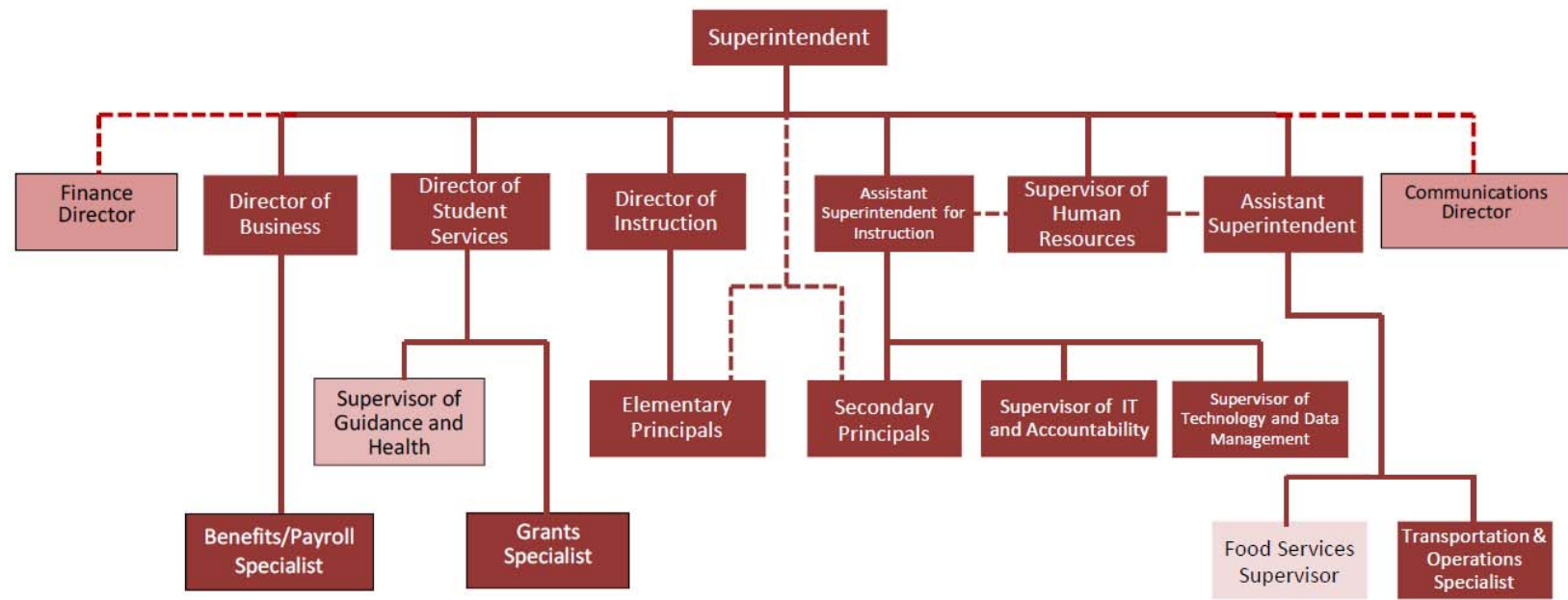
MEMBERS OF SCHOOL BOARD

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, CPA	Director of Finance
Mandy C. Hall	Director of Business
Jennifer P. Dean	Supervisor of Instructional Technology and Accountability
Curtis N. Hicks	Assistant Superintendent for Instruction
Kirstine M. Barber	Supervisor of Human Resources
Dr. Randy L. Jennings	Director of Student Services
Diane D. Washenberger	Director of Instruction
Mike Stevens	Director of Communications

Salem City School Division Organizational Chart 2015-2016



City
Personnel

School Based
Personnel

Aramark
Personnel

FINANCIAL SECTION

Report of Independent Auditor

To the Honorable Members of the
Board of the City of Salem, Virginia School Division
City of 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, Virginia School Division (the "School Division"), a component unit of the City of Salem, Virginia, as of and for the year ended June 30, 2016, 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 the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications 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 School Division, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the Statements of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Special Revenue Fund – Operating Fund and Cafeteria Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the pension and other postemployment benefits information and notes on pages 57 through 62 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, Other Information Section and Schedule of Expenditures of Federal Awards 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 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.

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 17, 2016, 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.

A handwritten signature in blue ink that reads "Cheryl Behrman CP". The signature is written in a cursive style.

Roanoke, Virginia
November 17, 2016

BASIC FINANCIAL STATEMENTS

**CITY OF SALEM SCHOOL DIVISION
STATEMENT OF NET POSITION
JUNE 30, 2016**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 11,345,794
Receivables	34,052
Due from other governmental units	1,540,913
Other postemployment benefits asset	217,763
Inventories	33,187
Prepaid items	24,693
<i>Capital assets:</i>	
Nondepreciable	1,170,667
Depreciable, net	45,628,122
Total assets	<u>59,995,191</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension contributions subsequent to measurement date	<u>3,081,704</u>
LIABILITIES	
Accounts payable and accrued liabilities	337,841
Accrued payroll and related liabilities	5,197,664
Self-insurance claims liability	411,664
Unearned revenues	72,380
<i>Long-term liabilities due in less than one year:</i>	
Capital lease obligation	131,405
Compensated absences	300,551
<i>Long-term liabilities due in more than one year:</i>	
Capital lease obligation	137,071
Compensated absences	620,883
Net pension liability	35,898,755
Total liabilities	<u>43,108,214</u>
DEFERRED INFLOWS OF RESOURCES	
Differences between expected and actual experience	524,468
Net difference between projected and actual investment earnings on pension plan investments	2,337,910
Changes in proportion - teacher cost-sharing pool	2,008,000
Total deferred inflows of resources	<u>4,870,378</u>
NET POSITION	
Net investment in capital assets	46,530,313
Restricted for education grants	78,138
Unrestricted	(31,510,148)
Total net position	<u>\$ 15,098,303</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, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Postion
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<i>Governmental activities:</i>					
Central administration	\$ 1,593,894	\$ 33,158	\$ 5,706,920	\$ -	\$ 4,146,184
Centralized Instructional costs	3,473,872	510,968	-	-	(2,962,904)
Instructional costs	30,933,478	179,915	-	49,773	(30,703,790)
Attendance and health services	936,415	-	-	-	(936,415)
Transportation	1,348,170	-	-	-	(1,348,170)
Food services	1,675,156	815,618	831,056	-	(28,482)
Federal and state grants programs	1,844,532	-	1,659,029	-	(185,503)
Capital lease interest	10,612	-	-	-	(10,612)
Total governmental activities	<u>41,816,129</u>	<u>1,539,659</u>	<u>8,197,005</u>	<u>49,773</u>	<u>(32,029,692)</u>
<i>General revenues:</i>					
Payments from City of Salem					19,739,512
State aid					13,757,083
Other					890,647
Total general revenues					<u>34,387,242</u>
Change in net position					2,357,550
Net position, beginning					<u>12,740,753</u>
Net position, ending					<u>\$ 15,098,303</u>

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

**CITY OF SALEM SCHOOL DIVISION
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	Special Revenue Funds		Capital	Total
	Operating	Cafeteria	Projects	Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 8,543,262	\$ 350,490	\$ 950,525	\$ 9,844,277
Receivables, net	810	921	-	1,731
Due from other governmental units	1,429,252	111,661	-	1,540,913
Inventories	-	33,187	-	33,187
Prepaid items	-	-	24,693	24,693
Total assets	<u>\$ 9,973,324</u>	<u>\$ 496,259</u>	<u>\$ 975,218</u>	<u>\$ 11,444,801</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 234,490	\$ 48,435	\$ 45,467	\$ 328,392
Accrued payroll and related liabilities	5,112,776	84,888	-	5,197,664
Unearned revenue	15,869	23,830	-	39,699
Total liabilities	<u>5,363,135</u>	<u>157,153</u>	<u>45,467</u>	<u>5,565,755</u>
FUND BALANCES				
Nonspendable	-	33,187	24,693	57,880
Restricted	78,138	-	-	78,138
Committed	-	-	905,058	905,058
Assigned	4,532,051	305,919	-	4,837,970
Total fund balances	<u>4,610,189</u>	<u>339,106</u>	<u>929,751</u>	<u>5,879,046</u>
Total liabilities and fund balances	<u>\$ 9,973,324</u>	<u>\$ 496,259</u>	<u>\$ 975,218</u>	<u>\$ 11,444,801</u>

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

**CITY OF SALEM SCHOOL DIVISION
RECONCILIATION OF THE GOVERNMENTAL FUNDS' BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016**

Total fund balance of governmental funds	\$ 5,879,046
Capital assets used in governmental activities are not considered current financial resources and, therefore, are not reported in the governmental funds.	46,798,789
Long-term assets or liabilities related to governmental fund activities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Other postemployment benefits asset	217,763
Capital lease obligation	(268,476)
Compensated absences, net of sick leave	(921,434)
Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.	
Deferred outflows of resources for current year employer contributions	3,081,704
Deferred inflows of resources for differences between expected and actual experience	(524,468)
Deferred inflows of resources for the net differences between projected and actual investment earnings on pension plan investments	(2,337,910)
Deferred inflows of resources due to changes in proportion and differences between employer contributions and proportionate share of contributions - teacher cost-sharing pool	(2,008,000)
Net pension liability	(35,898,755)
The internal service fund is used by management to charge the costs of health insurance to individual funds. The assets, liabilities, and net position of the internal service fund are included in governmental activities in the Statement of Net Position.	1,080,044
Net position of governmental activities	<u>\$ 15,098,303</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, 2016

	Special Revenue Funds		Capital	Total
	Operating	Cafeteria	Projects	Governmental
REVENUES				Funds
<i>Intergovernmental:</i>				
City of Salem	\$ 19,739,512	\$ -	\$ -	\$ 19,739,512
Commonwealth of Virginia	19,491,109	21,590	-	19,512,699
Federal Government	1,631,925	809,467	-	2,441,392
<i>Other:</i>				
Charges for services	724,041	815,617	-	1,539,658
Other	883,593	7,121	-	890,714
Total revenues	42,470,180	1,653,795	-	44,123,975
EXPENDITURES				
<i>Current:</i>				
Central administration	1,593,852	-	-	1,593,852
Centralized instruction costs	3,687,727	-	-	3,687,727
Instructional costs	30,374,830	-	-	30,374,830
Attendance and health services	1,001,682	-	-	1,001,682
Transportation	1,269,037	-	-	1,269,037
Food services	-	1,673,417	-	1,673,417
Federal and state grants programs	2,027,663	-	-	2,027,663
Capital projects	-	-	1,219,802	1,219,802
<i>Capital lease debt service:</i>				
Principal	142,981	-	-	142,981
Interest	10,612	-	-	10,612
Total expenditures	40,108,384	1,673,417	1,219,802	43,001,603
Excess (deficiency) of expenditures	2,361,796	(19,622)	(1,219,802)	1,122,372
OTHER FINANCING SOURCES (USES)				
Issuance of capital leases	-	-	411,457	411,457
Transfers in	-	-	591,607	591,607
Transfers out	(591,607)	-	-	(591,607)
Total other financing sources (uses)	(591,607)	-	1,003,064	411,457
Net change in fund balances	1,770,189	(19,622)	(216,738)	1,533,829
Fund balances, beginning	2,840,000	358,728	1,146,489	4,345,217
Fund balances, ending	\$ 4,610,189	\$ 339,106	\$ 929,751	\$ 5,879,046

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

CITY OF SALEM SCHOOL DIVISION
RECONCILIATION OF THE GOVERNMENTAL FUNDS' STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Net changes in fund balances of governmental funds \$ 1,533,829

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	1,133,365
Capital donated	49,773
Depreciation expense	(2,460,649)

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.

Proceeds from sale of assets	(1,713)
Loss from sale of assets	(43,320)

Issuance of capital lease obligations provides current financial resources to governmental funds but increases long-term liabilities in the Statement of Net Position. Repayment of principal is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position.

Issuance of capital leases	(411,457)
Principal payments	142,981

Expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Change in compensated absences	34,545
Change in other postemployment benefits	30,787

Governmental funds report employer pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

Employer pension contributions	3,673,675
Pension expense	(2,094,412)

The internal service fund is used by management to charge the costs of health insurance to individual funds. The change in net position of the internal service fund is reported with governmental activities.

770,146

Change in net position of governmental activities	\$ 2,357,550
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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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
<i>Intergovernmental:</i>				
City of Salem	\$ 21,729,620	\$ 21,777,889	\$ 19,739,512	\$ (2,038,377)
Commonwealth of Virginia	19,349,328	19,588,784	19,491,109	(97,675)
Federal Government	1,972,183	1,916,983	1,631,925	(285,058)
<i>Other:</i>				
Charges for Services	654,629	654,629	724,041	69,412
Other	813,480	813,480	883,593	70,113
Total revenues	<u>44,519,240</u>	<u>44,751,765</u>	<u>42,470,180</u>	<u>(2,281,585)</u>
EXPENDITURES				
<i>Current:</i>				
Central administration	1,648,315	1,681,854	1,593,852	88,002
Centralized instructional costs	3,756,519	3,820,383	3,687,727	132,656
Instructional costs:				
Salem High School	10,290,467	10,442,276	10,048,013	394,263
Andrew Lewis Middle School	6,830,463	6,930,821	6,629,696	301,125
G.W. Carver Elementary School	3,801,815	3,854,420	3,473,543	380,877
West Salem Elementary School	3,176,521	3,224,568	2,999,504	225,064
South Salem Elementary School	3,157,376	3,209,662	2,946,511	263,151
East Salem Elementary School	3,590,483	3,656,531	3,543,633	112,898
Regional Special Education Program	729,980	729,980	733,930	(3,950)
Attendance and health services	1,015,504	1,028,490	1,001,682	26,808
Transportation	1,320,481	1,360,255	1,269,037	91,218
Federal and state grants programs	2,232,128	2,353,701	2,027,663	326,038
Non-departmental	510,364	-	-	-
<i>Capital lease debt service:</i>				
Principal	-	-	142,981	(142,981)
Interest	-	-	10,612	(10,612)
Total expenditures	<u>42,060,416</u>	<u>42,292,941</u>	<u>40,108,384</u>	<u>2,184,557</u>
Excess of revenues over expenditures	<u>2,458,824</u>	<u>2,458,824</u>	<u>2,361,796</u>	<u>(97,028)</u>
OTHER FINANCING USES				
Transfers out	(2,458,824)	(3,193,412)	(591,607)	2,601,805
Total other financing uses	<u>(2,458,824)</u>	<u>(3,193,412)</u>	<u>(591,607)</u>	<u>2,601,805</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ (734,588)</u>	<u>\$ 1,770,189</u>	<u>\$ 2,504,777</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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES	Original	Final		
<i>Intergovernmental:</i>				
Commonwealth of Virginia	\$ 35,254	\$ 35,254	\$ 21,590	\$ (13,664)
Federal Government	700,022	700,022	809,467	109,445
<i>Other:</i>				
Charges for Services	939,511	939,511	815,617	(123,894)
Other	12,000	12,000	7,121	(4,879)
Total revenues	<u>1,686,787</u>	<u>1,686,787</u>	<u>1,653,795</u>	<u>(32,992)</u>
EXPENDITURES				
Food services:				
Salem High School	501,242	404,165	418,595	(14,430)
Andrew Lewis Middle School	371,196	354,665	350,723	3,942
G.W. Carver Elementary School	201,687	251,843	264,038	(12,195)
West Salem Elementary School	187,948	193,986	193,247	739
South Salem Elementary School	230,548	239,952	239,928	24
East Salem Elementary School	194,166	242,176	206,886	35,290
Total expenditures	<u>1,686,787</u>	<u>1,686,787</u>	<u>1,673,417</u>	<u>13,370</u>
Deficiency of revenues under expenditures	-	-	(19,622)	(19,622)
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (19,622)</u>	<u>\$ (19,622)</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, 2016**

	Internal Service Fund
ASSETS	
<i>Current assets:</i>	
Cash and cash equivalents	\$ 1,501,517
Receivables	32,321
Total assets	<u>1,533,838</u>
LIABILITIES AND DEFERRED INFLOWS	
<i>Current liabilities:</i>	
Accounts payable and accrued liabilities	9,449
Self-insurance claims liability	411,664
Unearned revenues	32,681
Total liabilities	<u>453,794</u>
NET POSITION	
Unrestricted	1,080,044
Total net position	<u><u>\$ 1,080,044</u></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, 2016

	Internal Service Fund
OPERATING REVENUES	
Charges for services	\$ 4,845,326
Total operating revenues	<u>4,845,326</u>
OPERATING EXPENSES	
Claims	3,849,198
Affordable Care Act fees	39,504
Administration	186,478
Total operating expenses	<u>4,075,180</u>
Operating income	<u>770,146</u>
Change in net position	<u>770,146</u>
Net position, beginning	309,898
Net position, ending	<u><u>\$ 1,080,044</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, 2016**

	Internal Service Fund
OPERATING ACTIVITIES	
Receipts from customers and users	\$ 4,843,171
Payments to City	(186,478)
Payments for claims	(3,993,916)
Payments for contractual services	(49,024)
Net cash provided by operating activities	<u>613,753</u>
Cash and cash equivalents, beginning	<u>887,764</u>
Cash and cash equivalents, ending	<u><u>\$ 1,501,517</u></u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 770,146
<i>Adjustments to reconcile operating income to net cash provided by operating activities</i>	
<i>Increase in assets:</i>	
Receivables	(1,152)
<i>Decrease in liabilities:</i>	
Accounts payable and accrued liabilities	(49,024)
Self insurance claims liability	(105,214)
Unearned revenue	(1,003)
Net cash provided by operating activities	<u><u>\$ 613,753</u></u>

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

EXHIBIT 12

**CITY OF SALEM SCHOOL DIVISION
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2016**

	OPEB Trust Fund
ASSETS	
Investments held by trustee, fair value of pooled funds	\$ 902,507
Total assets	<u>902,507</u>
NET POSITION	
Held in trust for other postemployment benefits	<u><u>\$ 902,507</u></u>

EXHIBIT 13

**CITY OF SALEM SCHOOL DIVISION
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2016**

	OPEB Trust Fund
REDUCTIONS	
<i>Investment loss</i>	
Decrease in fair value of investments	\$ (3,899)
Less investment expenses	(1,551)
Total reductions	<u>(5,450)</u>
Net decrease in plan net position	<u>(5,450)</u>
Net position held in trust for other postemployment benefits, beginning	<u>907,957</u>
Net position held in trust for other postemployment benefits, ending	<u><u>\$ 902,507</u></u>

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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, Virginia (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 three 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 operated in a manner similar to private business enterprises. The School Division reports the following proprietary fund:

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

1. Summary of Significant Accounting Policies (Continued)

Fund Financial Statements (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 one year of the end of the current fiscal period. All other revenue items are considered measurable and available when cash is received by the School Division. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, compensated absences, pension, other postemployment benefit expenditures, as well as expenditures related to claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures and acquisitions under capital leases are reported as other financing sources.

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

Proprietary fund financial statements are reported using the *economic financial resources measurement focus* and the *accrual basis of accounting*. These statements distinguish *operating* from *nonoperating* revenues and expenses. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's principal ongoing operations. Operating revenues include charges to other funds for self-insurance claims activities. Operating expenses include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the 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, 2016**

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 (GAAP). 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 March, the Superintendent submits to the School Board a proposed 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 \$967,113 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 expenditures to exceed budgeted amounts 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 are recorded in order to reserve the applicable 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 part of the restricted, committed, or assigned fund balances since they do not constitute expenditures or liabilities. Significant encumbrances as of June 30, 2016 total \$42,426 in the School Operating Fund and \$159,303 in the Capital Projects Fund.

Deposits and Investments

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

Interfund Balances

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, 2016**

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

Governmental fund prepaid items consist of software license payments incurred for periods in a subsequent fiscal year. Prepaid items are amortized using the consumption method. The payments are recorded as an expenditure in the fiscal year related to the license period.

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 acquisition 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 completed.

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

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

Capital Assets and Related Debt Reporting

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

1. Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statements representing financial position sometimes report a separate section for deferred outflows of resources, which represent a consumption of net position applying to future periods and will not be recognized as outflows of resources (expenses/expenditures) until then. The School Division's pension contributions subsequent to the measurement date qualify for reporting in this category in the government-wide Statement of Net Position. Pension contributions made subsequent to the measurement date will be applied to the net pension liability in the next fiscal year.

In addition to liabilities, the statements representing financial position sometimes report a separate section for deferred inflows of resources, which represent an acquisition of net position applying to future periods and will not be recognized as inflows of resources (revenue) until that time. The School Division has the following three items that qualify for reporting in this category: differences between expected and actual experience of the pension plan, the net difference between projected and actual earnings on pension plan investments, and changes in proportionate share of the teacher cost-sharing pool.

The government-wide Statement of Net Position defers differences between expected and actual experience of the pension plan and the net difference between projected and actual earnings on pension plan investments. Experience differences will be recognized in pension expense over the average remaining service life of the active and inactive members of the plan at the beginning of the fiscal year. Earnings differences will be recognized in pension expense over a fixed five year period.

An additional deferred inflow or outflow results from participation in the Virginia Retirement System's (VRS) teacher cost-sharing pool, where changes in proportion and differences between employer contributions and the proportionate share of employer contributions are reported as a deferred inflow or outflow, as appropriate.

Unearned Revenues

In the Statement of Net Position, unearned revenues arise when assets are received or are billed to customers before revenue recognition criteria are satisfied. In the governmental fund Balance Sheet, unavailable revenues arise 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 revenues primarily consist 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 that allow 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.

Pensions

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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 OPEB Trust Fund's Board of Trustees establishes investment objectives and risk tolerance and asset allocation policies based on the investment policy, market and economic conditions and generally prevailing prudent investment practices.

Net Position

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

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

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 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 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. The School Division has no unassigned fund balance at year end.

The School Board establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. 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).

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

1. Summary of Significant Accounting Policies (Continued)

Restricted Amounts

The 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.

Estimates

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

2. Deposits

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	\$ 657,535	\$ -	\$ 657,535
Virginia Public School Authority Technology Grant	206,000	-	206,000
Medicaid reimbursement	73,519	-	73,519
Other	927	-	927
Federal government			
Special Education - Grants to States (IDEA, Part B)	225,562	-	225,562
National School Breakfast and Lunch Programs	-	111,661	111,661
Title I Grants to Local Educational Agencies	105,035	-	105,035
Adult Education - Basic Grants to States	73,885	-	73,885
Career and Technical Education - Basic Grants to States (Perkins IV)	41,578	-	41,578
Improving Teacher Quality State Grants	27,288	-	27,288
Other	17,923	-	17,923
	<u>\$ 1,429,252</u>	<u>\$ 111,661</u>	<u>\$ 1,540,913</u>

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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	70,568	47,029	(70,567)	47,030
Capital assets, nondepreciable	<u>1,194,205</u>	<u>47,029</u>	<u>(70,567)</u>	<u>1,170,667</u>
Capital assets, depreciable				
Furniture and equipment	7,340,449	722,291	(156,211)	7,906,529
Buildings and improvements	68,820,604	484,385	(115,184)	69,189,805
Capital assets, depreciable	<u>76,161,053</u>	<u>1,206,676</u>	<u>(271,395)</u>	<u>77,096,334</u>
Accumulated depreciation				
Furniture and equipment	(4,525,198)	(577,995)	155,034	(4,948,159)
Buildings and improvements	(24,708,727)	(1,882,654)	71,328	(26,520,053)
Accumulated depreciation	<u>(29,233,925)</u>	<u>(2,460,649)</u>	<u>226,362</u>	<u>(31,468,212)</u>
Capital assets, depreciable, net	<u>46,927,128</u>	<u>(1,253,973)</u>	<u>(45,033)</u>	<u>45,628,122</u>
Capital assets, net	<u>\$ 48,121,333</u>	<u>\$ (1,206,944)</u>	<u>\$ (115,600)</u>	<u>\$ 46,798,789</u>

Depreciation expense was charged to functions as follows:

Central administration	\$ 95,108
Centralized instructional costs	4,102
Instructional costs	2,166,341
Transportation	142,703
Food services	52,395
Total depreciation expense	<u>\$ 2,460,649</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
Capital lease obligation	\$ -	\$ 411,457	\$ (142,981)	\$ 268,476	\$ 131,405
Compensated absences	955,979	266,006	(300,551)	921,434	300,551
Net pension liability	35,161,618	7,225,131	(6,487,994)	35,898,755	-
Other postemployment benefits (asset)	(186,976)	177,095	(207,882)	(217,763)	-
	<u>\$35,930,621</u>	<u>\$ 8,079,689</u>	<u>\$ (7,139,408)</u>	<u>\$ 36,870,902</u>	<u>\$ 431,956</u>

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

6. Leases

Operating Leases

The School Division entered into several non-cancelable operating leases for equipment. Rent expenditures for the current year were \$47,610. Scheduled future minimum rental payments for the next five years are as follows:

June 30, 2017	\$	51,689
June 30, 2018		29,833
June 30, 2019		16,806
June 30, 2020		14,820
June 30, 2021		2,378
	\$	<u>115,526</u>

Capital Lease

On August 1, 2015, the School Division entered into a 36 month lease agreement with Dell Financial Services, L.L.C., to lease 1,240 Dell Chromebooks. Under the lease agreement, the School Division pays \$142,981.24 annually to the lessor, representing principal and interest payments with an implicit interest rate of 4.31%. Capital lease accounting is required due to a bargain purchase option and the net present value of payments through the term of the lease. The lease assets and obligation are accounted for in the Statement of Net Position. At June 30, 2016, the original cost of the Chromebooks was \$411,457, and accumulated depreciation was \$68,576.

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

<u>Fiscal Year Ending</u>	<u>Amount</u>
June 30, 2017	\$ 142,981
June 30, 2018	142,981
Total minimum lease payments	<u>285,962</u>
Less: Amount representing interest	<u>(17,486)</u>
Present value of minimum lease payments	<u>\$ 268,476</u>

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

7. Fund Balance

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 governmental funds. The constraints placed on the fund balances of the governmental funds are presented below:

	School Operating Fund	Cafeteria Fund	Capital Projects Fund
Fund Balances:			
Nonspendable:			
Inventories	\$ -	\$ 33,187	\$ -
Prepays	-	-	24,693
Restricted for:			
Education grants	78,138	-	-
Committed to:			
Capital projects	-	-	905,058
Assigned to:			
General education	4,532,051	-	-
Food services	-	305,919	-
Total fund balances	<u>\$ 4,610,189</u>	<u>\$ 339,106</u>	<u>\$ 929,751</u>

8. Risk Management

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

Workers' Compensation

Workers' Compensation Insurance is provided through 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 \$66,716.

General Liability and Other

The School Division provides general liability and other insurance through the Virginia Municipal League Insurance Programs (VMLIP) and catastrophic accident insurance through Mutual of Omaha Insurance Company. General liability and business automobile have a \$1,000,000 limit per occurrence. Boiler and machinery coverage and property insurance are covered per the 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 \$125,139.

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, which represents a minimum of 5% 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 \$10,310,688 in the aggregate.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

8. Risk Management (Continued)

Healthcare (Continued)

During the current fiscal year, total claim expenses for the City and School Division of \$7,372,524, which did not exceed the stop loss provision, were incurred. This represents claims processed and an estimate for claims incurred but not reported (IBNR) as of June 30, 2016. The estimated liability for the City and School Division was \$452,286 and \$411,664, respectively, for a total of \$863,950 at year-end.

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

Year Ended June 30	Beginning Balance	Claim Expenses	Claim Payments	Ending Balance
2016	\$ 968,628	\$ 7,372,524	\$ 7,477,202	\$ 863,950
2015	898,880	9,052,509	8,982,761	968,628
2014	689,276	8,331,624	8,122,020	898,880

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.

9. Pension Plan

Plan Description

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

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

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

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

VRS PLAN 1

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

9. Pension Plan (Continued)

VRS PLAN 1 (Continued)

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, 2014, through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.

Retirement Contributions – Members contribute up to 5% 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% member contributions; all employees will be paying the full 5% 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. Also, creditable service 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 eligibility for retirement and to calculate the retirement benefit. Creditable service 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 1.7%.

Normal Retirement Age – Age 65 for VRS. Age 60 for political subdivision hazardous duty employees.

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

Earliest Reduced Retirement Eligibility – Members who are not in hazardous duty positions 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, 2016**

9. Pension Plan (Continued)

VRS PLAN 1 (Continued)

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

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

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

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

Disability Coverage – For members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits. Disability coverage is not applicable for members of the VRS Teacher Retirement Plan.

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.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

9. Pension Plan (Continued)

VRS PLAN 2

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

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

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

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

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

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

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

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

Disability Coverage – For members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits. Disability coverage is not applicable for members of the VRS Teacher Retirement Plan.

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, 2016**

9. Pension Plan (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:

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

* Non-Eligible Members

Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

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

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

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

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 eligibility for retirement and to calculate retirement benefits. Also, total creditable service may count toward eligibility for the health insurance credit in retirement if the employer offers the health insurance credit.

Defined Contributions Component: Under the defined contribution component, 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.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

9. Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

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

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

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

Defined Benefit Component: The retirement multiplier is 1.0%. 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.

Defined Contribution Component: Not applicable.

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.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

9. Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

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

Purchase of Prior Service

Defined Benefit Component: Same as VRS Plan 1, with the following exceptions:

- Hybrid Retirement Plan members are ineligible for ported service.
- The cost for purchasing refunded service is the higher of 4.00% of creditable compensation or average final compensation.
- Plan members have one year from their dates of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.

Defined Contribution Component: Not applicable

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

9. Pension Plan (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the VRS Retirement Plan:

	School Division (Non-Professional)
Inactive members or their beneficiaries currently receiving benefits	61
Inactive members:	
Vested inactive members	10
Non-vested inactive members	25
Inactive members active elsewhere in VRS	20
Total inactive members	55
Active members	77
Total covered employees	193

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions and school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been 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.

The School Division's non-professional employees' contractually required contribution rate for the year ended June 30, 2016 was 7.85% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by the employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School Division were \$92,041 and \$93,028 for the years ended June 30, 2016 and June 30, 2015, respectively.

For the School Division's professional employees covered under the VRS Teacher Retirement Plan, each school division's contractually required contribution rate for the year ended June 30, 2016 was 14.06% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013 adjusted for the transfer in June 2015 of \$192,884,000 as an accelerated payback of the deferred contribution in 2010-12 biennium. The actuarial rate for the Teacher Retirement Plan was 18.20%; however, it was reduced to 17.64% as a result of the transfer. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions were funded at 79.69% of the actuarial rate for the year ended June 30, 2016. Contributions to the pension plan from the School Division were \$2,989,663 and \$3,025,478 for the years ended June 30, 2016 and June 30, 2015, respectively.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

9. Pension Plan (Continued)

Net Pension Liability (Asset)

Under the VRS Retirement Plan, the School Division's net pension liability (asset) was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Under the VRS Teacher Retirement Plan, the school division reported a liability of \$35,941,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The School Division's proportion of the Net Pension Liability was based on the School Division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2015 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2015, the school division's proportion was 0.28555% as compared to 0.29170% at June 30, 2014.

Actuarial Assumptions – General Employees

The total pension liability for general employees in the School Division's Retirement Plans was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.35%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GAAP purposes of slightly more than the assumed 7.00%. However, since the difference was minimal, and a more conservative 7.00% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.00% to simplify preparation of pension liabilities.

Mortality rates: 14% of deaths are assumed to be service related.

Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

9. Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

All Others (Non 10 Largest) – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Actuarial Assumptions – VRS Teacher Retirement Plan

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.35%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GAAP purposes of slightly more than the assumed 7.00%. However, since the difference was minimal, and a more conservative 7.00% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.00% to simplify preparation of pension liabilities.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

9. Pension Plan (Continued)

Actuarial Assumptions – VRS Teacher Retirement Plan (Continued)

Mortality rates:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 3 years and females were set back 5 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females were set back 3 years.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 1 year and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table.
- Adjustments to the rates of service retirement.
- Decrease in rates of withdrawals for 3 through 9 years of service.
- Decrease in rates of disability.
- Reduce rates of salary increase by 0.25% per year.

Long-Term Expected Rate of Return

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

9. Pension Plan (Continued)

Long-Term Expected Rate of Return (Continued)

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50	6.28	1.04
Emerging Market Equity	6.00	10.00	0.60
Fixed Income	15.00	0.09	0.01
Emerging Debt	3.00	3.51	0.11
Rate Sensitive Credit	4.50	3.51	0.16
Non Rate Sensitive Credit	4.50	5.00	0.23
Convertibles	3.00	4.81	0.14
Public Real Estate	2.25	6.12	0.14
Private Real Estate	12.75	7.10	0.91
Private Equity	12.00	10.41	1.25
Cash	1.00	-1.50	-0.02
Total	<u>100.00%</u>		<u>5.83%</u>
		Inflation	<u>2.50%</u>
		* Expected arithmetic nominal return	<u>8.33%</u>

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Retirement Plans will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

9. Pension Plan (Continued)

Changes in Net Pension Liability (Asset)

	<u>Increase (Decrease)</u>		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
School Division (Non-Professional Staff)			
Balances at June 30, 2014	\$ 4,962,875	\$ 5,052,257	\$ (89,382)
Changes for the year:			
Service cost	132,051	-	132,051
Interest	337,943	-	337,943
Differences between expected and actual experience	(45,142)	-	(45,142)
Contributions - employer	-	93,028	(93,028)
Contributions - employee	-	59,073	(59,073)
Net investment income	-	228,863	(228,863)
Benefit payments, including refunds of employee contributions	(270,236)	(270,236)	-
Administrative expenses	-	(3,202)	3,202
Other changes	-	(47)	47
Net changes	<u>154,616</u>	<u>107,479</u>	<u>47,137</u>
Balances at June 30, 2015	<u>\$ 5,117,491</u>	<u>\$ 5,159,736</u>	<u>\$ (42,245)</u>

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

The following presents the School Division's net pension liability (asset) under the VRS Retirement Plan and the School Division's proportionate share of the net pension liability under the VRS Teacher Retirement Plan using the discount rate of 7.00%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	<u>Net Pension Liability (Asset)</u>		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Retirement Plan (Non-Professional Staff)	\$ 542,996	\$ (42,245)	\$ (533,698)
Teacher Retirement Plan	52,595,000	35,941,000	22,230,000

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

9. Pension Plan (Continued)

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

For the year ended June 30, 2016, the School Division recognized pension expense of \$(4,588) under the VRS Retirement Plan.

For the year ended June 30, 2016, the School Division recognized pension expense of \$2,099,000 under the VRS Teacher Retirement Plan. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2016, the School Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
School Division (Non-Professional Staff)		
Differences between expected and actual experience	\$ -	\$ 29,468
Net difference between projected and actual earnings on pension plan investments	-	136,910
Employer contributions subsequent to the measurement date	92,041	-
Total	<u>\$ 92,041</u>	<u>\$ 166,378</u>
School Division - Teacher Retirement Plan		
Differences between expected and actual experience	\$ -	\$ 495,000
Net difference between projected and actual earnings on pension plan investments	-	2,201,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	2,008,000
Employer contributions subsequent to the measurement date	2,989,663	-
Total	<u>\$ 2,989,663</u>	<u>\$ 4,704,000</u>

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

9. Pension Plan (Continued)

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

Deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of (increase to) the Net Pension Liability (Asset) in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	School Division (Non-Professional)	School Division- Teacher Retirement Plan
2017	\$ (69,348)	\$ (1,508,000)
2018	(67,468)	(1,508,000)
2019	(53,673)	(1,508,000)
2020	24,111	(55,000)
Thereafter	-	(125,000)
	<u>\$ (166,378)</u>	<u>\$ (4,704,000)</u>

Payable to the Pension Plan

At June 30, 2016, \$21,044 was payable to the System under the VRS Retirement Plan for the legally required contributions of the School Division related to the June 2016 payroll.

At June 30, 2016, \$79,057 was payable to the System under the VRS Teacher Retirement Plan for the legally required contributions related to the June 2016 payroll.

Pension Plan Fiduciary Net Position

Detailed information about the Fiduciary Net Positions of the VRS Retirement Plan and the VRS Teacher Retirement Plan is available in the separately issued VRS 2014 Comprehensive Annual Financial Report (CAFR). A copy of the 2015 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2015-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

10. 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, 2015. The specific limitations, on which the actuarial valuation was based, 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 Division must have at least 15 years of service, unless approved for VRS disability, to participate in the Retiree Health Plan. In addition, they must be eligible for retirement under VRS.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

10. Other Postemployment Benefits (Continued)

Plan Description (Continued)

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 OPEB Trust Fund, an irrevocable trust established for the purpose of accumulating assets to fund postemployment benefits other than pensions. The OPEB Trust Fund issues a separate report, which may be obtained from VML/VACo Finance Program, PO Box 12164, Richmond, Virginia 23241.

As of June 30, 2015, the date of the latest actuarial valuation for the School Division, plan participation consisted of:

Active employees	524
Retired participants	51
Total participants	<u>575</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 \$390,127 of the total premiums through their required contributions of between \$369 and \$1,708, depending on the type of coverage and years of service.

Based on the June 30, 2015, actuarial valuation, the School Division contributed \$207,882 to the Retiree Health Plan. No current year contribution was made to the Virginia Pooled OPEB Trust. It is the School Division's intent to fully fund the annual required contribution (ARC) each year.

Annual OPEB Cost and Net OPEB Asset

The School Division's annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with GAAP. 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 asset for the fiscal year ended June 30, 2016.

Annual required contribution	\$ 179,203
Interest on net OPEB obligation	(13,088)
Adjustment to annual required contribution	10,980
Annual OPEB cost	<u>177,095</u>
Contributions made	(207,882)
Increase in net OPEB asset	<u>(30,787)</u>
Net OPEB obligation (asset), beginning	(186,976)
Net OPEB obligation (asset), ending	<u>\$ (217,763)</u>

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

10. Other Postemployment Benefits (Continued)

Annual OPEB Cost and Net OPEB Asset (Continued)

The following table presents three-year trend information on the School Division's annual OPEB cost, percentage of annual OPEB cost contributed, and net OPEB obligation (asset).

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Asset</u>
June 30, 2016	\$ 177,095	117.4%	\$ (217,763)
June 30, 2015	174,218	169.4	(186,976)
June 30, 2014	274,039	100.0	(66,146)

Funded Status and Funding Progress

As of June 30, 2015, the School Division's most recent actuarial valuation date, the plan was 37.6% funded. The actuarial accrued liability (AAL) for benefits was \$2,275,141, and the actuarial value of assets was \$855,224, resulting in an unfunded actuarial accrued liability (UAAL) for benefits of \$1,419,917. The covered payroll (annual payroll of active employees covered by the plan) was \$24,081,341, and the ratio of the UAAL to the covered payroll was 5.9%.

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 OPEB Trust Fund.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

10. Other Postemployment Benefits (Continued)

Methods and Assumptions (Continued)

Actuarial methods

Actuarial cost method	Entry Age Normal
Amortization method	Level percent of payroll
Amortization period	Open over 30 years
Asset valuation method	Market value

Actuarial assumptions

Investment rate of return	7.00%
Payroll growth	3.00%
Healthcare cost trend rate	Getzen Trend Model
	Pre-65: 6.40% graded to 4.50% over 61 years
	Post 65: Not Applicable

11. Commitments and Contingencies

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.

Management of Food Services

In July 2014, the School Division engaged Aramark Educational Services, L.L.C., to provide management services for the school food programs pursuant to the federal school nutrition programs. The initial agreement was for a period of one year with options for four additional one-year renewals by mutual written agreement. The School Division and Aramark Educational Services, L.L.C., have renewed the agreement through June 30, 2017. Aramark will receive a general and administrative expense fee of \$0.12778 per meal served as well as a management fee of \$0.02557 per meal served.

12. Jointly Governed Organizations

Roanoke Valley Regional Board

The Counties of Botetourt, Craig, and Franklin, the City of Roanoke, and the School Division participate jointly 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 its proportionate share of students attending the regional program. For the year ended June 30, 2016, the School Division remitted \$739,856 to the Regional Board for services. Financial statements may be obtained from the Roanoke Valley Regional Board at 57 South Center Drive, Room 225, Daleville, VA 24083.

Roanoke Valley Governor's School

The Counties of Bedford, Botetourt, Craig, Franklin, and Roanoke and the Cities of Roanoke and Salem jointly participate in a regional education program focusing on science, technology, engineering, and mathematics operated by Roanoke Valley Governor's School (RVGS). RVGS is governed by a seven member board, with one member from each participating locality. The School Division has control over budget and financing only to the extent of representation by the one board member appointed. Each locality's financial obligation is based on its proportionate share of students attending RVGS. For the year ended June 30, 2016, the School Division remitted \$42,395 for services. Financial statements may be obtained from RVGS at 2104 Grandin Road, Roanoke, VA 24015.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

13. New Accounting Standards

The GASB has issued Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The statement will improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The provisions of this statement are effective for fiscal years beginning after June 15, 2016. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

The GASB has issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. The statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. The provisions of this statement are effective for fiscal years beginning after June 15, 2017. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

The GASB has issued Statement 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The provisions of this statement are effective for fiscal years beginning after June 15, 2016. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

The GASB has issued Statement No. 81, *Irrevocable Split-Interest Agreements*, to improve accounting and financial reporting for irrevocable split-interest agreements for situations in which a government is a beneficiary of the agreement. The provisions of this statement are effective for fiscal years beginning after December 15, 2016. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

The GASB has issued Statement No. 82, *Pension Issues – An Amendment of GASB No. 67, No. 68., and No. 78*, to address certain issues that have been raised with respect to GASB statements No. 67, No. 68, and No. 78. Specifically, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions of this statement are effective for fiscal years beginning after June 15, 2016, except for the requirements for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first fiscal year in which the measurement date of the pension liability is on or after June 15, 2017. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF SALEM SCHOOL DIVISION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2016**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (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, 2015	\$ 855,224	\$ 2,275,141	\$ 1,419,917	37.6%	\$ 24,081,341	5.9%
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

**CITY OF SALEM SCHOOL DIVISION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2016**

Fiscal year	Annual Required Contribution	Percentage Contributed
June 30, 2016	\$ 179,203	116.0%
June 30, 2015	174,964	168.6
June 30, 2014	274,697	99.8

**CITY OF SALEM SCHOOL DIVISION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS
YEARS ENDED JUNE 30, 2016 AND 2015**

	Schools--Nonprofessional Employees	
	2016	2015
Total pension liability		
Service cost	\$ 132,051	\$ 145,676
Interest	337,943	323,812
Differences between expected and actual experience	(45,142)	-
Benefit payments, including refunds of employee contributions	(270,236)	(264,987)
Net change in total pension liability	154,616	204,501
Total pension liability - beginning	4,962,875	4,758,374
Total pension liability - ending	5,117,491	4,962,875
Plan fiduciary net position		
Contributions - employer	\$ 93,028	\$ 97,271
Contributions - employee	59,073	61,480
Net investment income	228,863	697,591
Benefit payments, including refunds of employee contributions	(270,236)	(264,987)
Administrative expense	(3,202)	(3,812)
Other	(47)	37
Net change in plan fiduciary net position	107,479	587,580
Plan fiduciary net position - beginning	5,052,257	4,464,677
Plan fiduciary net position - ending	\$ 5,159,736	\$ 5,052,257
Net pension liability (asset) - ending	\$ (42,245)	\$ (89,382)
Plan fiduciary net position as a percentage of the total pension liability	100.83%	101.80%
Covered-employee payroll	\$ 1,185,071	\$ 1,229,675
Net pension liability (asset) as a percentage of covered-employee payroll	-3.56%	-7.27%

Schedule is intended to show information for 10 years. Since 2016 is the second year for this presentation, only one additional year of data is available. However, additional years will be included as they become available.

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

**CITY OF SALEM SCHOOL DIVISION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
YEARS ENDED JUNE 30, 2016 AND 2015**

Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
	(a)	(b)	(a-b)	(c)	(b/c)
School Division - Nonprofessional Employees					
2016	\$ 92,041	\$ 92,041	\$ -	\$ 1,172,498	7.85%
2015*	93,028	93,028	-	1,185,071	7.85

Schedule is intended to show information for 10 years. Since 2016 is the second year for this presentation, only one additional year of data is available. However, additional years will be included as they become available.

* Revised to reflect actual 2015 amounts as shown in the VRS actuarial report rather than estimated amounts used in the prior year CAFR.

**CITY OF SALEM SCHOOL DIVISION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
VRS TEACHER RETIREMENT PLAN
YEARS ENDED JUNE 30, 2016 AND 2015**

<u>Year Ended June 30</u>	<u>Employer's Proportion of the Net Pension Liability</u>	<u>Employer's Proportionate Share of the Net Pension Liability</u>	<u>Covered Employee Payroll</u>	<u>Employer's Share of the Net Pension Liability as a % of Covered Employee Payroll</u>	<u>Plan Fiduciary Net Position as a % of the Total Pension Liability</u>
		(a)	(b)	(a/b)	
2016	0.28555%	\$ 35,941,000	\$ 20,865,367	172.25%	70.68%
2015	0.29170	35,251,000	19,575,450	180.08	70.88

Schedule is intended to show information for 10 years. Since 2016 is the second year for this presentation, only one additional year of data is available. However, additional years will be included as they become available.

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

**CITY OF SALEM SCHOOL DIVISION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
VRS TEACHER RETIREMENT PLAN
YEARS ENDED JUNE 30, 2016 AND 2015**

Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
	(a)	(b)	(a-b)	(c)	(b/c)
2016	\$ 2,989,663	\$ 2,989,663	\$ -	\$ 21,263,606	14.06%
2015	3,025,478	3,025,478	-	20,865,367	14.50

Schedule is intended to show information for 10 years. Since 2016 is the second year for this presentation, only one additional year of data is available. However, additional years will be included as they become available.

CITY OF SALEM SCHOOL DIVISION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016

1. Changes of Benefit Terms

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

2. Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

Teacher cost-sharing pool:

- Update mortality table
- Adjustments to rates of service retirement
- Decrease in rates of withdrawal for 3 through 9 years of service
- Decrease in rates of disability
- Reduce rates of salary increase by 0.25% per year

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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.

Table 1	Net Position by Component.....	65
Table 2	Changes in Net Position.....	66
Table 3	Fund Balances – Governmental Funds.....	67
Table 4	Changes in Fund Balances – Governmental Funds.....	68

Operating Information

These schedules contain education and infrastructure data to help the reader understand how the information in the School Division's financial report relates to how well it educates its students.

Table 5	Membership and Per Pupil Spending.....	70
Table 6	Teacher Base Salaries and Average Salaries.....	71
Table 7	School Building Information.....	71
Table 8	Accreditation Status.....	72
Table 9	Scholastic Aptitude Test (SAT) Scores.....	72
Table 10	Virginia Standards of Learning (SOL) Test Results.....	73

**TABLE 1
UNAUDITED**

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
		(1)	(2)							
Governmental Activities										
Net investment in capital assets	\$ 46,530,313	\$ 48,121,333	\$ 49,441,566	\$ 49,201,420	\$ 37,836,389	\$ 37,885,656	\$ 38,414,499	\$ 38,497,717	\$ 39,836,700	\$ 40,661,691
Restricted	78,138	78,474	-	-	-	-	-	-	-	-
Unrestricted	(31,510,148)	(35,459,054)	3,972,118	758,035	2,749,702	4,046,004	4,182,847	3,499,453	2,117,375	1,778,144
Total School Division net position	<u>\$ 15,098,303</u>	<u>\$ 12,740,753</u>	<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>

Notes:

Source: City of Salem Finance Department

(1) GASB Statement No. 68 was adopted in fiscal year 2015.

(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**

	<u>2016</u>	<u>2015</u>	<u>2014</u> (1)	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Expenses										
Central administration	\$ 1,593,894	\$ 1,695,545	\$ 1,879,992	\$ 1,920,910	\$ 1,563,224	\$ 1,466,696	\$ 1,514,899	\$ 1,553,796	\$ 1,531,730	\$ 1,584,163
Centralized instruction costs	3,473,872	3,636,537	3,879,440	3,548,842	3,328,048	2,997,309	3,172,287	3,337,312	2,918,668	3,034,138
Instructional costs	30,933,478	32,699,399	33,968,213	32,389,924	30,692,441	29,758,175	29,386,590	32,198,604	31,246,512	30,009,920
Attendance and health services	936,415	981,451	879,534	893,663	872,551	838,160	853,611	865,647	875,542	856,256
Transportation	1,348,170	1,463,135	1,413,079	1,446,627	1,338,768	1,303,303	1,251,032	1,260,368	1,219,250	1,206,958
Food services	1,675,156	1,973,317	1,597,475	1,616,530	1,666,673	1,737,457	1,695,734	1,753,307	1,749,928	1,641,335
Federal and state grants programs	1,844,532	1,969,993	2,953,551	2,172,018	3,066,792	2,807,159	4,269,293	1,738,798	1,677,153	1,949,581
Non-departmental	-	-	-	548,520	550,000	250,000	250,000	295,753	266,490	273,835
Capital lease interest	10,612	-	-	-	-	-	-	-	-	-
Total governmental activities	<u>\$ 41,816,129</u>	<u>\$ 44,419,377</u>	<u>\$ 46,571,284</u>	<u>\$ 44,537,034</u>	<u>\$ 43,078,497</u>	<u>\$ 41,158,259</u>	<u>\$ 42,393,446</u>	<u>\$ 43,003,585</u>	<u>\$ 41,485,273</u>	<u>\$ 40,556,186</u>
Program revenues										
Charges for services	\$ 1,539,659	\$ 1,542,794	\$ 1,667,139	\$ 1,545,090	\$ 1,574,520	\$ 1,591,030	\$ 1,716,362	\$ 1,557,348	\$ 1,499,500	\$ 1,570,518
Operating grants and contributions	8,197,005	8,119,815	8,956,887	8,122,841	7,810,425	7,159,185	8,728,103	6,683,475	6,847,722	6,560,448
Capital grants and contributions	49,773	5,174	7,000	7,000	-	-	-	-	-	-
Total governmental activities	<u>\$ 9,786,437</u>	<u>\$ 9,667,783</u>	<u>\$ 10,631,026</u>	<u>\$ 9,674,931</u>	<u>\$ 9,384,945</u>	<u>\$ 8,750,215</u>	<u>\$ 10,444,465</u>	<u>\$ 8,240,823</u>	<u>\$ 8,347,222</u>	<u>\$ 8,130,966</u>
Net expense	<u>\$ (32,029,692)</u>	<u>\$ (34,751,594)</u>	<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>
General revenues and other changes in net position										
Payments from City of Salem	\$ 19,739,512	\$ 19,151,270	\$ 25,103,243	\$ 30,295,228	\$ 18,471,653	\$ 18,420,000	\$ 18,420,000	\$ 18,420,000	\$ 17,995,000	\$ 17,095,000
State aid	13,757,083	13,916,982	13,144,693	13,133,752	13,237,358	12,815,820	13,691,655	15,967,532	14,068,288	14,317,578
Other	890,647	954,837	778,599	806,487	638,972	506,538	437,502	418,325	589,003	449,800
Total governmental activities	<u>\$ 34,387,242</u>	<u>\$ 34,023,089</u>	<u>\$ 39,026,535</u>	<u>\$ 44,235,467</u>	<u>\$ 32,347,983</u>	<u>\$ 31,742,358</u>	<u>\$ 32,549,157</u>	<u>\$ 34,805,857</u>	<u>\$ 32,652,291</u>	<u>\$ 31,862,378</u>
Change in net position	<u>\$ 2,357,550</u>	<u>\$ (728,505)</u>	<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>

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
FUND BALANCES			(1)			(2)				
<u>Operating Fund</u>										
Nonspendable	\$ -	\$ -	\$ 24,797	\$ 3,326	\$ 24,138	\$ 37,099	\$ -	\$ -	\$ -	\$ -
Restricted	78,138	78,474	-	-	-	-	-	-	-	-
Committed	-	-	-	36,863	170,452	1,225,000	-	-	-	-
Assigned	4,532,051	2,761,526	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
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
Total Operating Fund	<u>\$ 4,610,189</u>	<u>\$ 2,840,000</u>	<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>Cafeteria Fund</u>										
Nonspendable	\$ 33,187	\$ 34,125	\$ 55,511	\$ 56,826	\$ 51,525	\$ 66,139	\$ -	\$ -	\$ -	\$ -
Committed	-	-	-	-	23,302	-	-	-	-	-
Assigned	305,919	324,603	451,968	410,328	357,906	308,386	-	-	-	-
Reserved for inventories	-	-	-	-	-	-	40,753	60,389	68,195	44,963
Reserved for encumbrances	-	-	-	-	-	-	15,856	21,646	-	19,364
Unreserved, undesignated	-	-	-	-	-	-	318,852	283,711	306,211	365,182
Total Cafeteria Fund	<u>\$ 339,106</u>	<u>\$ 358,728</u>	<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>Capital Projects Fund</u>										
Nonspendable	\$ 24,693	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Committed	905,058	1,146,489	1,550,444	1,550,586	1,681,048	693,096	-	-	-	-
Unassigned	-	-	-	(2,964,290)	-	-	-	-	-	-
Reserved for encumbrances	-	-	-	-	-	-	570,935	546,909	224,185	113,976
Unreserved, undesignated	-	-	-	-	-	-	530,502	174,371	406,753	41,903
Total Capital Projects Fund	<u>\$ 929,751</u>	<u>\$ 1,146,489</u>	<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>
Total School Division	<u>\$ 5,879,046</u>	<u>\$ 4,345,217</u>	<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>

Notes:

Source: City of Salem Finance Department

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

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

**TABLE 4
UNAUDITED**

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

	2016	2015	2014 (1)	2013	2012	2011	2010	2009	2008	2007
Revenues										
<u>Operating Fund</u>										
<i>Intergovernmental:</i>										
City of Salem	\$ 19,739,512	\$ 19,151,270	\$ 19,622,043	\$ 20,776,428	\$ 18,471,653	\$ 18,420,000	\$ 18,420,000	\$ 18,420,000	\$ 17,995,000	\$ 17,095,000
Commonwealth of Virginia	19,491,109	19,455,460	19,452,863	18,505,940	17,791,888	16,870,527	17,699,073	20,616,013	19,088,988	18,692,569
Federal Government	1,631,925	1,761,396	1,838,411	1,978,488	2,454,719	2,329,130	4,011,637	1,373,482	1,203,850	1,608,121
<i>Other:</i>	1,607,634	1,594,590	1,600,220	1,472,793	1,293,847	1,154,600	1,162,811	917,538	917,978	898,481
Total Operating Fund	\$ 42,470,180	\$ 41,962,716	\$ 42,513,537	\$ 42,733,649	\$ 40,012,107	\$ 38,774,257	\$ 41,293,521	\$ 41,327,033	\$ 39,205,816	\$ 38,294,171
<u>Cafeteria Fund</u>										
<i>Intergovernmental:</i>										
Commonwealth of Virginia	\$ 21,590	\$ 24,581	\$ 25,893	\$ 28,076	\$ 27,570	\$ 26,917	\$ 26,132	\$ 25,861	\$ 26,735	\$ 23,974
Federal Government	809,467	795,360	784,413	744,089	773,605	748,431	682,916	635,652	596,438	553,362
<i>Other:</i>										
Charges for services	815,617	759,141	832,642	867,703	903,493	922,353	974,623	1,022,831	1,029,365	1,075,195
Other	7,121	143,900	12,876	11,083	27,251	23,145	16,497	35,303	42,287	50,807
Total Cafeteria Fund	\$ 1,653,795	\$ 1,722,982	\$ 1,655,824	\$ 1,650,951	\$ 1,731,919	\$ 1,720,846	\$ 1,700,168	\$ 1,719,647	\$ 1,694,825	\$ 1,703,338
<u>Capital Projects Fund</u>										
<i>Intergovernmental:</i>										
City of Salem	\$ -	\$ -	\$ 5,481,200	\$ 9,518,800	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Other:</i>	-	5,174	7,000	7,000	-	-	-	-	98,872	-
Total Capital Projects Fund	\$ -	\$ 5,174	\$ 5,488,200	\$ 9,525,800	\$ -	\$ -	\$ -	\$ -	\$ 98,872	\$ -
Expenditures										
<u>Operating Fund</u>										
<i>Current:</i>										
Central administration	\$ 1,593,852	\$ 1,658,908	\$ 1,756,494	\$ 1,664,724	\$ 1,414,020	\$ 1,461,269	\$ 1,505,723	\$ 1,467,700	\$ 1,530,878	\$ 1,379,411
Centralized instruction costs	3,687,727	3,832,984	3,711,762	3,499,585	3,008,025	3,136,131	3,231,442	2,922,251	3,034,138	2,832,043
Instructional costs:										
Salem High School	10,048,013	9,976,964	9,965,723	10,119,284	9,380,598	8,931,027	10,325,423	9,926,412	9,623,456	9,249,942
Andrew Lewis Middle School	6,629,696	6,769,119	6,765,055	6,780,842	6,078,634	5,966,676	6,859,192	6,742,401	6,457,778	6,168,605
G.W. Carver Elementary School	3,473,543	3,590,403	3,634,528	3,497,209	3,342,917	3,515,038	3,492,995	3,420,249	3,245,015	2,932,289
West Salem Elementary School	2,999,504	3,013,001	3,167,012	3,142,102	2,951,348	2,940,070	3,258,221	3,184,307	3,095,087	2,912,562
South Salem Elementary School	2,946,511	2,985,015	3,006,075	2,990,425	2,984,114	3,174,639	3,191,943	3,149,596	2,851,713	2,735,922
East Salem Elementary School	3,543,633	3,472,215	3,185,659	3,281,198	3,153,029	3,274,535	3,397,788	3,155,854	3,049,965	2,814,731
Regional Program	733,930	698,011	616,896	743,384	-	-	-	-	-	-
Attendance and health services	1,001,682	988,485	889,226	893,663	838,160	853,611	865,647	875,542	856,256	824,682
Transportation	1,269,037	1,269,076	1,529,625	1,282,845	1,297,167	1,426,223	1,209,606	1,324,034	1,072,352	1,071,437
Federal and state grants programs	2,027,663	1,958,910	2,974,412	2,203,948	2,824,695	4,456,948	1,746,188	1,688,454	1,949,581	1,655,441
Non-departmental	-	-	-	548,520	250,000	250,000	295,753	266,490	273,835	-
<i>Capital lease debt service:</i>										
Principal	142,981	-	-	-	-	-	-	-	-	-
Interest	10,612	-	-	-	-	-	-	-	-	-
Total Operating Fund	\$ 40,108,384	\$ 40,213,091	\$ 41,202,467	\$ 40,647,729	\$ 37,522,707	\$ 39,386,167	\$ 39,379,921	\$ 38,123,290	\$ 37,040,054	\$ 34,577,065

(CONTINUED)

**TABLE 4
UNAUDITED
(CONTINUED)**

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Expenditures			(1)							
<u>Cafeteria Fund</u>										
Food services	\$ 1,673,417	\$ 1,871,733	\$ 1,615,499	\$ 1,616,530	\$ 1,688,711	\$ 1,746,782	\$ 1,729,453	\$ 1,753,307	\$ 1,749,928	\$ 1,641,336
Total Cafeteria Fund	<u>\$ 1,673,417</u>	<u>\$ 1,871,733</u>	<u>\$ 1,615,499</u>	<u>\$ 1,616,530</u>	<u>\$ 1,688,711</u>	<u>\$ 1,746,782</u>	<u>\$ 1,729,453</u>	<u>\$ 1,753,307</u>	<u>\$ 1,749,928</u>	<u>\$ 1,641,336</u>
<u>Capital Projects Fund</u>										
Capital projects	\$ 1,219,802	\$ 1,335,621	\$ 4,297,458	\$ 13,588,552	\$ 1,717,361	\$ 1,373,173	\$ 1,154,343	\$ 496,114	\$ 683,672	\$ 613,912
Total Capital Projects Fund	<u>\$ 1,219,802</u>	<u>\$ 1,335,621</u>	<u>\$ 4,297,458</u>	<u>\$ 13,588,552</u>	<u>\$ 1,717,361</u>	<u>\$ 1,373,173</u>	<u>\$ 1,154,343</u>	<u>\$ 496,114</u>	<u>\$ 683,672</u>	<u>\$ 613,912</u>
Excess (deficiency) of revenues over (under) expenditures										
Operating Fund	\$ 2,361,796	\$ 1,749,625	\$ 1,311,070	\$ 2,085,920	\$ 286,989	\$ 1,251,550	\$ 1,907,354	\$ 1,947,112	\$ 1,082,526	\$ 1,254,117
Cafeteria Fund	(19,622)	(148,751)	40,325	34,421	43,208	(25,936)	(29,285)	(33,660)	(55,103)	62,002
Capital Projects Fund	(1,219,802)	(1,330,447)	1,190,742	(4,062,752)	(1,717,361)	(1,373,173)	(1,154,343)	(496,114)	(584,800)	(613,912)
	<u>\$ 1,122,372</u>	<u>\$ 270,427</u>	<u>\$ 2,542,137</u>	<u>\$ (1,942,411)</u>	<u>\$ (1,387,164)</u>	<u>\$ (147,559)</u>	<u>\$ 723,726</u>	<u>\$ 1,417,338</u>	<u>\$ 442,623</u>	<u>\$ 702,207</u>
Other financing sources (uses)										
<u>Operating Fund</u>										
Transfers out	\$ (591,607)	\$ (926,492)	\$ (1,773,406)	\$ (968,000)	\$ (2,720,313)	\$ (989,832)	\$ (1,573,500)	\$ (611,456)	\$ (1,059,859)	\$ (242,002)
Total Operating Fund	<u>\$ (591,607)</u>	<u>\$ (926,492)</u>	<u>\$ (1,773,406)</u>	<u>\$ (968,000)</u>	<u>\$ (2,720,313)</u>	<u>\$ (989,832)</u>	<u>\$ (1,573,500)</u>	<u>\$ (611,456)</u>	<u>\$ (1,059,859)</u>	<u>\$ (242,002)</u>
<u>Cafeteria Fund</u>										
Transfers in	\$ -	\$ -	\$ -	\$ -	\$ 15,000	\$ 25,000	\$ 39,000	\$ 25,000	\$ -	\$ -
Total Cafeteria Fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,000</u>	<u>\$ 25,000</u>	<u>\$ 39,000</u>	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Capital Projects Fund</u>										
Issuance of capital leases	\$ 411,457	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers in	591,607	926,492	1,773,406	968,000	2,705,313	964,832	1,534,500	586,456	1,059,859	242,002
Total Capital Projects Fund	<u>\$ 1,003,064</u>	<u>\$ 926,492</u>	<u>\$ 1,773,406</u>	<u>\$ 968,000</u>	<u>\$ 2,705,313</u>	<u>\$ 964,832</u>	<u>\$ 1,534,500</u>	<u>\$ 586,456</u>	<u>\$ 1,059,859</u>	<u>\$ 242,002</u>
Net change in fund balances										
Operating Fund	\$ 1,770,189	\$ 823,133	\$ (462,336)	\$ 1,117,920	\$ (2,433,324)	\$ 261,718	\$ 333,854	\$ 1,335,656	\$ 22,667	\$ 1,012,115
Cafeteria Fund	(19,622)	(148,751)	40,325	34,421	58,208	(936)	9,715	(8,660)	(55,103)	62,002
Capital Projects Fund	(216,738)	(403,955)	2,964,148	(3,094,752)	987,952	(408,341)	380,157	90,342	475,059	(371,910)
	<u>\$ 1,533,829</u>	<u>\$ 270,427</u>	<u>\$ 2,542,137</u>	<u>\$ (1,942,411)</u>	<u>\$ (1,387,164)</u>	<u>\$ (147,559)</u>	<u>\$ 723,726</u>	<u>\$ 1,417,338</u>	<u>\$ 442,623</u>	<u>\$ 702,207</u>

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	Average Daily Membership March 31	Membership June 30	Average Daily Membership June 30	Average Daily Attendance March 31	Special Education Child Count December 1	Salem Per Pupil Expenditures	State Average Per Pupil Expenditures	Composite Index
	(1)	(1)	(1)	(2), (8)	(3), (9)	(4)	(2)	(2)	
2016	3,808	3,716	3,751	3,752	3,585	514	N/A	N/A	0.3695
2015	3,815	3,774	3,797	3,813	3,636	528	\$10,844	\$11,523	0.3695
2014 (7)	3,799	3,761	3,772	3,796	3,628	505	11,057	11,242	0.3628
2013 (7)	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

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

2015 (6)	4,364
2014 (6)	4,361
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 website (excludes part-time students)

(2) Superintendent's Annual Report Table 15 (2007-2016)

(3) Superintendent's Annual Report Table 8 (2007-2016)

(4) Director of Student Services and Virginia Department of Education website

(5) Director of Assessment and Technology (1999-2008) and Weldon Cooper Center (2011-2015)

(6) Starting in 2011, the Weldon Cooper Center at the University of Virginia will estimate school age population in Virginia. This is the latest estimate as of July 1, 2015.

(7) Figures for 2013 and 2014 were adjusted to match the Superintendent's Annual Reports for those school years.

(8) End of year financial verification report

(9) Spring student record collection

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	Maximum Salary	Salem Average Salary	Commonwealth Average Salary
	(1)	(1)	(2)	(2)
2016	\$42,000	\$60,328	\$55,776	N/A
2015	42,000	60,179	55,352	\$54,486
2014	41,000	59,736	55,115	53,818
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

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 website.

TABLE 7
UNAUDITED

CITY OF SALEM SCHOOL DIVISION
SCHOOL BUILDING INFORMATION
JUNE 30, 2016

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	56,308
AIIMS Alternative Education Center	3,500
Central Administration Office	16,000

Note:

Source: Director of Business

**TABLE 8
UNAUDITED**

**CITY OF SALEM SCHOOL DIVISION
ACCREDITATION STATUS
2015-2016 SCHOOL YEAR**

School Name	Virginia Accreditation Status
Salem High School	Fully Accredited
Andrew Lewis Middle School	Fully Accredited
G.W. Carver Elementary School	Fully Accredited
West Salem Elementary School	Fully Accredited
South Salem Elementary School	Fully Accredited
East Salem Elementary School	Fully Accredited

Note:

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
2016	123	1,047	1,029	981
2015	148	1,046	1,028	987
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

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

		2016		2015		2014	
	<u>Grade</u>	<u>Salem</u>	<u>Virginia</u>	<u>Salem</u>	<u>Virginia</u>	<u>Salem</u>	<u>Virginia</u>
<u>Elementary and Middle School:</u>							
English: Reading	3	83	73	85	75	78	69
Mathematics	3	86	77	85	74	75	67
Science	3	N/A	N/A	N/A	N/A	88	83
History and Social Sciences	3	N/A	N/A	N/A	N/A	93	86
English: Reading	4	84	77	84	77	79	70
Mathematics	4	91	83	88	84	86	80
Virginia Studies	4	89	87	93	87	92	85
English: Reading	5	88	81	83	79	82	73
English: Writing	5	N/A	N/A	N/A	N/A	71	71
Mathematics	5	79	79	85	79	76	73
Science	5	83	81	86	79	81	73
US History to 1865	5	N/A	N/A	N/A	N/A	83	81
English: Reading	6	85	77	84	76	80	73
Mathematics	6	88	82	80	76	73	76
US History 1865 to Present	6	N/A	N/A	N/A	N/A	84	81
English: Reading	7	87	82	91	81	82	76
Mathematics	7	84	72	85	72	74	65
Civics and Economics	7	87	87	92	86	83	83
English: Reading	8	82	75	81	75	72	70
English: Writing	8	78	71	76	72	72	70
Mathematics	8	69	73	86	74	77	67
Science	8	87	79	87	78	85	74
<u>High School and End of Course:</u>							
English: Reading	9-12	91	89	91	89	93	90
English: Writing	9-12	88	83	88	83	90	84
Algebra I	9-12	83	83	90	82	81	79
Algebra II	9-12	99	89	98	87	93	82
Geometry	9-12	86	80	90	80	86	77
Biology	9-12	89	84	92	84	89	83
Chemistry	9-12	98	88	100	88	95	87
Earth Science	9-12	97	84	93	83	91	83
Virginia and US History	9-12	91	86	90	87	96	87
World History I	9-12	95	84	98	85	93	85
World History II	9-12	95	86	94	87	96	86
World Geography	9-12	88	86	88	86	88	86

Note:

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

N/A Not applicable

COMPLIANCE SECTION

CITY OF SALEM, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016

Federal Grantor	Federal CFDA Number	Pass-Through Entity Identifying Number		Federal Expenditures	Passed Through to Subrecipients
<u>Pass-Through Grantor</u> Program or Cluster Title					
<u>Department of Agriculture</u>					
<i>Virginia Department of Agriculture and Consumer Services</i>					
Child Nutrition Cluster					
Food Distribution - Commodities	10.555	-	\$ 108,525		
<i>Virginia Department of Education</i>					
Child Nutrition Cluster					
National School Breakfast Program 2015	10.553	2015IN109941	11,948		
National School Breakfast Program 2016	10.553	201616N109941	135,447		
National School Lunch Program 2015	10.555	2015IN109941	52,852		
National School Lunch Program 2016	10.555	201616N109941	500,694		
Total Child Nutrition Cluster				\$ 809,466	
<u>Department of Education</u>					
<i>Virginia Department of Education</i>					
Adult Education - Basic Grants to States 2014	84.002	V002A140047	25,329		\$ 17,422
Adult Education - Basic Grants to States 2015	84.002	V002A150047	280,882	306,211	18,080
Title I Grants to Local Educational Agencies 2013	84.010	S010A130046	299		
Title I Grants to Local Educational Agencies 2014	84.010	S010A140046	49,198		
Title I Grants to Local Educational Agencies 2015	84.010	S010A150046	388,383	437,880	
Special Education Cluster (IDEA)					
Special Education - Grants to States (IDEA, Part B) 2013	84.027	H027A130172	3,150		
Special Education - Grants to States (IDEA, Part B) 2014	84.027	H027A140107	98,796		
Special Education - Grants to States (IDEA, Part B) 2015	84.027	H027A150107	594,861		
Special Education - Preschool Grants (IDEA Preschool) 2013	84.173	H173A130112	7,794		
Special Education - Preschool Grants (IDEA Preschool) 2014	84.173	H173A140112	15,309		
Special Education - Preschool Grants (IDEA Preschool) 2015	84.173	H173A150112	9,228		
Total Special Education Cluster (IDEA)				729,138	
Career and Technical Education - Basic Grants to States (Perkins IV)	84.048	V048A150046	44,375	44,375	
Improving Teacher Quality State Grants	84.367	S367A150044	99,431	99,431	
<i>County of Roanoke, Virginia</i>					
English Language Acquisition State Grants	84.365	S365A150046	8,485	8,485	
<u>Department of Health and Human Services</u>					
<i>Goodwill Industries of the Valleys</i>					
Health Profession Opportunity Grants	93.093	90FX0038-01-01	6,405	6,405	
Total Expenditures of Federal Awards				\$ 2,441,391	\$ 35,502

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. As of June 30, 2016, the School Division had food commodities in inventory of \$19,550.

Note 3: **Indirect Cost Rate**

The School Division did not elect to use the 10% de minimis indirect cost rate.

**Report of Independent Auditor 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, Virginia School Division
City of Salem, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the *Specifications for Audits of Counties, Cities and Towns*, 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, Virginia School Division (the "School Division"), a component unit of the City of Salem, Virginia, as of and for the year ended June 30, 2016, 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 17, 2016.

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 from 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* or the *Specifications for Audits of Counties, Cities and Towns*.

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 School Division'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 School Division's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Cheryl Behrman CP". The signature is written in a cursive, flowing style.

Roanoke, Virginia
November 17, 2016