



PROGRESS IN THE PANDEMIC



SALEM
CITY SCHOOLS

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CITY OF SALEM SCHOOL DIVISION SALEM, VIRGINIA

(A Component Unit of the City of Salem)

Comprehensive Annual Financial Report
Year Ended June 30, 2020

Special thanks to:
Mike Stevens, Director of Communication, City of Salem
for the design of the City of Salem School Division
Comprehensive Annual Financial Report cover

City of Salem School Division

(A Component Unit of the City of Salem, Virginia)

Comprehensive Annual Financial Report For the Year Ended June 30, 2020



Prepared by:

City of Salem School Division Business 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	9
Organizational Chart	10
Certificate of Excellence in Financial Reporting	11
FINANCIAL SECTION	
Report of Independent Auditor	13
Management's Discussion and Analysis	16
<i>Basic Financial Statements</i>	
Government-Wide Financial Statements	
Exhibit 1 Statement of Net Position	29
Exhibit 2 Statement of Activities	30
Governmental Funds' Financial Statements	
Exhibit 3 Balance Sheet	31
Exhibit 4 Reconciliation of the Governmental Funds' Balance Sheet to the Statement of Net Position	32
Exhibit 5 Statement of Revenues, Expenditures, and Changes in Fund Balances	33
Exhibit 6 Reconciliation of the Governmental Funds' Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	34
Exhibit 7 Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual - General Fund	35
Exhibit 8 Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual - Special Revenue Fund - Cafeteria Fund	36
Proprietary Fund's Financial Statements	
Exhibit 9 Statement of Net Position	37
Exhibit 10 Statement of Revenues, Expenses, and Changes in Net Position	38
Exhibit 11 Statement of Cash Flows	39
Fiduciary Funds' Financial Statements	
Exhibit 12 Statement of Fiduciary Net Position	40
Exhibit 13 Statement of Changes in Fiduciary Net Position	40
Notes to Basic Financial Statements	41
<i>Required Supplementary Information</i>	
Exhibit 14 Schedule of Changes in Net Pension Liability (Asset) and Related Ratios	93
Exhibit 15 Schedule of Employer Pension Contributions	94
Exhibit 16 Schedule of Employer's Share of Net Pension Liability - VRS Teacher Retirement Plan	95
Exhibit 17 Schedule of Employer Pension Contributions - VRS Teacher Retirement Plan	96
Exhibit 18 Schedule of Changes in Net OPEB Liability and Related Ratios - Retiree Health Plan	97
Exhibit 19 Schedule of Employer OPEB Contributions - Retiree Health Plan	98
Exhibit 20 Schedule of Changes in Net OPEB Liability and Related Ratios - Political Subdivision Health Insurance Credit Program	99

CITY OF SALEM SCHOOL DIVISION TABLE OF CONTENTS

	Page
<i>Required Supplementary Information (Continued)</i>	
Exhibit 21 Schedule of Employer OPEB Contributions - Political Subdivision Health Insurance Credit Program.....	100
Exhibit 22 Schedule of Employer's Share of Net OPEB Liability - GLI and Teacher Employee HIC Programs.....	101
Exhibit 23 Schedule of Employer OPEB Contributions - GLI and Teacher Employee HIC Programs.....	102
Notes to Required Supplementary Information.....	103

Other Supplementary Information

Exhibit 24 Statement of Changes in Fiduciary Assets and Liabilities - Agency Fund.....	107
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STATISTICAL SECTION

Table 1 Net Position (Deficit) by Component.....	109
Table 2 Changes in Net Position.....	110
Table 3 Fund Balances - Governmental Funds.....	111
Table 4 Changes in Fund Balances - Governmental Funds.....	112
Table 5 Major Revenue Sources.....	114
Table 6 Charges for Services Revenue - Food Sales.....	114
Table 7 City of Salem, Virginia - Assessed Value and Actual Value of Taxable Property.....	115
Table 8 City of Salem, Virginia - Property Tax Levies and Collections.....	116
Table 9 City of Salem, Virginia - Principal Real Estate Property Taxpayers.....	117
Table 10 City of Salem, Virginia - Ratios of General Bonded Debt Outstanding.....	118
Table 11 City of Salem, Virginia - Legal Debt Margin Information.....	119
Table 12 City of Salem, Virginia - Demographic Statistics.....	120
Table 13 City of Salem, Virginia - Principal Employers.....	121
Table 14 Membership and Per Pupil Spending.....	122
Table 15 Virginia Standards of Learning (SOL) Test Results.....	123
Table 16 Scholastic Aptitude Test (SAT) Scores.....	124
Table 17 Accreditation Status.....	124
Table 18 Full-Time Equivalent Positions.....	125
Table 19 Teacher Salary Information.....	126
Table 20 Expenditures by Function - General Fund.....	127
Table 21 Capital Asset Statistics.....	128

COMPLIANCE SECTION

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 Auditing Standards</i>	131
Summary of Compliance Matters.....	133

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INTRODUCTORY SECTION

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CITY OF SALEM SCHOOL DIVISION

November 16, 2020

To the Honorable Chairman and Members of the Board of the City of Salem School Division,
And the Citizens of the City of Salem, Virginia:

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the City of Salem School Division (School Division), a component unit of the City of Salem, Virginia for the fiscal year ended June 30, 2020. This report was prepared by the City of Salem Department of Finance and the City of Salem School Division Business Office 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 management. 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 the various funds. All disclosures necessary to enable the reader to gain an understanding of the School Division's financial activities have been included. The independent certified public accounting firm of Brown, Edwards & Company, L.L.P. has audited the basic financial statements contained herein.

The School Division has established a comprehensive internal control framework that is designed both to protect the School Board's assets from loss, theft, or misuse and to properly record and adequately document transactions to compile information for the presentation of the School Division's financial statements in conformity with GAAP. Since the cost of internal controls should not outweigh their benefits, the School Division's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of management's discussion and analysis (MD&A). This letter of transmittal is designed to complement the MD&A, as well as the independent auditor's report, financial statements and schedules. The statistical section includes selected financial and demographic information, presented on a multi-year basis, where possible. The compliance section includes reports by the independent auditor on compliance and internal control.

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, 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 the 66th largest of 132 school divisions in the Commonwealth of Virginia. The City of Salem is located at the southern end of the Shenandoah Valley, approximately 190 miles west of Richmond and 250 miles southwest of Washington DC. Its position in the southeastern United States gives the City ready access, within a 500-mile radius, to nearly two-thirds of the total population of the

United States. In addition, the City lies in the region that serves as the cultural, medical, business, and transportation hub of western Virginia, with an integrated interstate highway, rail, and air transportation network. Interstate 81 runs through the region with direct connections to I-64 to the north and I-77 to the south, providing convenient access to major markets. Freight rail service is provided by Norfolk Southern. Passenger rail service is provided by Amtrak, with daily trains to and from Washington, D.C. The Roanoke-Blacksburg Regional Airport offers commercial air service, served by four airlines, with nonstop flights to eight cities, as well as frequent connecting service and regular air freight service. Salem has an estimated population of 25,301 citizens, which accounts for approximately 8.1% of the population in its metropolitan statistical area (MSA) which includes neighboring City of Roanoke, Counties of Botetourt, Craig, Franklin and Roanoke.

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 appointed five-member School Board is vested with legislative powers and appoints the School Division's Superintendent. The Superintendent serves as the executive and administrative head of the public school division.

Prior to April 1 of each year, the School Board adopts the next fiscal year's budget and submits it to City Council for approval. The final adoption and appropriation occur in May of each year. The fiscal year begins on July 1 of each year when the newly adopted budget becomes available for spending. City Council has adopted the policy of appropriating the annual School Division budget in total rather than by categories. The School Board is authorized to transfer budget amounts within the various funds at its discretion. The Superintendent is authorized to transfer budget amounts within and between the major categories subject to School Board approval.

Most of the School Division's buildings were built between the 1930's and the 1960's. Two facilities are older than 75 years, Andrew Lewis Middle School and G.W. Carver Elementary School. A new South Salem Elementary School opened in 2013, replacing a building that was completed in 1964.

The School Division is responsible for elementary and secondary education (kindergarten through twelfth grade) within the City. Total March 31 average daily membership (ADM) in fiscal year 2020 was 3,810 and projected budgeted enrollment for fiscal year 2021 is 3,800. Students between the grades of kindergarten and twelfth are offered a broad range of services including regular education, special education, career and technical education, gifted education and an International Baccalaureate program at four elementary schools, one middle school, one high school and an alternative and adult education center. The School Division also offers preschool classes at East Salem Elementary and G. W. Carver Elementary for economically disadvantaged children utilizing the Virginia Pre-School Initiative grant. Schools are supported by the central office, which provides a broad range of services including instructional curriculum development and support, student support, special education services, staff development, reporting and evaluation, pupil transportation, facilities, human resources, finance, technology and school nutrition services.

The School Division is represented by several ethnic categories. Approximately 73% of the students are Caucasian, 14% are African-American, 6% are Hispanic, 2% are Asian, and 5% are in other categories (including mixed). Approximately 34% of Salem's students on a division-wide basis qualify for free and reduced lunches under the National School Lunch Program. Special education averaged just above 16% of the total student enrollment, and English Learners (EL) represents approximately 5.7% of the student population.

The City of Salem School Division had a solid year in terms of Standards of Learning performance. Based on the 2018-19 test results, all Salem City schools were fully accredited for the 2019-20 school year.

G. W. Carver Elementary School was selected to receive the 2020 Board of Education Exemplar Performance School Award for Continuous Improvement. The award was presented to the school for being accredited, and for increasing the pass rates for student performance in math, reading and science. G. W. Carver also made improvement in decreasing chronic absenteeism.

Several teachers and staff members in Salem received high honors during the 2019-20 school year.

- Andrea Johnson, an English teacher at Salem High School, was named the 2020 State Teacher of the Year.
- Twenty-eight Salem teachers are National Board Certified (NBC). Achievement of NBC means that the teacher has met the highest standards for their profession.

Local Economic Condition and Outlook

Financial results for the City are similar to that of the State and National governments, which are uncertain due to impacts from COVID-19. Salem City is highly dependent on sales tax, meals tax, and lodging tax, all of which were directly impacted by the COVID-19 outbreak in March. The impact has continued through the summer, but all are hopeful that the fall and winter will assist in rebounds of the local economy with holiday revenues. Salem's quality of life is built on being a place where children are valued by a community, and for generations, has put its resources where its values are. This is why Salem attracts new families who share the City's values and who resolve to live, work, and raise families here. Salem's unemployment rate of 7.7% (June 2020), 4.8% higher than the prior year, was below the state rate of 8.2% and below the national unemployment rate of 11.2%. The increase in the unemployment rate was due to the number of businesses forced to close or reduce services related to the COVID-19 global pandemic. In June, City Council voted to appropriate \$30,188,183 in general obligation bonds to fund the Salem High School renovations and other City capital projects. The City issued bonds in June for its 2020 General Obligation Public Improvement Bonds. City Council approved a tax increase last year to help finance the borrowing.

Long-Term Financial Planning

The annual budget reflects the School Board's plans by allocating resources to carry out the goals defined through the division wide planning process. The major planning activities are:

- Salem City Schools' approved budget, which is adopted annually by the School Board and reflects ongoing programs as well as initiatives for the next fiscal year.
- Salem City Schools' Capital Improvement Program is annually reviewed and adopted by the School board and contains the six-year capital improvement plans.
- Enrollment Projections, which are prepared annually to assist in budget planning and capital needs analysis.

Relevant Financial Policies

Budgetary controls are maintained to ensure compliance with Virginia statutes governing public entities and school operations. These statutes provide legal standards for preparing, presenting, adopting, and administering the budget. In accordance with state law, the adopted budget is submitted to City Council for adoption and appropriation. The School Board exercises management control over the budget at the cost center level within each fund, however the budget is legally adopted at the fund level. The School Board maintains an encumbrance accounting system as an additional method accomplishing budgetary control. Activities of the General Fund, Grant Fund, and Cafeteria Fund are included in the annual appropriated budget. For reporting purposes, the Grant Fund is merged with the General Fund.

Capital Improvement Plan projects are budgeted when funding is approved by the School Board and are not included in the annual budget process. All funds not encumbered or spent by the end of the fiscal year (June 30th) shall be returned to City Council. In accordance with City Council Resolution Number 487, "all funds appropriated by City Council for use by the School Board, unexpended at the close of any fiscal year, as determined by the City's audit, shall be placed in a general reserve account for non-recurring expenditures of the School Division as determined by the School Board with the consent of City Council."

Major Initiatives

The School Division continues to rely upon the adopted Comprehensive Plan as a guiding document. The Plan's mission statement is to provide a loving and engaging environment that inspires all children to reach their full potential.

- **Virginia Standardized Tests (Standards of Learning)**

Standards of Learning (SOL) tests are administered to students in grades 3 through 8, and students enrolled in certain high school courses. Students are required to earn a certain number of verified credits to be eligible for a standard or advanced high school diploma. Verified credits for graduation will be based on achievement by students of a passing score on the required end-of-course SOL tests.

Based on 2019 SOL tests results, all Salem City School Division elementary, middle and high schools were fully accredited.

SOL testing did not occur in 2020 due to the COVID-19 pandemic that resulted in all K-12 schools being closed by the Governors Executive Order.

- **Technology Initiative**

The School Division is committed to providing the most appropriate instructional technology available to allow teachers to provide students the best instruction possible. Chromebook laptops were deployed to all students in grades K – 12. Several carts are used in PreK for equitable access to technology and personalized learning initiatives.

- **Capital Improvement Plan**

The Capital Improvement Plan (CIP) adopted by the School Board on October 8, 2019 reflects total school capital projects of \$44 million. The renovation of Salem High School was identified and prioritized by the School Board as the next major capital project. Construction was expected to begin toward the end of the 2020 school year, but Governor Northam issued an Executive Order closing all K-12 schools for the remainder of the year, allowing the contractor to begin interior work ahead of schedule. The project is expected to be completed in the summer of 2022. The CIP represents the priority projects for the next six years.

Independent Audit

Brown, Edwards, & Company, L.L.P. has performed an annual audit of the basic financial statements and other supplementary information contained within this Comprehensive Annual Financial Report. Their audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns* 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.

Financial Awards

The Association of School Business Officials (ASBO) awarded a *Certificate of Excellence in Financial Reporting* to the City of Salem School Board for its CAFR for the fiscal year ended June 30, 2019. This was the third consecutive year the School Division received this prestigious award. This Certificate of Excellence program is an international award recognizing excellence in the preparation and issuance of school system financial reports. The School Division also received the Meritorious Budget Award for its annual budget for the fiscal year beginning July 1, 2020. This program is designed to recognize school divisions for achieving excellence in their school system budget preparation.

Acknowledgements

We would like to express our appreciation to the staff of the School Division and the City's Department of Finance for the dedication and professionalism demonstrated daily assuring the financial integrity of the School Division and the preparation of this report. We would also like to express our appreciation to you, School Board, for the continued insight you bring to this School Division and the strong commitment you have made to its fiscal integrity and financial leadership. Lastly, we would like to express our appreciation to our independent auditing firm, Brown, Edwards & Company, 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, 2020**



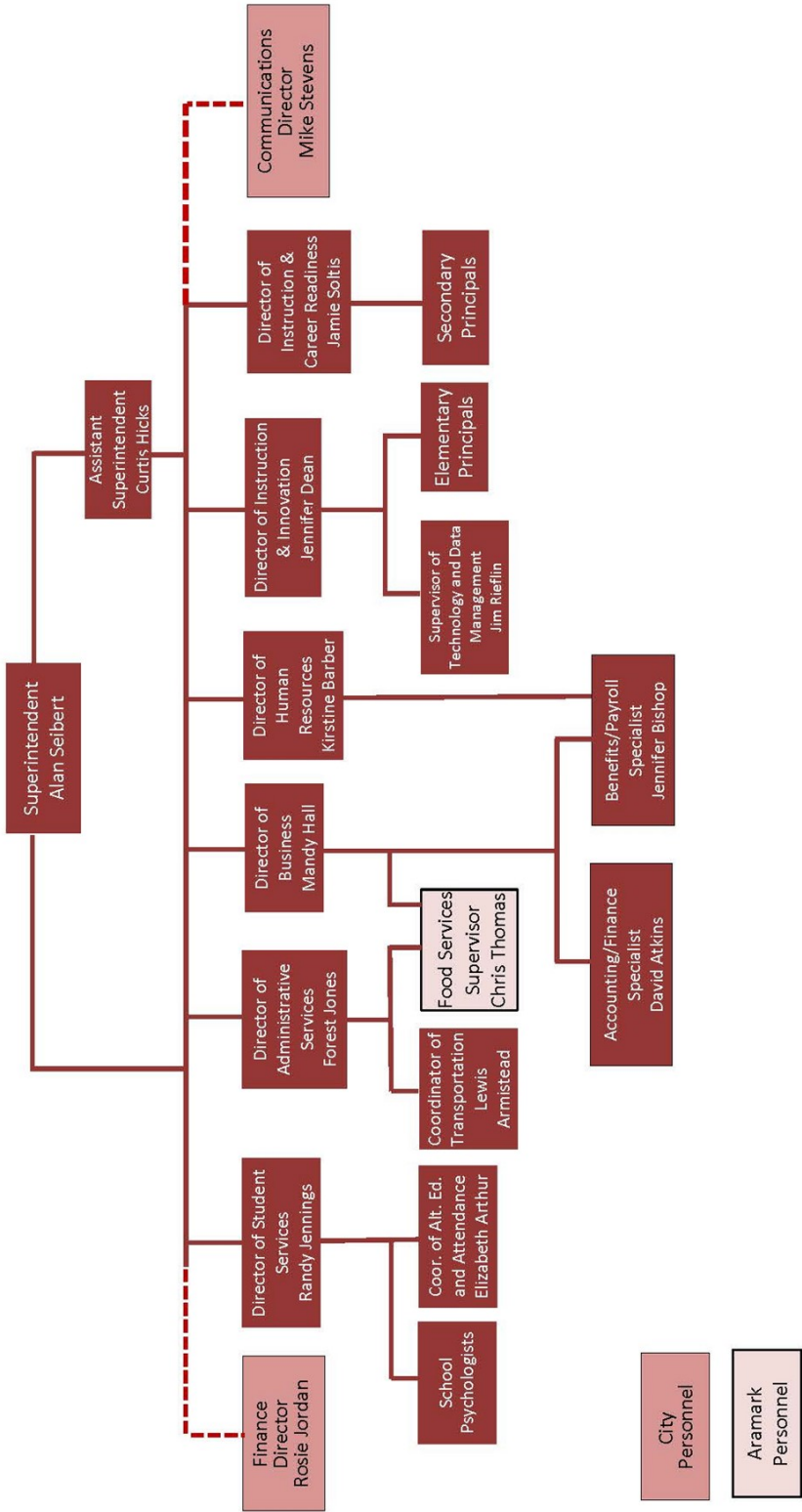
From left to right above - Front row: Dr. Michael A. Chiglinsky, Vice Chairman, and Mr. John A. (Andy) Raines Back row: Ms. Artice M. Ledbetter, Mr. David H. Preston, Chairman, and Dr. Nancy A. Bradley

School Administration

Dr. H. Alan Seibert, Superintendent

Assistant Superintendent	Dr. Curtis N. Hicks
Director of Human Resources	Ms. Kirstine M. Barber
Director of Instruction and Innovation	Ms. Jennifer P. Dean
Director of Business	Ms. Mandy C. Hall, SFO
Director of Student Services	Dr. Randy L. Jennings
Director of Administrative Services	Dr. Forest I. Jones
Supervisor of Technology & Data Management	Mr. Jim L. Rieflin
Director of Instruction and Career Readiness	Mr. Jamie C. Soltis
Clerk to the Board	Ms. Kathy A. Jordan
Director of Finance	Ms. Rosemarie B. Jordan, CPA
Communications Director	Mr. Mike Stevens

Salem City School Division Organizational Chart 2019-2020



Direct Reports			
Superintendent	Assistant Superintendent	Director of Instruction & Innovation	Director of Inst. & Career Readiness
Assistant Superintendent	Director of Instruction & Innovation	Elementary Principals	Secondary Principals
Director of Business	Director of Inst. & Career Readiness	Supervisor of Technology	
Director of Student Services	Director of Human Resources		
	Director of Administrative Services		

Note: The Finance Director and Communications Director are employees of the Salem City Government and are indicated by the dotted lines.



**The Certificate of Excellence in Financial Reporting
is presented to**

City of Salem School Board

**for its Comprehensive Annual Financial Report (CAFR)
for the Fiscal Year Ended June 30, 2019.**

The CAFR meets the criteria established for
ASBO International's Certificate of Excellence.



A handwritten signature in black ink, reading 'Claire Hertz'.

Claire Hertz, SFO
President

A handwritten signature in black ink, reading 'David J. Lewis'.

David J. Lewis
Executive Director

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School Division, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof and the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund and Special Revenue Fund – 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 management's discussion and analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Division's basic financial statements. The introductory section, other supplementary information, and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2020 on our consideration of the 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School Division's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School Division's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 16, 2020

**CITY OF SALEM SCHOOL DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2020**

The City of Salem Public Schools (School Division) presents the following discussion and analysis as an overview of the financial activities for the fiscal year ended June 30, 2020. The intent of this discussion and analysis is to look at the School Division's financial performance as a whole. Readers should also review the transmittal letter at the front of this report and the School Division's financial statements and notes to the basic financial statements, which immediately follow this section, to enhance their understanding of the School Division's financial performance.

FINANCIAL HIGHLIGHTS

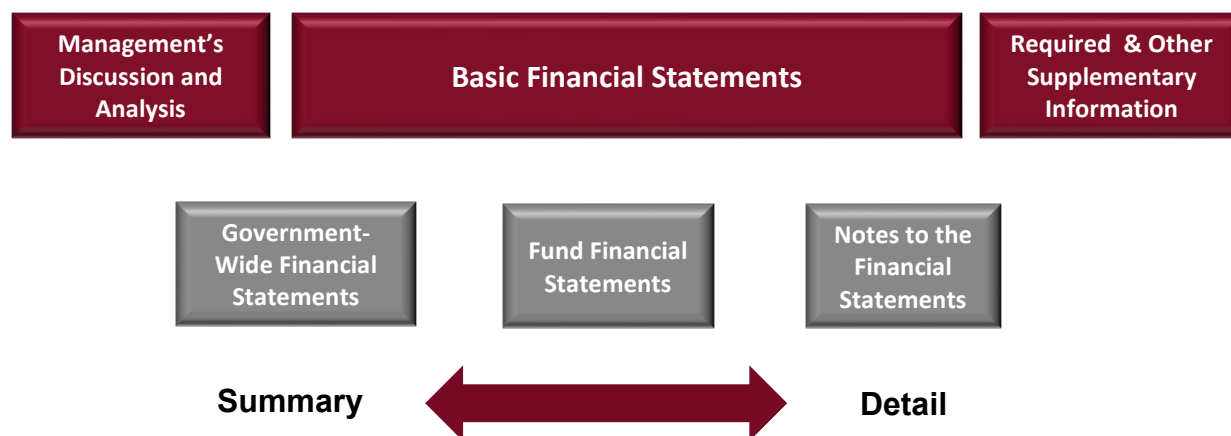
- The School Division maintained a healthy net position of \$20.6 million. Net position reflects the financial health of the School Division and includes certain assets procured with debt issued by the City of Salem, Virginia (City). The School Division is a component unit of, and fiscally dependent on, the City. As such, all debt related to School Division assets are shown on the City's Statement of Net Position, except for capital leases entered into by the School Division.
- The School Division had expenses, net of program revenues, of \$35.2 million, which were \$5.2 million less than general revenue of \$40.4 million.
- For the governmental funds, General Fund revenues accounted for \$46.0 million or 87.1% of all revenues, and expenditures were \$43.7 million or 84.4% of all expenditures, compared to \$45.9 million (95.9%) in revenues and \$43.5 million (91.4%) in expenditures in fiscal year 2019.
- The Cafeteria Fund ended the fiscal year with a fund balance of \$723,143, an increase of \$86,240 from the previous year. The increase in fund balance is attributed to an increase in the meal prices, as well as an increase in the reimbursement rate in the Spring due to COVID-19.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Section of the Comprehensive Annual Financial Report consists of five parts: 1) report of independent auditor, 2) management's discussion and analysis (MD&A), 3) basic financial statements (government-wide and fund statements) including notes to financial statements, 4) required supplementary information and 5) other supplementary information.

The basic financial statements consist of two kinds of statements that present different views of the School Division's financial activities. The government-wide financial statements provide both long-term and short-term information about the School Division's overall financial status. The fund financial statements report on the School Divisions' operations in more detail than the government-wide statements.

The following diagram shows how the various parts of the financial section are arranged and relate to one another.



**CITY OF SALEM SCHOOL DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2020**

Government-Wide Financial Statements

The government-wide financial statements report the School Division's net position and how it has changed during the fiscal year. They also include the Statement of Net Position and Statement of Activities.

The Statement of Net Position includes all of the School Division's assets, deferred outflows of resources, current and long-term liabilities and deferred inflows of resources. The result is reported in one of the three categories of net position (net investment in capital assets, restricted, and/or unrestricted). Increases or decreases in net position are indicators of whether the School Division's financial position is improving or declining. Other non-financial factors, such as changes in the property tax base of the City and the condition of school buildings and other facilities should also be considered in order to assess the overall financial position of the School Division.

The Statement of Activities presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The School Division only reports activities related to governmental-type activities, since it has no business-type activities. The School Division's governmental-type activities include central administration, centralized instruction, instructional, attendance and health, transportation, and food services. City appropriations and federal and state aid finance the majority of these activities.



Fund Financial Statements

The fund financial statements provide more detailed information about the most significant funds, rather than the School Division as a whole.

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, expenditures related to compensated absences, pension, other postemployment benefits, capital leases, 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 non-operating revenues and expenses. Operating revenues and expenses generally result

**CITY OF SALEM SCHOOL DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2020**

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 non-operating 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*, with the exception of agency funds which have no measurement focus but employ the *accrual basis of accounting* for purposes of asset and liability recognition. Assets held by a trustee or in an agency capacity are reported as fiduciary funds. All of the fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. They are not included in the government wide financial statements because the School Division cannot use these assets to finance its operation. The School Division reports an OPEB Trust and student activity funds as fiduciary funds.

Notes to the Basic Financial Statements

The notes to the basic financial statements explain some of the other information in the statements and provide additional information so that the statement users have a complete picture of the School Division's financial activities and position.

Other Information

In addition to the basic financial statements and associated notes, this report also presents certain *required supplementary information* to further explain and support the financial statements.

FINANCIAL ANALYSIS OF THE SCHOOL DIVISION

Summary of Net Position

The following table presents a condensed summary of net position:

Summary of Net Position As of June 30, 2020 and 2019			
	Governmental Activities 2020	2019	Percentage Change
Current and other assets	\$ 20,258,110	\$ 17,995,107	12.6%
Capital assets, net	46,848,292	43,101,627	8.7%
Total assets	67,106,402	61,096,734	9.8%
Deferred outflows of resources	8,403,655	5,346,224	57.2%
Current and other liabilities	7,185,068	6,195,426	16.0%
Long-term liabilities	43,072,879	39,746,076	8.4%
Total liabilities	50,257,947	45,941,502	9.4%
Deferred inflows of revenues	4,652,375	5,066,418	(8.2%)
Net investment in capital assets	46,748,373	42,906,415	9.0%
Restricted	965,614	1,155,820	(16.5%)
Unrestricted	(27,114,252)	(28,627,197)	(5.3%)
Total net position	\$ 20,599,735	\$ 15,435,038	33.5%

**CITY OF SALEM SCHOOL DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2020**



For fiscal year 2020, current and other assets increased by \$2,263,003. This increase was comprised of increases in cash and cash equivalents of \$2,316,472, in inventories of \$42,133 and in prepaid items of \$57,259; and decreases in receivables of \$31,551, in due from other government units of \$52,055, and in the net pension asset of \$69,255.

The net investment in capital assets (capital assets net of accumulated depreciation and capital lease obligations) represented \$46,748,373 of the School Division's net position. The School Division uses these capital assets to provide services to students; consequently, these assets are not available for future spending. As a component unit (School Division) in Virginia, the School Division does not have the authority to issue debt.

Current and other liabilities increased by \$989,642. The net increase for this category was comprised of decreases in accrued interest of \$3,469, self-insurance claims liability of \$465,666, and compensated absences of \$54,390, which were offset by increases in accounts payable and accrued liabilities of \$1,285,576, in accrued payroll and related expenses of \$137,597, unearned revenues of \$85,368, and capital lease obligation of \$4,626.

Long-term liabilities increased by \$3,326,803. The net increase for this category was due to a decrease of capital lease obligations of \$99,919 and offset by increases in compensated absences of \$112,083 and \$3,248,277 in net pension liability and, in the net OPEB liability of \$66,362.

The other components of net position are restricted and unrestricted net position. Restricted net position represents those resources that have constraints imposed on their use. At the end of the fiscal year, the School Division had \$965,614 in restricted net position. Unrestricted net position represents those resources that may be used to meet the obligations placed on the School Division by its creditors and to pay for ongoing operations of the School Division. At the end of the fiscal year, unrestricted net position (deficit) amounted to \$(27,114,252), a decrease in the deficit of \$1,512,945 from June 30, 2019. The deficit is a result of recognizing the School Division's proportionate share of the net pension liability of the Virginia Retirement System.



**CITY OF SALEM SCHOOL DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2020**

The chart below summarizes the changes in the School Division's net position for fiscal year 2020, as compared to fiscal year 2019.

**Summary of Changes in Net Position
For the Years Ended June 30, 2020 and 2019**

	Governmental Activities 2020	2019	Percentage Change
Program revenues:			
Charges for services	\$ 1,647,076	\$ 2,011,976	(18.1%)
Operating grants and contributions	10,758,674	9,818,437	9.6%
Capital grants and contributions	-	17,438	(100.0%)
General revenues:			
City appropriation	25,341,148	21,026,377	20.5%
State aid	14,952,136	14,891,728	0.4%
Other	110,398	121,636	(9.2%)
Total revenues	<u>52,809,432</u>	<u>47,887,592</u>	10.3%
Central administration	2,016,415	1,783,674	13.0%
Centralized instructional costs	4,075,157	3,840,082	6.1%
Instructional costs	37,077,981	33,908,535	9.3%
Attendance and health services	1,147,452	978,529	17.3%
Transportation	1,472,764	1,500,881	(1.9%)
Food services	1,848,960	1,792,273	3.2%
Capital lease interest	6,006	7,106	(15.5%)
Total expenses	<u>47,644,735</u>	<u>43,811,080</u>	8.8%
Change in net position	5,164,697	4,076,512	26.7%
Total net position, beginning of year	15,435,038	11,358,526	35.9%
Total net position, end of year	<u><u>\$ 20,599,735</u></u>	<u><u>\$ 15,435,038</u></u>	33.5%

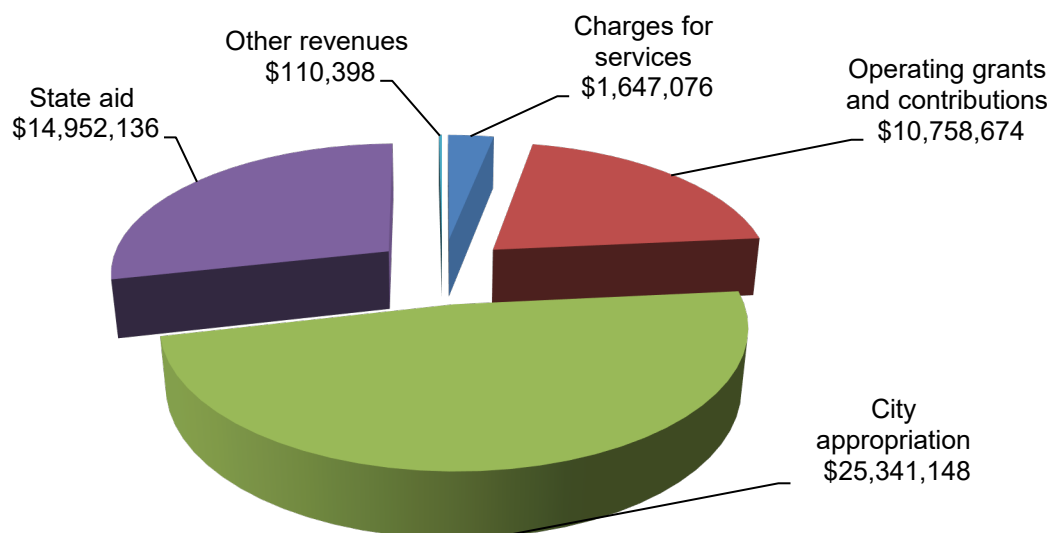


Appropriations from the City and state aid account for the majority of the School Division revenue. Most of the School Division's expenses are directly related to providing services to students including classroom instruction, attendance and health services, transportation, and food services. The remaining balances go towards administrative costs and capital lease interest payments.

**CITY OF SALEM SCHOOL DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2020**

Governmental Activities – Revenues

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



For fiscal year 2020, revenues from governmental activities totaled \$52,809,432 and reflected a \$4,921,840, or 10.3%, increase over fiscal year 2019.

The appropriation from the City was the largest funding source, representing 48.0% of total governmental revenues. These revenues were up \$4,314,771 over the previous year due to a transfer from the general fund of \$4,841,722 for the high school renovation project, offset by decreases in the local appropriation of \$406,000 and a decrease in meals tax collections of \$120,951.

State aid, which was 28.3% of total government revenues, increased 0.4% or \$60,408, due to growth in sales tax collections.

Operating grants and contributions, which were 20.4% of total government revenues, increased 9.6%, or \$940,237, primarily due to an increase in the compensation supplement and the expanded CARES summer food service program which was expanded to provide meals to students while schools were closed due to the COVID-19 pandemic.

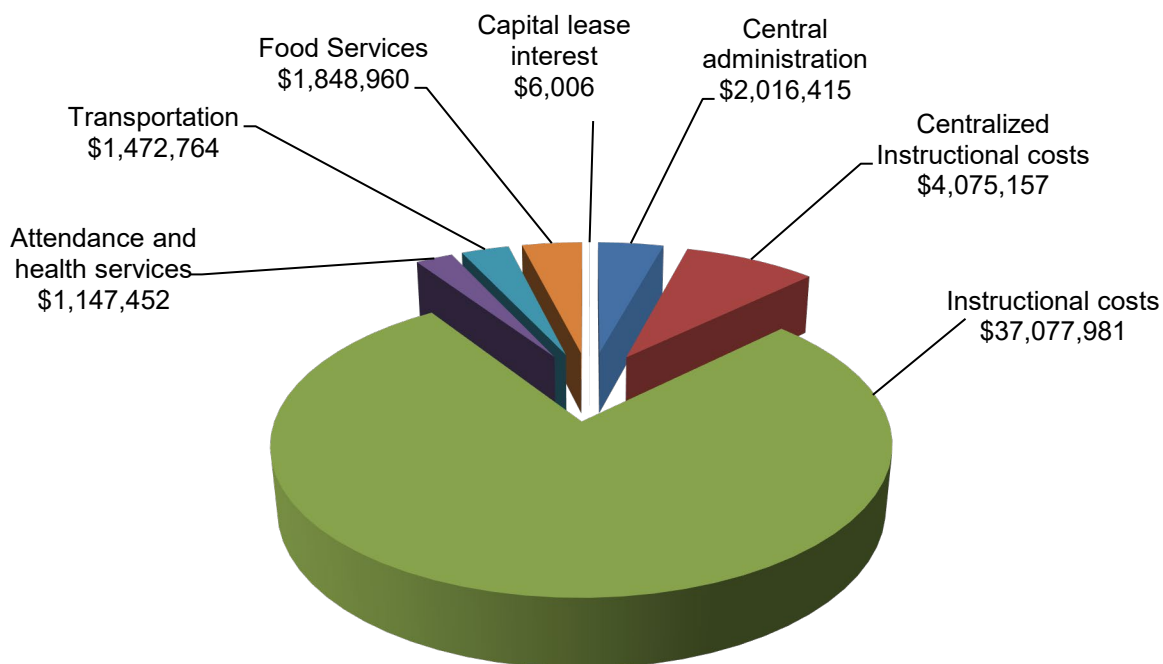
Charges for services were 3.1% of total government revenues, decreased by 18.1%, or \$364,900, due to lower non-resident tuition and lower reimbursements for Virginia Western Community College Dual Enrollment and Roanoke Valley Regional Board.

Other revenues, which made up 0.2% of the total governmental revenues, decreased by 9.2% or \$11,238. The decrease was largely due to less revenues being collected for miscellaneous revenue and contributions.

**CITY OF SALEM SCHOOL DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2020**

Governmental Activities – Expenses

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



The total costs of the School Division's programs for fiscal year 2020 were \$47,644,735, which represented an increase of \$3,833,655, or 8.8% from fiscal year 2019.

Instructional costs were 77.8%, or \$37,077,981, of the total expenses of the School Division, up 9.3%, or \$3,169,446. Pension expense for the VRS Teacher Retirement Plan was the primary factor contributing to the increase. The expense was an actuarially determined amount and represents the School Division's expense share of the state-wide teacher retirement plan.

Centralized instruction costs accounted for 8.6%, or \$4,075,157, of total expenses for fiscal year 2020. Increases in salary and fringe benefit costs contributed to the \$235,075 increase from the previous year, in addition to higher textbook expenses.

Centralized administrative costs accounted for 4.2%, or \$2,016,415, of total expenses. Increases in salary and fringe benefit costs contributed to the \$232,741 increase.

Transportation costs accounted for 3.1%, or \$1,472,764, of total expenses. Lower crossing guard services and lower fuel costs contributed to the overall \$28,117 decrease.

Food service cost, which was 3.9%, or \$1,848,960, of total government expenses, included costs associated with operation of the school cafeterias. The \$56,687 increase was attributable to higher salary and food costs.

Attendance and health services expenses accounted for 2.4%, or \$1,147,452, of the total government expenses. Increases in salaries and nursing supply expenses were the primary reason for the \$168,923 increase.

**CITY OF SALEM SCHOOL DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2020**

Governmental Activities – Total Cost and Net Cost

The following tables show the cost of the School Division's government-type activities and the net cost of services. The net cost reflects the support provided by local revenue, state aid, and federal aid.

Comparison of Cost of Governmental Activities

	Total Cost of Services		
	2020	2019	Percent Change
Central administration	\$ 2,016,415	\$ 1,783,674	13.0%
Centralized Instructional costs	4,075,157	3,840,082	6.1%
Instructional costs	37,077,981	33,908,535	9.3%
Attendance and health services	1,147,452	978,529	17.3%
Transportation	1,472,764	1,500,881	(1.9%)
Food services	1,848,960	1,792,273	3.2%
Capital lease interest	6,006	7,106	(15.5%)
Total expenses	\$47,644,735	\$43,811,080	8.8%

	Net Cost of Services		
	2020	2019	Percent Change
Central administration	\$ 2,016,415	\$ 1,777,801	13.4%
Centralized Instructional costs	3,908,606	3,673,820	6.4%
Instructional costs	26,807,983	24,213,379	10.7%
Attendance and health services	1,147,452	978,529	17.3%
Transportation	1,472,764	1,500,881	(1.9%)
Food services	(120,241)	(188,287)	(36.1%)
Capital lease interest	6,006	7,106	(15.5%)
Total expenses	\$35,238,985	\$31,963,229	10.2%

Significant Aspects of Governmental Activities Include:

- The cost of all governmental activities was \$47,644,735.
- The net cost of governmental activities was \$35,238,985.
- The federal and state governments subsidized certain programs with operating and capital grant and contributions of \$10,758,674.
- City of Salem taxpayers paid for these activities through local taxes and bond proceeds in the amount of \$25,341,148.

FINANCIAL ANALYSIS OF THE FUNDS

Governmental Funds

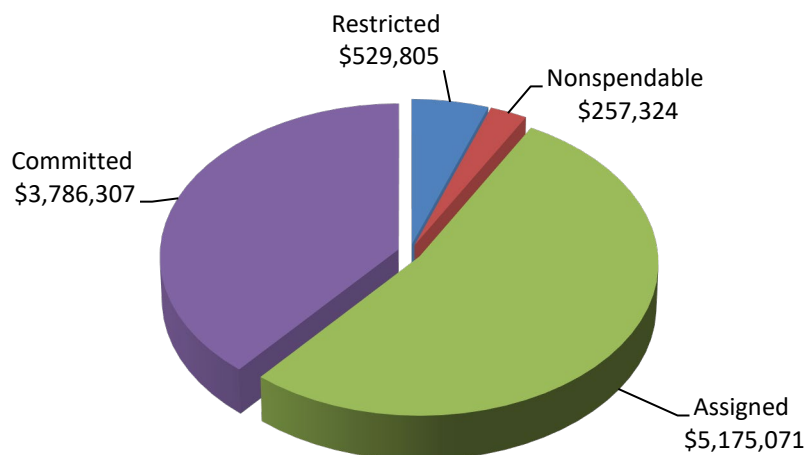
The School Division's combined fund balance for the governmental funds was \$9,748,507 as of June 30, 2020. The current year compared to last year is as follows:

Fund Balance Comparison

Fund:	2020	2019
General	\$ 6,214,944	\$ 6,351,526
Cafeteria	723,143	636,903
Capital Projects	2,810,420	1,765,046
Total combined fund balance	\$ 9,748,507	\$ 8,753,475

**CITY OF SALEM SCHOOL DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2020**

The chart below shows the classifications of the fund balance of governmental funds as of June 30, 2020:



As of June 30, 2020, the School Division's governmental funds reported a combined fund balance of \$9,748,507, an increase of \$995,032 in comparison to fiscal year 2019. Of this amount, \$257,324 constituted non-spendable fund balance, which reflected inventories and prepaid assets that were in a form that could not be spent, \$529,805 was designated as restricted fund balance for capital projects, \$3.8 million constituted committed fund balance, which was designated for future capital projects, general education and food services, and \$5.2 million constituted assigned fund balance, which was assigned for general education.

As the School Division ended the year, the General Fund reported a fund balance of \$6.2 million, a decrease of \$136,582 from the fund balance reported for fiscal year 2019. The cafeteria fund reported a fund balance at the end of fiscal year 2020 of \$723,143, an \$86,240 increase from the fund balance reported for fiscal year 2019. The Capital Projects Fund reported a fund balance of \$2.8 million at the end of fiscal year 2020, which represented a \$1.0 million increase from the fiscal year 2019 fund balance.

The General Fund accounts for all financial transactions and resources except those required to be accounted for in another fund. Federal, state and local grants restricted for specific purposes are reported in the General Fund. General Fund revenue amounted to \$45,987,180, while expenditures totaled \$43,720,961. In addition, there was a transfer of \$2,402,801 of prior year reserves to the Capital Projects Fund. This resulted in a decrease in fund balance of \$136,582.

The Cafeteria Fund accounts for the costs associated with the preparation and serving of breakfast and lunch to students and staff and ended the fiscal year with a fund balance of \$723,143, an increase of \$86,240 from the previous year. The increase in fund balance was attributable to an increase in the number of reimbursable meals served and the mandatory price increase in lunch prices as required by the Healthy and Hunger Free Kids Act of 2010.

The Capital Projects Fund is used to account for building improvements machinery, and equipment. This fund had a beginning balance of \$1,765,046. After a transfer from the City of \$4,841,722, expenditures of \$6,199,149, a transfer from the general fund of \$2,402,801, the ending balance of the fund was \$2,810,420. Renovations and equipment for the new Robotics and Cosmetology classrooms at Salem High School, bus and vehicle purchases, costs associated with the Salem High School renovation project, transportation office and lot improvements, air handlers for the Salem High School field house, chiller replacement at West Salem Elementary School, Salem High School small gym roof replacement, safety improvements at G W Carver Elementary School, and rooftop air conditioning units at West Salem Elementary School were major Capital Projects Fund expenditures during the year.

**CITY OF SALEM SCHOOL DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2020**

GENERAL FUND BUDGETARY HIGHLIGHTS

The School Division's budget is prepared in accordance with the *Code of Virginia*.

**General Fund
For the Year Ended June 30, 2020**

	Original Budget	Amended Budget	Actual
Revenues:			
City of Salem	\$ 20,455,621	\$ 20,001,712	\$ 20,499,426
Commonwealth of Virginia	22,162,413	22,631,689	22,563,977
Federal Government	1,715,195	2,135,355	1,747,379
Charges for Services	1,236,178	1,236,178	1,077,329
Other	57,920	104,454	99,069
Total	<u>45,627,327</u>	<u>46,109,388</u>	<u>45,987,180</u>
Expenditures	45,627,327	47,079,581	43,720,961
Transfers	-	2,402,801	2,402,801
Total	<u>45,627,327</u>	<u>49,482,382</u>	<u>46,123,762</u>
	<u>\$ -</u>	<u>\$ (3,372,994)</u>	<u>\$ (136,582)</u>

During fiscal year 2020, the School Division amended its General Fund budget to appropriate other revenue and grant funds when the official notice of the award was received. Actual revenues varied from the amended budget with the transfer from the City coming in above budget due to receiving meals tax collections that were not budgeted. Revenues received from the state and charges for services were just below budget, while other revenues were above budget. Actual expenditures were less than the final budget due to personnel savings and expenditure savings throughout all departments.

CAPITAL ASSETS

At the end of fiscal year 2020, the School Division had \$46,848,292 (an 8.7% increase from fiscal year 2019) invested in machinery and equipment, land, buildings, and construction in progress in governmental activities. The following table displays fiscal year 2020 balances, net of accumulated depreciation. More detailed information about capital assets can be found in Note 5 of the basic financial statements.

Capital Assets
(net of depreciation)
As of June 30, 2020 and 2019

	Governmental Activities 2020	2019	Percentage Change
Land	\$ 1,123,637	\$ 1,123,637	0.0%
Construction in progress	6,279,698	665,820	843.2%
Machinery and equipment	2,468,236	2,761,388	(10.6%)
Buildings and improvements	36,976,721	38,550,782	(4.1%)
Total	<u>\$ 46,848,292</u>	<u>\$ 43,101,627</u>	<u>8.7%</u>

**CITY OF SALEM SCHOOL DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2020**

Major Capital Asset Additions for Fiscal Year 2020 included:

- Salem High School small gym roof replacement
- Bus purchases
- Transportation building and lot improvements
- West Salem Elementary School fencing
- East Salem Elementary School fencing
- Salem High School gym floor replacement
- Scoreboard at Salem High School
- Air handlers at Salem High School
- Alignment machine for Salem High School
- Van for vehicle pool

OUTSTANDING LONG-TERM DEBT

According to the *Code of Virginia*, when a local government incurs a financial obligation payable over more than one fiscal year to fund an acquisition, construction or other 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 obligations. In these cases, at the time the financial obligation is paid in full, the net value of the school property is transferred to the school board and reflected as program revenue and expense on the government-wide financial statements for the local school board and the local government, respectively. In the School Division's case, however, the City reports this debt in its Statement of Net Position and the School Division reports the capital assets on its Statement of Net Position throughout the term of the obligation.

FACTORS INFLUENCING FUTURE BUDGETS

With the current economic condition in mind, below are a list of factors that will likely influence future budgets:

- Economic recovery from the COVID-19 pandemic
- Unknown economic changes due to the Presidential election and National civil unrest
- Potential cuts in federal spending, which could harm Virginia's military-dependent economy
- Unknown changes in state funding by the Governor and the General Assembly
- Student enrollment fluctuations
- Healthcare cost increases
- Contribution rates assessed by the Virginia Retirement System

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the School Division's finances and to demonstrate the School Division's accountability for the resources it receives. If you have questions about this report or need additional financial information, contact:

Director of Business
Salem City Public Schools
510 S. College Avenue
Salem, Virginia 24153
(540) 389-0130
www.salem.k12.va.us

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BASIC FINANCIAL STATEMENTS

**CITY OF SALEM SCHOOL DIVISION
STATEMENT OF NET POSITION
JUNE 30, 2020**

EXHIBIT 1

	<u>Governmental Activities</u>
ASSETS	
<i>Current assets:</i>	
Cash and cash equivalents	\$ 18,381,477
Receivables	18,663
Due from other governmental units	1,164,837
Net pension asset	435,809
Inventories	98,571
Prepaid items	158,753
<i>Capital assets:</i>	
Nondepreciable	7,403,335
Depreciable, net	39,444,957
Total assets	<u>67,106,402</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Pension Plan and OPEB	<u>8,403,655</u>
 LIABILITIES	
<i>Current liabilities:</i>	
Accounts payable and accrued liabilities	1,963,711
Accrued payroll and related liabilities	4,600,839
Accrued interest	3,637
Self-insurance claims liability	100,000
Unearned revenues	119,946
<i>Long-term liabilities due in less than one year:</i>	
Capital lease obligation	99,919
Compensated absences	297,016
<i>Long-term liabilities due in more than one year:</i>	
Compensated absences	516,157
Net pension liability	36,340,277
Net OPEB liability	6,216,445
Total liabilities	<u>50,257,947</u>
 DEFERRED INFLOWS OF RESOURCES	
Pension Plan and OPEB	<u>4,652,375</u>
 NET POSITION (DEFICIT)	
Net investment in capital assets	46,748,373
Restricted for capital projects	529,805
Restricted for net pension asset	435,809
Unrestricted	(27,114,252)
Total net position	<u><u>\$ 20,599,735</u></u>

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

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

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<i>Governmental activities:</i>					
Central administration	\$ 2,016,415	\$ -	\$ -	\$ -	\$ (2,016,415)
Centralized Instructional costs	4,075,157	166,551	-	-	(3,908,606)
Instructional costs	37,077,981	910,778	9,359,220	-	(26,807,983)
Attendance and health services	1,147,452	-	-	-	(1,147,452)
Transportation	1,472,764	-	-	-	(1,472,764)
Food services	1,848,960	569,747	1,399,454	-	120,241
Capital lease interest	6,006	-	-	-	(6,006)
Total governmental activities	<u>\$ 47,644,735</u>	<u>\$ 1,647,076</u>	<u>\$ 10,758,674</u>	<u>\$ -</u>	<u>(35,238,985)</u>
<i>General revenues:</i>					
Payments from City of Salem					25,341,148
Unrestricted State aid					14,952,136
Other					110,398
Total general revenues					<u>40,403,682</u>
Change in net position					5,164,697
Net position, beginning					<u>15,435,038</u>
Net position, ending					<u>\$ 20,599,735</u>

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

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

	General	Cafeteria	Capital Projects	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 9,961,957	\$ 531,386	\$ 4,483,652	\$ 14,976,995
Receivables, net	6,565	208	-	6,773
Due from other governmental units	890,871	273,966	-	1,164,837
Inventories	-	98,571	-	98,571
Prepaid items	158,753	-	-	158,753
Total assets	<u>\$ 11,018,146</u>	<u>\$ 904,131</u>	<u>\$ 4,483,652</u>	<u>\$ 16,405,929</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 182,582	\$ 101,442	\$ 1,673,232	\$ 1,957,256
Accrued payroll and related liabilities	4,573,682	27,157	-	4,600,839
Unearned revenues	46,938	52,389	-	99,327
Total liabilities	<u>4,803,202</u>	<u>180,988</u>	<u>1,673,232</u>	<u>6,657,422</u>
FUND BALANCES				
Nonspendable	158,753	98,571	-	257,324
Restricted	529,805	-	-	529,805
Committed	351,315	624,572	2,810,420	3,786,307
Assigned	5,175,071	-	-	5,175,071
Total fund balances	<u>6,214,944</u>	<u>723,143</u>	<u>2,810,420</u>	<u>9,748,507</u>
Total liabilities and fund balances	<u>\$ 11,018,146</u>	<u>\$ 904,131</u>	<u>\$ 4,483,652</u>	<u>\$ 16,405,929</u>

The Notes to the Basic 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, 2020**

Total fund balance of governmental funds	\$ 9,748,507
Capital assets used in governmental activities are not considered current financial resources and, therefore, are not reported in the governmental funds.	46,848,292
Long-term liabilities related to governmental fund activities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Capital lease obligation	(99,919)
Accrued interest	(3,637)
Compensated absences	(813,173)
Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.	
Deferred outflows of resources related to pension	7,542,229
Deferred inflows of resources related to pension	(4,135,485)
Net pension asset	435,809
Net pension liability	(36,340,277)
Financial statement elements related to OPEB are applicable to future periods and, therefore, are not reported in the governmental funds.	
Deferred outflows of resources related to OPEB	861,426
Deferred inflows of resources related to OPEB	(516,890)
Net OPEB liability	(6,216,445)
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.	3,289,298
Net position of governmental activities	<u><u>\$ 20,599,735</u></u>

The Notes to the Basic 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, 2020

	General	Cafeteria	Capital Projects	Total Governmental Funds
REVENUES				
<i>Intergovernmental:</i>				
City of Salem	\$ 20,499,426	\$ -	\$ 4,841,722	\$ 25,341,148
Commonwealth of Virginia	22,563,977	38,054	-	22,602,031
Federal Government	1,747,379	1,361,400	-	3,108,779
<i>Other:</i>				
Charges for services	1,077,329	569,747	-	1,647,076
Other	99,069	12,859	-	111,928
Total revenues	<u>45,987,180</u>	<u>1,982,060</u>	<u>4,841,722</u>	<u>52,810,962</u>
EXPENDITURES				
<i>Current:</i>				
Central administration	2,007,754	-	-	2,007,754
Centralized instruction costs	4,074,573	-	-	4,074,573
Instructional costs	35,006,694	-	-	35,006,694
Attendance and health services	1,136,256	-	-	1,136,256
Transportation	1,390,916	-	-	1,390,916
Food services	-	1,895,820	-	1,895,820
<i>Capital projects</i>	-	-	6,199,149	6,199,149
<i>Capital lease debt service:</i>				
Principal	95,293	-	-	95,293
Interest	9,475	-	-	9,475
Total expenditures	<u>43,720,961</u>	<u>1,895,820</u>	<u>6,199,149</u>	<u>51,815,930</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,266,219</u>	<u>86,240</u>	<u>(1,357,427)</u>	<u>995,032</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	2,402,801	2,402,801
Transfers out	(2,402,801)	-	-	(2,402,801)
Total other financing sources (uses), net	<u>(2,402,801)</u>	<u>-</u>	<u>2,402,801</u>	<u>-</u>
Net change in fund balances	<u>(136,582)</u>	<u>86,240</u>	<u>1,045,374</u>	<u>995,032</u>
Fund balances, beginning	<u>6,351,526</u>	<u>636,903</u>	<u>1,765,046</u>	<u>8,753,475</u>
Fund balances, ending	<u>\$ 6,214,944</u>	<u>\$ 723,143</u>	<u>\$ 2,810,420</u>	<u>\$ 9,748,507</u>

The Notes to the Basic 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, 2020**

Net changes in fund balances of governmental funds	\$ 995,032
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	6,290,605
Depreciation expense	(2,542,808)
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	(1,530)
Net gain from sale of assets	398
Repayment of capital lease principal is an expenditure in the governmental funds but reduces long-term liabilities in the Statement of Net Position.	
Principal payments	95,293
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	
Change in accrued interest payable	3,469
Change in compensated absences	(57,693)
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	3,177,517
Pension expense	(3,268,088)
Governmental funds report employer OPEB contributions as expenditures. However, in the Statement of Activities the cost of OPEB benefits earned is reported as OPEB expense.	
Employer OPEB contributions	602,431
OPEB expense	(424,280)
The internal service fund is used by management to charge the costs of health and dental insurance to individual funds. The change in net position of the internal service fund is reported with governmental activities.	
	294,351
Change in net position of governmental activities	<u><u>\$ 5,164,697</u></u>

The Notes to the Basic 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 - GENERAL FUND
YEAR ENDED JUNE 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
<i>Intergovernmental:</i>				
City of Salem	\$ 20,455,621	\$ 20,001,712	\$ 20,499,426	\$ 497,714
Commonwealth of Virginia	22,162,413	22,631,689	22,563,977	(67,712)
Federal Government	1,715,195	2,135,355	1,747,379	(387,976)
<i>Other:</i>				
Charges for Services	1,236,178	1,236,178	1,077,329	(158,849)
Other	57,920	104,454	99,069	(5,385)
Total revenues	<u>45,627,327</u>	<u>46,109,388</u>	<u>45,987,180</u>	<u>(122,208)</u>
EXPENDITURES				
<i>Current:</i>				
Central administration	1,865,258	2,257,612	2,007,754	249,858
Centralized instructional costs	4,401,012	4,896,410	4,074,573	821,837
Instructional costs:				
Salem High School	10,726,740	11,119,488	10,504,638	614,850
Andrew Lewis Middle School	7,238,720	7,514,184	7,343,857	170,327
G.W. Carver Elementary School	3,860,015	3,932,928	3,779,518	153,410
West Salem Elementary School	3,510,974	3,654,901	3,592,948	61,953
South Salem Elementary School	3,237,252	3,321,432	3,210,750	110,682
East Salem Elementary School	3,923,343	3,910,082	3,764,485	145,597
Regional Special Education Program	757,734	757,734	695,930	61,804
Federal and state grants programs	2,072,931	2,584,502	2,114,568	469,934
Attendance and health services	1,133,742	1,178,333	1,136,256	42,077
Transportation	1,814,721	1,832,975	1,390,916	442,059
Non-departmental	965,885	-	-	-
<i>Capital lease debt service:</i>				
Principal	105,000	105,000	95,293	9,707
Interest	14,000	14,000	9,475	4,525
Total expenditures	<u>45,627,327</u>	<u>47,079,581</u>	<u>43,720,961</u>	<u>3,358,620</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(970,193)</u>	<u>2,266,219</u>	<u>3,236,412</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	-	(2,402,801)	(2,402,801)	-
Total other financing sources (uses)	-	(2,402,801)	(2,402,801)	-
Net change in fund balances*	<u>\$ -</u>	<u>\$ (3,372,994)</u>	<u>\$ (136,582)</u>	<u>\$ 3,236,412</u>

* The net change in fund balances was included in the budget as an appropriation (i.e., spenddown) of fund balance.

The Notes to the Basic 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, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES	Original	Final		
<i>Intergovernmental:</i>				
Commonwealth of Virginia	\$ 28,526	\$ 35,071	\$ 38,054	\$ 2,983
Federal Government	1,000,534	1,000,534	1,361,400	360,866
<i>Other:</i>				
Charges for Services	878,696	878,696	569,747	(308,949)
Other	4,800	4,800	12,859	8,059
Total revenues	<u>1,912,556</u>	<u>1,919,101</u>	<u>1,982,060</u>	<u>62,959</u>
EXPENDITURES				
<i>Current:</i>				
Food services:				
Salem High School	631,696	544,296	537,485	6,811
Andrew Lewis Middle School	423,204	423,204	411,010	12,194
G.W. Carver Elementary School	202,234	234,979	253,881	(18,902)
West Salem Elementary School	249,353	263,153	203,559	59,594
South Salem Elementary School	220,062	232,462	250,450	(17,988)
East Salem Elementary School	186,007	262,007	239,435	22,572
Total expenditures	<u>1,912,556</u>	<u>1,960,101</u>	<u>1,895,820</u>	<u>64,281</u>
Excess (deficiency) of revenues over (under) expenditures	-	(41,000)	86,240	127,240
Net change in fund balances	<u>\$ -</u>	<u>\$ (41,000)</u>	<u>\$ 86,240</u>	<u>\$ 127,240</u>

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

**CITY OF SALEM SCHOOL DIVISION
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2020**

	Internal Service Fund
ASSETS	
<i>Current assets:</i>	
Cash and cash equivalents	\$ 3,404,482
Receivables	11,890
Total assets	<u>3,416,372</u>
LIABILITIES	
<i>Current liabilities:</i>	
Accounts payable and accrued liabilities	6,455
Self-insurance claims liability	100,000
Unearned revenues	20,619
Total liabilities	<u>127,074</u>
NET POSITION	
Unrestricted	3,289,298
Total net position	<u><u>\$ 3,289,298</u></u>

The Notes to the Basic 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, 2020**

	Internal Service Fund
OPERATING REVENUES	
Charges for services	\$ 4,723,038
Total operating revenues	<u>4,723,038</u>
OPERATING EXPENSES	
Claims	4,265,443
Administration	204,371
Miscellaneous	3,277
Total operating expenses	<u>4,473,091</u>
Operating income	<u>249,947</u>
NONOPERATING REVENUES	
Interest income	44,404
Total nonoperating revenues	<u>44,404</u>
Change in net position	<u>294,351</u>
Net position, beginning	2,994,947
Net position, ending	<u><u>\$ 3,289,298</u></u>

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

**CITY OF SALEM SCHOOL DIVISION
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2020**

	Internal Service Fund
OPERATING ACTIVITIES	
Receipts from customers and users	\$ 4,750,395
Payments to City	(204,371)
Payments for claims	(4,731,109)
Payments for contractual services	(4,527)
Net cash used in operating activities	<u>(189,612)</u>
INVESTING ACTIVITIES	
Interest received	44,404
Net cash provided by investing activities	<u>44,404</u>
Cash and cash equivalents, beginning	3,549,690
Cash and cash equivalents, ending	<u><u>\$ 3,404,482</u></u>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES</u>	
Operating income	\$ 249,947
<i>Adjustments to reconcile operating income to net cash used in operating activities</i>	
<i>Decrease in assets:</i>	
Receivables	6,738
<i>Increase (decrease) in liabilities:</i>	
Accounts payable and accrued liabilities	255
Accrued payroll and related liabilities	(1,505)
Self-insurance claims liability	(465,666)
Unearned revenues	20,619
Net cash used in operating activities	<u><u>\$ (189,612)</u></u>

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

EXHIBIT 12

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

	Agency Fund	OPEB Trust Fund
ASSETS		
Cash and cash equivalents	\$ 687,212	\$ -
Investments held by trustee, fair value of pooled funds	-	1,598,570
Total assets	<u>687,212</u>	<u>1,598,570</u>
LIABILITIES		
Liability to agency	687,212	-
Total liabilities	<u>\$ 687,212</u>	<u>-</u>
NET POSITION		
Held in trust for other postemployment benefits		<u>\$ 1,598,570</u>

EXHIBIT 13

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

	OPEB Trust Fund
ADDITIONS	
Employer contributions	\$ 233,192
<i>Investment income</i>	
Increase in fair value of investments	44,595
Total additions	<u>277,787</u>
DEDUCTIONS	
Retirement benefits	136,057
Administrative expenses	2,100
Total deductions	<u>138,157</u>
Net increase in plan net position	<u>139,630</u>
Net position held in trust for other postemployment benefits, beginning	1,458,940
Net position held in trust for other postemployment benefits, ending	<u>\$ 1,598,570</u>

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

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 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 receivables, as well as long-term debt and obligations.

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, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances/net position, revenues and expenditures/expenses, as appropriate.

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

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

- The *General Fund* is the School Division's primary operating fund and accounts for all financial resources of the School Division, except for those required to be accounted for in another fund.
- The *Cafeteria Fund* is a special revenue fund that accounts for the proceeds of specific revenue sources committed or restricted to expenditures for food services.
- The *Capital Projects Fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

1. Summary of Significant Accounting Policies (Continued)

Fund Financial Statements (Continued)

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

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

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 funds:

- The *OPEB Trust Fund* accounts for the receipt and disbursement of assets held in trust for the other postemployment benefit (OPEB) plan of the School Division.
- The *Agency Fund* accounts for assets held in a custodial capacity on behalf of the local school activity funds.

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, expenditures related to compensated absences, pension, other postemployment benefits, capital leases, 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.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

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*, with the exception of agency funds which have no measurement focus but employ the *accrual basis of accounting* for purposes of asset and liability recognition.

Budgets and Budgetary Accounting

The 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 General 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.
- A public hearing is conducted to obtain citizen comments.
- Prior to March 31, the budget is adopted through passage of a resolution. The budget is then presented to the City Manager to be incorporated in the City budget. Prior to May 15, City Council approves the School Division budget.
- The School Board, with the concurrence of City Council, may amend the budget providing for additional expenditures and the means for financing them. The School Board approved additional appropriations of \$3,855,055 during the current year primarily for grants, new capital projects, other 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 General and Cafeteria Funds.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

1. Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (Continued)

- All appropriations lapse on June 30 except for the Capital Projects Fund, which carries unexpended balances into the following year. The School Board appropriates unexpended balances for other projects it specifies in 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 General Fund, Cafeteria Fund, and Capital Projects Fund. 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, 2020 total \$508,197 in the General Fund, \$17,050 in the Cafeteria Fund, and \$22,573,490 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.

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).

Prepaid Items

Governmental fund prepaid items consist primarily of educational software/materials, as well as organization membership dues and conference fees incurred for periods in a subsequent fiscal year. The payments are recorded as expenditures in the fiscal year of the agreement period or event date.

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, \$5,000 for machinery and equipment, or \$10,000 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 cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are completed.

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

1. Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

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

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

Deferred Outflows/Inflows of Resources

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

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

Unearned Revenues

Unearned revenues arise when assets are recognized before revenue recognition criteria can be satisfied and when assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period. Unearned revenues primarily consist of grants received before the eligibility requirements have been met and payments made in advance for cafeteria meals.

Compensated Absences

The School Division has policies to 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. An expenditure and liability for these amounts are reported in governmental funds when the amounts are due for payment.

Pensions

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

1. Summary of Significant Accounting Policies (Continued)

Other Postemployment Benefits – Retiree Health Plan

In connection with the School Division's funding of OPEB obligations, 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.

Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit

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

Net Position

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

- **Net investment in capital assets** – consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding which was used to finance those assets.
- **Restricted** – consists of assets where there are limitations imposed on their use through enabling legislation 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.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

1. Summary of Significant Accounting Policies (Continued)

Fund Balances (Continued)

The classifications are as follows:

- **Nonspendable** – Amounts that cannot be spent because they are not in spendable form, or legally or contractually are required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.
- **Restricted** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** – Amounts constrained to specific purposes by the 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 amendment of the budget. Assigned fund balance is established by the School Board as amounts intended for a specific purpose.

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 and Investments

The City maintains a concentration bank account used by the School Division. The School Division's portion of this account is presented in the basic financial statements as cash and cash equivalents totaling \$18,381,477. Deposits and investments held by Fiduciary Funds total \$687,212 and \$1,598,570 for the Agency Fund and OPEB Trust Fund, respectively.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

2. Deposits and Investments (Continued)

Deposits

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

Investments

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

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

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

Investment Type	Fair Value	S&P Credit Rating
Demand & time deposits	\$ 13,380,962	unrated
Cash on hand	515	unrated
Local Government Investment Pool (LGIP)	5,000,000	AAAm
Total	<u>\$ 18,381,477</u>	

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

Credit Risk

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

Concentration Risk and Foreign Currency Risk

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

2. Deposits and Investments (Continued)

Interest Rate Risk

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

Custodial Credit Risk

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

3. Interfund Balances and Transfers

As of June 30, 2020, there were no interfund receivable or payable balances. During the year, the School Division transferred \$2,402,801 from the General Fund to the Capital Projects Fund for current projects.

4. Due from Other Governmental Units

Amounts due from other governmental units are as follows:

	General Fund	Cafeteria Fund	Governmental Activities
Commonwealth of Virginia			
Sales tax	\$ 534,215	\$ -	\$ 534,215
Federal government			
Special Education - Grants to States (IDEA, Part B)	161,308	-	161,308
Special Education - Preschool	589	-	589
Title I Grants to Local Educational Agencies	102,460	-	102,460
Adult Education - Basic Grants to States	76,811	-	76,811
National School Breakfast and Lunch Programs	-	273,966	273,966
English Language Acquisition State Grants	3,933	-	3,933
Supporting Effective Instruction State Grants	2,587	-	2,587
Career and Technical Education - Basic Grants to States (Perkins IV)	8,174	-	8,174
Other	794	-	794
	<u>\$ 890,871</u>	<u>\$ 273,966</u>	<u>\$ 1,164,837</u>

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

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

Depreciation expense was charged to functions as follows:

Central administration	\$ 55,901
Centralized instructional costs	11,622
Instructional costs	2,214,775
Transportation	215,955
Food services	44,555
Total depreciation expense	<u>\$ 2,542,808</u>

6. Deferred Outflows/Inflows of Resources

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

Deferred outflows of resources	
Pension	\$ 7,542,229
OPEB	861,426
Total deferred outflows of resources	<u>\$ 8,403,655</u>
Deferred inflows of resources	
Pension	\$ 4,135,485
OPEB	516,890
Total deferred inflows of resources	<u>\$ 4,652,375</u>

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

7. 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	\$ 195,212	\$ -	\$ (95,293)	\$ 99,919	\$ 99,919
Compensated absences	755,480	354,709	(297,016)	813,173	297,016
Net pension liability (asset)	(505,064)	211,407	(142,152)	(435,809)	-
Net pension liability	33,092,000	11,501,792	(8,253,515)	36,340,277	-
Net OPEB liability	6,150,083	1,377,004	(1,310,642)	6,216,445	-
	<u>\$ 39,687,711</u>	<u>\$ 13,444,912</u>	<u>\$ (10,098,618)</u>	<u>\$ 43,034,005</u>	<u>\$ 396,935</u>

The General Fund is used to liquidate the capital lease obligation, compensated absences, net pension liability, and other postemployment benefits.

8. Leases

Operating Leases

The School Division entered several non-cancelable operating leases for equipment. Rent expenditures for the current year were \$41,325. Scheduled future minimum rental payments for the next five years are as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
June 30, 2021	\$ 11,567
June 30, 2022	3,425
	<u>\$ 14,992</u>

Capital Lease

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

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

9. 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:

	General Fund	Cafeteria Fund	Capital Projects Fund
Fund Balances			
Nonspendable:			
Inventories	\$ -	\$ 98,571	\$ -
Prepays	158,753	-	-
Restricted for:			
Capital projects	529,805	-	-
Committed to:			
Capital projects	-	-	2,810,420
Other projects	351,315	-	-
Food services	-	624,572	-
Assigned to:			
General education	5,175,071	-	-
Total fund balances	<u>\$ 6,214,944</u>	<u>\$ 723,143</u>	<u>\$ 2,810,420</u>

10. Risk Management

The School Division is exposed to various risks of loss including those related to torts, loss of or damage to assets, natural disasters, and the health of employees. The risk management programs of the School Division are as follows:

Workers' Compensation

Workers' Compensation Insurance is provided through VACORP. 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 \$98,433.

General Liability and Other

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

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 and retired employees pay a premium equivalent for participation. The premium equivalent represents a minimum of 4% active or retired employee participation. The School Division is obligated for claims payments under the program. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$200,000 per covered individual and approximately \$9,795,350 in the aggregate.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

10. Risk Management (Continued)

Healthcare (Continued)

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

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

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

Dental

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

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

Other

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

11. 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 (VRS or System) along with plans for other employer groups in the Commonwealth of Virginia. The VRS Retirement Plan is a multi-employer, agent plan.

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

Members earn one month of service credit for each month they are employed and for which they and their employer 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 different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out below:

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

11. Pension Plan (Continued)

VRS PLAN 1

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

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

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

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

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

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

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

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

11. Pension Plan (Continued)

VRS PLAN 1 (Continued)

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

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

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

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

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

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

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

11. 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 service credit earned, purchased or granted on or after January 1, 2013.

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

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

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

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

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

HYBRID RETIREMENT PLAN

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

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

11. 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.

Service Credit

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

11. Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

Vesting

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

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

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

Distributions are not required, except as governed by law.

Calculating the Benefit

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

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

Service Retirement Multiplier

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

Defined Contribution Component: Not applicable.

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.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

11. Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

Earliest Unreduced Retirement Eligibility

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

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

Earliest Reduced Retirement Eligibility

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

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

COLA in Retirement

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Not applicable.

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

Purchase of Prior Service

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

Defined Contribution Component: Not applicable.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

11. Pension Plan (Continued)

Employees Covered by Benefit Terms

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

	<u>School Division (Non-Professional)</u>
Inactive members or their beneficiaries currently receiving benefits	70
Inactive members:	
Vested inactive members	15
Non-vested inactive members	35
Inactive members active elsewhere in VRS	18
Total inactive members	<u>68</u>
Active members	<u>70</u>
Total covered employees	<u><u>208</u></u>

Contributions

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

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

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

Net Pension Liability

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

11. Pension Plan (Continued)

Net Pension Liability (Continued)

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

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

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

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

Actuarial Assumptions – General Employees

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

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

11. Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest Ten – Non-Hazardous Duty:

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

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

11. Pension Plan (Continued)

Actuarial Assumptions – VRS Teacher Retirement Plan

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

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

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

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

11. Pension Plan (Continued)

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:

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

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

Discount Rate

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

11. Pension Plan (Continued)

Discount Rate (Continued)

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

Changes in Net Pension Liability (Asset)

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

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

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

	Net Pension Liability (Asset)		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
Retirement Plan (Non-Professional Staff)	\$ 149,984	\$ (435,809)	\$ (905,753)
Teacher Retirement Plan	54,707,904	36,340,277	21,153,651

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

11. Pension Plan (Continued)

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

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

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
School Division (Non-Professional Staff)		
Differences between expected and actual experience	\$ -	\$ 51,763
Changes in assumptions	68,784	-
Net difference between projected and actual earnings on pension plan investments	-	50,211
Employer contributions subsequent to the measurement date	39,179	-
Total	<u>\$ 107,963</u>	<u>\$ 101,974</u>
	Deferred Outflows of Resources	Deferred Inflows of Resources
School Division - Teacher Retirement Plan		
Differences between expected and actual experience	\$ -	\$ 2,327,021
Changes in assumptions	3,598,539	-
Net difference between projected and actual earnings on pension plan investments	-	797,946
Changes in proportion and differences between employer contributions and proportionate share of contributions	224,564	908,544
Employer contributions subsequent to the measurement date	3,611,163	-
Total	<u>\$ 7,434,266</u>	<u>\$ 4,033,511</u>

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

11. Pension Plan (Continued)

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

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

Year ended June 30,	School Division (Non-Professional)	School Division - Teacher Retirement Plan
2021	\$ 16,355	\$ (310,537)
2022	(51,948)	(868,816)
2023	(1,257)	224,214
2024	3,660	509,749
2025	-	234,982
	<u>\$ (33,190)</u>	<u>\$ (210,408)</u>

Payable to the Pension Plan

At June 30, 2020, \$8,652 was payable to the System under the VRS Retirement Plan for the legally required contributions of the School Division related to the June 2020 payroll.

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

Pension Plan Data

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

12. Summary of Pension Elements

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

	<u>School Division</u>
Pension Expense	
VRS Retirement Plan	\$ (1,601)
VRS Teacher Retirement Plan	3,269,689
Total Pension Expense	<u>\$ 3,268,088</u>
Net Pension Asset	
VRS Retirement Plan	<u>\$ 435,809</u>
Net Pension Liability	
VRS Teacher Retirement Plan	\$ 36,340,277
Total Pension Liability	<u>\$ 36,340,277</u>

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

12. Summary of Pension Elements (Continued)

	<u>School Division</u>
Deferred Outflows of Resources	
Changes in assumptions	
VRS Retirement Plan	\$ 68,784
VRS Teacher Retirement Plan	3,598,539
Changes in proportion and differences between employer contributions and proportionate share of contributions	
VRS Teacher Retirement Plan	224,564
Employer contributions subsequent to the measurement date	
VRS Retirement Plan	39,179
VRS Teacher Retirement Plan	3,611,163
Total Deferred Outflows of Resources	<u>\$ 7,542,229</u>
Deferred Inflows of Resources	
Differences between expected and actual experience	
VRS Retirement Plan	\$ 51,763
VRS Teacher Retirement Plan	2,327,021
Net difference between projected and actual earnings on pension plan investments	
VRS Retirement Plan	50,211
VRS Teacher Retirement Plan	797,946
Changes in proportion and differences between employer contributions and proportionate share of contributions	
VRS Teacher Retirement Plan	908,544
Total Deferred Inflows of Resources	<u>\$ 4,135,485</u>

13. Other Postemployment Benefits – Retiree Health Plan

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.

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 above the implicit rate subsidy and are responsible for the cost of the entire premium.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

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

Plan Description (Continued)

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

The 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 Virginia Pooled OPEB Trust Fund issues a separate report, which may be obtained from VML/VACo Finance Program, 919 East Main Street, Suite 1100, Richmond, Virginia 23219.

Employees Covered by Benefit Terms

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

Active employees	526
Retired participants	<u>30</u>
Total participants	<u><u>556</u></u>

Contributions

The Retiree Health Plan is funded through member and employer contributions on a pay-as-you-go basis. School Division Retirees receiving benefits contribute 100% of the health insurance premium rate. During the current year, retired School Division members contributed \$252,786 of the total premiums through their required contributions of between \$461 and \$1,707, depending on the type of coverage and years of service.

The School Division contributed \$136,057 in pay-as-you-go contributions to the Retiree Health Plan for the year ended June 30, 2020. In addition, the School Division contributed \$97,135 to the OPEB Trust Fund. It is the School Division's intent to fully fund the actuarially determined contributions each year.

Net OPEB Liability

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

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

Total OPEB liability	\$ 2,148,109
Plan fiduciary net position	<u>1,598,570</u>
Net OPEB liability	<u><u>\$ 549,539</u></u>

Plan fiduciary net position as a percentage of total OPEB liability	74.42%
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**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

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

Actuarial Assumptions

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

Valuation date	June 30, 2019
Measurement date	June 30, 2020
Inflation	2.50%
Investment rate of return	6.50%, net of investment expense
Pre-65 healthcare cost trend rates	6.20% for 2019 graded to 4.20% by 2082
Post-65 healthcare cost trend rates	N/A
Pre-retirement mortality	RP-2014 Employee Rates to age 80, Healthy Annuity Rates at ages 81 and older projected with scale BB to 2020 set back 1 year for males at 85% of rates and set back 1 year for females
Post-retirement mortality	RP-2014 Employee Rates to age 49, Healthy Annuity Rates at ages 50 and older projected with scale BB to 2020 set forward 1 year for males and set back 1 year for females with 1.5% increase compounded from ages 70 to 85

Plan Investments

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

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

Plan Investments (Continued)

The Trust currently invests in the following assets classes and strategies:

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

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

Rate of Return

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

Discount Rate

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

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

Changes in Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2019	\$ 2,089,759	\$ 1,458,940	\$ 630,819
Changes for the year:			
Service cost	74,370	-	74,370
Interest	136,316	-	136,316
Effect of assumption changes	(16,279)	-	(16,279)
Contributions - employer	-	233,192	(233,192)
Net investment income	-	44,595	(44,595)
Benefit payments	(136,057)	(136,057)	-
Administrative expenses	-	(2,100)	2,100
Net changes	58,350	139,630	(81,280)
Balances at June 30, 2020	\$ 2,148,109	\$ 1,598,570	\$ 549,539

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

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

Net OPEB Liability		
1% Decrease (5.50%)	Current Discount (6.50%)	1% Increase (7.50%)
\$ 725,924	\$ 549,539	\$ 387,426

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

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

Net OPEB Liability		
1% Decrease	Current Trend Rate	1% Increase
\$ 318,174	\$ 549,539	\$ 819,802

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

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

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

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

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

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

<u>Year ended June 30,</u>	<u>Amount</u>
2020	\$ (17,569)
2021	(17,571)
2022	(12,547)
2023	(19,471)
2024	(30,127)
Thereafter	(45,187)
	<u>\$ (142,472)</u>

14. Other Postemployment Benefits – Group Life Insurance & Health Insurance Credit

Plan Description

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Other Postemployment Benefits – Group Life Insurance & Health Insurance Credit (Continued)

Plan Description (Continued)

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

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

GROUP LIFE INSURANCE PROGRAM

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

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

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

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

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Other Postemployment Benefits – Group Life Insurance & Health Insurance Credit (Continued)

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

POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM

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

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

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

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

Health Insurance Credit Program Notes:

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

TEACHER EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Other Postemployment Benefits – Group Life Insurance & Health Insurance Credit (Continued)

TEACHER EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (Continued)

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

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

Health Insurance Credit Program Notes:

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

Employees Covered by Benefit Terms

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

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

Contributions

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Other Postemployment Benefits – Group Life Insurance & Health Insurance Credit (Continued)

Contributions (Continued)

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

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

Net OPEB Liability

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

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Other Postemployment Benefits – Group Life Insurance & Health Insurance Credit (Continued)

Net OPEB Liability (Continued)

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

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

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

Actuarial Assumptions

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

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Other Postemployment Benefits – Group Life Insurance & Health Insurance Credit (Continued)

Actuarial Assumptions (Continued)

Mortality rates - Teachers:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

Mortality rates – General Employees:

Largest Ten Locality Employers:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Other Postemployment Benefits – Group Life Insurance & Health Insurance Credit (Continued)

Actuarial Assumptions (Continued)

Mortality rates – General Employees: (Continued)

Non-Largest Ten Locality Employers:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest Ten Locality Employers:

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

Non-Largest Ten Locality Employers:

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Other Postemployment Benefits – Group Life Insurance & Health Insurance Credit (Continued)

Actuarial Assumptions (Continued)

Largest Ten Locality Employers:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

Non-Largest Ten Locality Employers:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest Ten Locality Employers:

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

Non-Largest Ten Locality Employers:

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Other Postemployment Benefits – Group Life Insurance & Health Insurance Credit (Continued)

Long-Term Expected Rate of Return

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

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

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

Discount Rate

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Other Postemployment Benefits – Group Life Insurance & Health Insurance Credit (Continued)

Changes in Net OPEB Liability

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

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

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

	Net OPEB Liability (Rounded to nearest thousand)		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
Group Life Insurance (Non-Professional)	\$ 135,536	\$ 103,169	\$ 76,921
Group Life Insurance (Professional)	2,506,758	1,908,133	1,422,664
Political Subdivision Health Insurance Credit	83,655	71,296	60,601
Teacher Employee Health Insurance Credit	4,011,450	3,584,308	3,221,451

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Other Postemployment Benefits – Group Life Insurance & Health Insurance Credit (Continued)

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

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
School Division - Non-Professional GLI		
Differences between expected and actual experience	\$ 6,861	\$ 1,338
Net difference between projected and actual earnings on program investments	-	2,119
Changes in assumptions	6,513	3,111
Changes in proportion	1,551	5,604
Employer contributions subsequent to the measurement date	6,639	-
Total	<u>\$ 21,564</u>	<u>\$ 12,172</u>
School Division - Professional GLI		
Differences between expected and actual experience	\$ 126,902	\$ 24,748
Net difference between projected and actual earnings on program investments	-	39,195
Changes in assumptions	120,468	57,539
Changes in proportion	2,442	24,213
Employer contributions subsequent to the measurement date	123,275	-
Total	<u>\$ 373,087</u>	<u>\$ 145,695</u>
School Division - Political Subdivision HIC		
Differences between expected and actual experience	\$ -	\$ 17,701
Net difference between projected and actual earnings on program investments	-	770
Changes in assumptions	2,251	-
Employer contributions subsequent to the measurement date	7,533	-
Total	<u>\$ 9,784</u>	<u>\$ 18,471</u>

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

14. Other Postemployment Benefits – Group Life Insurance & Health Insurance Credit (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
School Division - Teacher Employee HIC		
Differences between expected and actual experience	\$ -	\$ 20,301
Net difference between projected and actual earnings on program investments	226	-
Changes in assumptions	83,423	24,906
Changes in proportion	22,037	86,017
Employer contributions subsequent to the measurement date	284,449	-
Total	\$ 390,135	\$ 131,224

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

Year ended June 30,	GLI Non-Professional	GLI Professional	Political Subdivision HIC	Teacher Employee HIC
2021	\$ (232)	\$ 2,217	\$ (7,000)	\$ (7,835)
2022	(232)	2,218	(7,069)	(7,838)
2023	665	18,819	(1,921)	(6,267)
2024	1,239	34,959	(230)	(6,793)
2025	1,072	36,092	-	(2,688)
Thereafter	241	9,812	-	5,883
	\$ 2,753	\$ 104,117	\$ (16,220)	\$ (25,538)

Payables to the OPEB Plans

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

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

Program Plan Data

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

15. Summary of Other Postemployment Benefit Elements

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

	<u>School Division</u>
OPEB Expense	
Retiree Health Plan	\$ 97,346
VRS Retirement Plan - GLI	1,787
VRS Retirement Plan - HIC	1,824
VRS Teacher Retirement Plan - GLI	39,561
VRS Teacher Retirement Plan - HIC	283,762
Total OPEB Expense	<u>\$ 424,280</u>
Net OPEB Liability	
Retiree Health Plan	\$ 549,539
VRS Retirement Plan - GLI	103,169
VRS Retirement Plan - HIC	71,296
VRS Teacher Retirement Plan - GLI	1,908,133
VRS Teacher Retirement Plan - HIC	3,584,308
Total OPEB Liability	<u>\$ 6,216,445</u>
Deferred Outflows of Resources	
Differences between expected and actual experience	
Retiree Health Plan	\$ 13,506
VRS Retirement Plan - GLI	6,861
VRS Teacher Retirement Plan - GLI	126,902
Net difference between projected and actual earnings on program investments	
Retiree Health Plan	53,350
VRS Teacher Retirement Plan - HIC	226
Changes in assumptions	
VRS Retirement Plan - GLI	6,513
VRS Retirement Plan - HIC	2,251
VRS Teacher Retirement Plan - GLI	120,468
VRS Teacher Retirement Plan - HIC	83,423
Changes in proportion	
VRS Retirement Plan - GLI	1,551
VRS Teacher Retirement Plan - GLI	2,442
VRS Teacher Retirement Plan - HIC	22,037
Employer contributions subsequent to the measurement date	
VRS Retirement Plan - GLI	6,639
VRS Retirement Plan - HIC	7,533
VRS Teacher Retirement Plan - GLI	123,275
VRS Teacher Retirement Plan - HIC	284,449
Total Deferred Outflows of Resources	<u>\$ 861,426</u>

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

15. Summary of Other Postemployment Benefit Elements (Continued)

	<u>School Division</u>
Deferred Inflows of Resources	
Differences between expected and actual experience	
VRS Retirement Plan - GLI	\$ 1,338
VRS Retirement Plan - HIC	17,701
VRS Teacher Retirement Plan - GLI	24,748
VRS Teacher Retirement Plan - HIC	20,301
Net difference between projected and actual earnings on program	
VRS Retirement Plan - GLI	2,119
VRS Retirement Plan - HIC	770
VRS Teacher Retirement Plan - GLI	39,195
Changes in assumptions	
Retiree Health Plan	209,328
VRS Retirement Plan - GLI	3,111
VRS Teacher Retirement Plan - GLI	57,539
VRS Teacher Retirement Plan - HIC	24,906
Changes in proportion	
VRS Retirement Plan - GLI	5,604
VRS Teacher Retirement Plan - GLI	24,213
VRS Teacher Retirement Plan - HIC	86,017
Total Deferred Inflows of Resources	<u>\$ 516,890</u>

16. Commitments and Contingencies

Construction Commitments

The School Division was engaged in the following significant construction project at year-end:

	<u>Spent to Date</u>	<u>Remaining Contract</u>
Salem High School Renovation	\$ 4,182,541	\$ 22,168,057

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 has concluded, and the School Division has entered a new agreement with Aramark for a period of one year with options for four additional one-year renewals by mutual written agreement, which is currently in place through June 30, 2020. Beginning on July 1, 2019, Aramark received a general and administrative expense fee of \$0.136 per meal served, as well as a management fee of \$0.0236 per meal served.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

17. Jointly Governed Organizations

Roanoke Valley Regional Board

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

Roanoke Valley Governor's School

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

18. COVID-19 Impact

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

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

19. New Accounting Standards

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

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

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

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

19. New Accounting Standards (Continued)

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

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

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

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

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REQUIRED SUPPLEMENTARY INFORMATION

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

	2019	2018	2017	2016	2015	2014
			Non-Professional Staff			
			Plan Year			
Total pension liability						
Service cost	\$ 130,680	\$ 130,240	\$ 120,806	\$ 124,227	\$ 132,051	\$ 145,676
Interest	348,873	350,464	345,744	347,691	337,943	323,812
Differences between expected and actual experience	(81,471)	(177,270)	(39,860)	(182,245)	(45,142)	-
Changes in assumptions	134,293	-	(23,501)	-	-	-
Benefit payments, including refunds of employee contributions	(314,833)	(337,479)	(334,040)	(300,945)	(270,236)	(264,987)
Net change in total pension liability	217,542	(34,045)	69,149	(11,272)	154,616	204,501
Total pension liability - beginning	5,141,323	5,175,368	5,106,219	5,117,491	4,962,875	4,758,374
Total pension liability - ending	\$ 5,358,865	\$ 5,141,323	\$ 5,175,368	\$ 5,106,219	\$ 5,117,491	\$ 4,962,875
Plan fiduciary net position						
Contributions - employer	\$ 40,178	\$ 51,406	\$ 51,554	\$ 92,100	\$ 93,028	\$ 97,271
Contributions - employee	57,762	61,121	61,318	58,188	59,073	61,480
Net investment income	369,207	399,866	608,458	86,505	228,863	697,591
Benefit payments, including refunds of employee contributions	(314,833)	(337,479)	(334,040)	(300,945)	(270,236)	(264,987)
Administrative expense	(3,796)	(3,562)	(3,661)	(3,256)	(3,202)	(3,812)
Other	(231)	(350)	(535)	(37)	(47)	37
Net change in plan fiduciary net position	148,287	171,002	383,094	(67,445)	107,479	587,580
Plan fiduciary net position - beginning	5,646,387	5,475,385	5,092,291	5,159,736	5,052,257	4,464,677
Plan fiduciary net position - ending	\$ 5,794,674	\$ 5,646,387	\$ 5,475,385	\$ 5,092,291	\$ 5,159,736	\$ 5,052,257
Net pension liability (asset) - ending	\$ (435,809)	\$ (505,064)	\$ (300,017)	\$ 13,928	\$ (42,245)	\$ (89,382)
Plan fiduciary net position as a percentage of the total pension liability	108.13%	109.82%	105.80%	99.73%	100.83%	101.80%
Covered payroll	\$ 1,088,835	\$ 1,187,206	\$ 1,190,624	\$ 1,173,248	\$ 1,185,071	\$ 1,229,675
Net pension liability (asset) as a percentage of covered payroll	(40.03%)	(42.54%)	(25.20%)	1.19%	(3.56%)	(7.27%)

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

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

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

Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
	(a)	(b)	(a-b)	(c)	(b/c)
School Division (Non-Professional Staff)					
2020	\$ 39,179	\$ 39,179	\$ -	\$ 1,061,762	3.69%
2019* **	40,178	40,178	-	1,088,835	3.69%
2018	51,406	51,406	-	1,187,206	4.33%
2017	51,554	51,554	-	1,190,624	4.33%
2016	92,100	92,100	-	1,173,248	7.85%
2015	93,028	93,028	-	1,185,071	7.85%

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

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

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

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

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

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

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

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

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

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

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

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

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB liability				
Service cost	\$ 74,370	\$ 73,179	\$ 71,941	\$ 67,235
Interest	136,316	158,451	151,536	145,477
Effect of economic/demographic gains or losses	-	17,662	-	-
Effect of assumption changes	(16,279)	(255,288)	-	-
Benefit payments	(136,057)	(151,400)	(136,054)	(125,858)
Net change in total OPEB liability	<u>58,350</u>	<u>(157,396)</u>	<u>87,423</u>	<u>86,854</u>
Total OPEB liability - beginning	<u>2,089,759</u>	<u>2,247,155</u>	<u>2,159,732</u>	<u>2,072,878</u>
Total OPEB liability - ending	<u><u>\$ 2,148,109</u></u>	<u><u>\$ 2,089,759</u></u>	<u><u>\$ 2,247,155</u></u>	<u><u>\$ 2,159,732</u></u>
Plan fiduciary net position				
Contributions - employer	\$ 233,192	\$ 248,535	\$ 233,189	\$ 211,531
Net investment income	44,595	59,924	105,580	116,176
Benefit payments	(136,057)	(151,400)	(136,054)	(125,858)
Administrative expense	(2,100)	(1,894)	(1,717)	(1,579)
Net change in plan fiduciary net position	<u>139,630</u>	<u>155,165</u>	<u>200,998</u>	<u>200,270</u>
Plan fiduciary net position - beginning	<u>1,458,940</u>	<u>1,303,775</u>	<u>1,102,777</u>	<u>902,507</u>
Plan fiduciary net position - ending	<u><u>\$ 1,598,570</u></u>	<u><u>\$ 1,458,940</u></u>	<u><u>\$ 1,303,775</u></u>	<u><u>\$ 1,102,777</u></u>
Net OPEB liability - ending	<u><u>\$ 549,539</u></u>	<u><u>\$ 630,819</u></u>	<u><u>\$ 943,380</u></u>	<u><u>\$ 1,056,955</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	74.42%	69.81%	58.02%	51.06%
Covered-employee payroll	\$ 23,962,730	\$ 23,962,730	\$ 23,076,891	\$ 23,076,891
Net OPEB liability as a percentage of covered-employee payroll	2.29%	2.63%	4.09%	4.58%
Annual money-weighted rate of return, net of investment expense	3.05%	4.59%	9.52%	12.79%

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

Notes to Schedule:

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

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

Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
	(a)	(b)	(a-b)	(c)	(b/c)
2020	\$ 120,718	\$ 233,192	\$ (112,474)	\$ 23,962,730	0.97%
2019	114,675	248,535	(133,860)	23,962,730	1.04%
2018	140,801	233,189	(92,388)	23,076,891	1.01%
2017	136,700	211,531	(74,831)	23,076,891	0.92%

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

Notes to Schedule:

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

Methods and assumptions used to determine contribution rates:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

School Division - Group Life Insurance Program (Professional Staff)

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

School Division - Teacher Employee Health Insurance Credit Program

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

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

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

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

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

1. Changes of Benefit Terms

Pension

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

Other Postemployment Benefits (OPEB)

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

2. Changes of Assumptions

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

Largest Ten – Non-Hazardous Duty:

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

Largest Ten – Hazardous Duty/Public Safety Employees:

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

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

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

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

2. Changes of Assumptions (Continued)

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

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

Teacher cost-sharing pool

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

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OTHER SUPPLEMENTARY INFORMATION

CITY OF SALEM SCHOOL DIVISION
STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
JUNE 30, 2020

	Beginning Balance	Additions	Deductions	Ending Balance
<u>SCHOOL ACTIVITY FUNDS</u>				
ASSETS				
Cash and cash equivalents	\$ 602,788	\$ 1,523,731	\$ (1,439,307)	\$ 687,212
Total assets	<u>\$ 602,788</u>	<u>\$ 1,523,731</u>	<u>\$ (1,439,307)</u>	<u>\$ 687,212</u>
LIABILITIES				
Liability to agency	\$ 602,788	\$ 1,523,731	\$ (1,439,307)	\$ 687,212
Total liabilities	<u>\$ 602,788</u>	<u>\$ 1,523,731</u>	<u>\$ (1,439,307)</u>	<u>\$ 687,212</u>

STATISTICAL 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 School Division's overall health. The information included in this section is not audited.

	Pages
Financial Trends.....	109 - 114
<i>These schedules contain trend information to help the reader understand how the School Division's financial performance and well-being have changed over time.</i>	
Revenue Capacity.....	115 - 117
<i>These schedules contain information to help the reader assess the School Division's revenue sources. The schedules also include information about the City's most significant local revenue source, property taxes, as the City provides significant revenues to the School Division.</i>	
Debt Capacity.....	118 - 119
<i>These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and ability to issue additional debt in the future. These schedules are shown because the City incurs significant debt for the School Division's use.</i>	
Demographic and Economic Information.....	120 - 121
<i>These schedules offer demographic and economic indicators to help the reader understand the environment in which the School Division operates and to help make comparisons over time and with other governments.</i>	
Operating Information.....	122 - 128
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the School Division's financial report relates to the services the School provides and the activities it performs.</i>	

CITY OF SALEM SCHOOL DIVISION
NET POSITION (DEFICIT) BY COMPONENT
LAST TEN FISCAL YEARS

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
			(1)			(2)	(3)			
Governmental Activities										
Net investment in capital assets	\$ 46,748,373	\$ 42,906,415	\$ 43,173,063	\$ 45,092,573	\$ 46,530,313	\$ 48,121,333	\$ 49,441,566	\$ 49,201,420	\$ 37,836,389	\$ 37,885,656
Restricted	965,614	650,756	537,062	-	78,138	78,474	-	-	-	-
Unrestricted	(27,114,252)	(28,122,133)	(32,351,599)	(28,646,696)	(31,510,148)	(35,459,054)	3,972,118	758,035	2,749,702	4,046,004
Total School Division net position	\$ 20,599,735	\$ 15,435,038	\$ 11,358,526	\$ 16,445,877	\$ 15,098,303	\$ 12,740,753	\$ 53,413,684	\$ 49,959,455	\$ 40,586,091	\$ 41,931,660

Notes:

Source: City of Salem Finance Department

(1) In 2018, the School Division implemented GASB Statement No. 75 requiring recognition of net OPEB liabilities.

(2) In 2015, the School Division implemented GASB Statement No. 68 requiring recognition of net pension liabilities.

(3) 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

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
			(1)				(2)			
Expenses										
Central administration	\$ 2,016,415	\$ 1,783,674	\$ 1,596,030	\$ 1,652,209	\$ 1,593,894	\$ 1,695,545	\$ 1,879,992	\$ 1,920,910	\$ 1,563,224	\$ 1,466,686
Centralized instruction costs	4,075,157	3,840,082	3,518,687	3,543,531	3,473,872	3,636,537	3,879,440	3,548,842	3,328,048	2,997,309
Instructional costs	37,077,981	33,908,535	34,871,104	32,458,269	30,933,478	32,699,399	33,968,213	32,389,924	30,692,441	29,758,175
Attendance and health services	1,147,452	978,529	1,010,606	1,005,378	936,415	981,451	879,534	893,663	872,551	838,160
Transportation	1,472,764	1,500,881	1,524,848	1,408,400	1,348,170	1,463,135	1,413,079	1,446,627	1,338,768	1,303,303
Food services	1,848,960	1,792,273	1,794,237	1,756,692	1,675,156	1,973,317	1,597,475	1,616,530	1,666,673	1,737,457
Federal and state grants programs	-	-	-	1,970,034	1,844,532	1,969,993	2,953,551	2,172,018	3,066,792	2,807,159
Non-departmental	-	-	-	-	-	-	-	548,520	550,000	250,000
Capital lease interest	6,006	7,106	493	6,383	10,612	-	-	-	-	-
Total governmental activities	\$ 47,644,735	\$ 43,811,080	\$ 44,316,005	\$ 43,800,896	\$ 41,816,129	\$ 44,419,377	\$ 46,571,284	\$ 44,537,034	\$ 43,078,497	\$ 41,158,259
Program revenues										
Charges for services:										
Central administration	\$ -	\$ -	\$ -	\$ 26,251	\$ 33,158	\$ 20,106	\$ 19,524	\$ 20,787	\$ -	\$ -
Centralized instruction	166,551	166,262	209,937	546,197	510,968	587,734	623,222	478,675	478,551	495,524
Instructional	910,778	1,000,374	945,598	174,200	179,915	175,813	191,751	177,925	192,476	173,153
Food services	569,747	845,340	836,801	841,634	815,618	759,141	832,642	867,703	903,493	922,353
Operating grants and contributions	10,758,674	9,818,437	9,540,263	8,605,485	8,197,005	8,119,815	8,956,887	8,122,841	7,810,425	7,159,185
Capital grants and contributions	-	17,438	14,400	156,367	49,773	5,174	7,000	7,000	-	-
Total governmental activities	\$ 12,405,750	\$ 11,847,851	\$ 11,546,999	\$ 10,350,134	\$ 9,786,437	\$ 9,667,783	\$ 10,631,026	\$ 9,674,931	\$ 9,384,945	\$ 8,750,215
Net expense	\$ (35,238,985)	\$ (31,963,229)	\$ (32,769,006)	\$ (33,450,762)	\$ (32,029,692)	\$ (34,751,594)	\$ (35,940,258)	\$ (34,862,103)	\$ (33,693,552)	\$ (32,408,044)
General revenues and other changes in net position										
Payments from City of Salem	\$ 25,341,148	\$ 21,026,377	\$ 20,170,298	\$ 19,760,242	\$ 19,739,512	\$ 19,151,270	\$ 25,103,243	\$ 30,295,228	\$ 18,471,653	\$ 18,420,000
State aid	14,952,136	14,891,728	14,222,573	14,075,825	13,757,083	13,916,982	13,144,693	13,133,752	13,237,358	12,815,820
Other	110,398	121,636	123,394	962,269	890,647	954,837	778,599	806,487	638,972	506,538
Total governmental activities	\$ 40,403,682	\$ 36,039,741	\$ 34,516,265	\$ 34,798,336	\$ 34,387,242	\$ 34,023,089	\$ 39,026,535	\$ 44,235,467	\$ 32,347,983	\$ 31,742,358
Change in net position	\$ 5,164,697	\$ 68,002,970	\$ 1,747,259	\$ 1,347,574	\$ 2,357,550	\$ (728,505)	\$ 3,086,277	\$ 9,373,364	\$ (1,345,569)	\$ (665,686)

Notes:

Source: City of Salem Finance Department

(1) Beginning in 2018, the School Division included expenses for federal and state grants programs in the instructional costs function.

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

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

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
FUND BALANCES							(1)			
General Fund										
Nonspendable	\$ 158,753	\$ 101,494	\$ 4,068	\$ -	\$ -	\$ -	\$ 24,797	\$ 3,326	\$ 24,138	\$ 37,099
Restricted	529,805	650,756	537,062	-	78,138	78,474	-	-	-	-
Committed	351,315	545,572	454,828	85,500	-	-	-	36,863	170,452	1,225,000
Assigned	5,175,071	5,053,704	3,911,615	4,493,379	4,532,051	2,761,526	1,992,070	2,439,014	1,166,693	2,532,508
Total General Fund	\$ 6,214,944	\$ 6,351,526	\$ 4,907,573	\$ 4,578,879	\$ 4,610,189	\$ 2,840,000	\$ 2,016,867	\$ 2,479,203	\$ 1,361,283	\$ 3,794,607
Cafeteria Fund										
Nonspendable	\$ 98,571	\$ 56,438	\$ 37,579	\$ 33,103	\$ 33,187	\$ 34,125	\$ 55,511	\$ 56,826	\$ 51,525	\$ 66,139
Committed	624,572	580,465	464,331	-	-	-	-	-	23,302	-
Assigned	-	-	-	349,325	305,919	324,603	451,968	410,328	357,906	308,386
Total Cafeteria Fund	\$ 723,143	\$ 636,903	\$ 501,910	\$ 382,428	\$ 339,106	\$ 358,728	\$ 507,479	\$ 467,154	\$ 432,733	\$ 374,525
Capital Projects Fund										
Nonspendable	\$ -	\$ -	\$ 4,939	\$ 14,816	\$ 24,693	\$ -	\$ -	\$ -	\$ -	\$ -
Committed	2,810,420	1,765,046	2,746,660	2,030,441	905,058	1,146,489	1,550,444	1,550,586	1,681,048	693,096
Unassigned	-	-	-	-	-	-	-	(2,964,290)	-	-
Total Capital Projects Fund	\$ 2,810,420	\$ 1,765,046	\$ 2,751,599	\$ 2,045,257	\$ 929,751	\$ 1,146,489	\$ 1,550,444	\$ (1,413,704)	\$ 1,681,048	\$ 693,096
Total School Division	\$ 9,748,507	\$ 8,753,475	\$ 8,161,082	\$ 7,006,564	\$ 5,879,046	\$ 4,345,217	\$ 4,074,790	\$ 1,532,653	\$ 3,475,064	\$ 4,862,228

Notes:

Source: City of Salem Finance Department

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

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

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Revenues							(1)			
<u>General Fund</u>										
<i>Intergovernmental:</i>										
City of Salem	\$ 20,499,426	\$ 21,026,377	\$ 20,170,298	\$ 19,760,242	\$ 19,739,512	\$ 19,151,270	\$ 19,622,043	\$ 20,776,428	\$ 18,471,653	\$ 18,420,000
Commonwealth of Virginia	22,563,977	21,878,266	21,067,259	20,052,041	19,491,109	19,455,460	19,452,863	18,505,940	17,791,888	16,870,527
Federal Government	1,747,379	1,708,244	1,648,522	1,705,496	1,631,925	1,761,396	1,838,411	1,978,488	2,454,719	2,329,130
<i>Other:</i>	1,176,398	1,281,640	1,252,037	1,691,429	1,607,634	1,594,590	1,600,220	1,472,793	1,293,847	1,154,600
Total General Fund	\$ 45,987,180	\$ 45,894,527	\$ 44,138,116	\$ 43,209,208	\$ 42,470,180	\$ 41,962,716	\$ 42,513,537	\$ 42,733,649	\$ 40,012,107	\$ 38,774,257
<u>Cafeteria Fund</u>										
<i>Intergovernmental:</i>										
Commonwealth of Virginia	\$ 38,054	\$ 29,478	\$ 28,674	\$ 24,710	\$ 21,590	\$ 24,581	\$ 25,893	\$ 28,076	\$ 27,570	\$ 26,917
Federal Government	1,361,400	1,094,177	1,016,458	899,020	809,467	795,360	784,413	744,089	773,605	748,431
<i>Other:</i>										
Charges for services	569,747	845,340	836,801	841,634	815,617	759,141	832,642	867,703	903,493	922,353
Other	12,859	8,018	29,886	17,531	7,121	143,900	12,876	11,083	27,251	23,145
Total Cafeteria Fund	\$ 1,982,060	\$ 1,977,013	\$ 1,911,819	\$ 1,782,895	\$ 1,653,795	\$ 1,722,982	\$ 1,655,824	\$ 1,650,951	\$ 1,731,919	\$ 1,720,846
<u>Capital Projects Fund</u>										
<i>Intergovernmental:</i>										
City of Salem	\$ 4,841,722	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,481,200	\$ 9,518,800	\$ -	\$ -
<i>Other:</i>	-	-	-	-	-	5,174	7,000	7,000	-	-
Total Capital Projects Fund	\$ 4,841,722	\$ -	\$ -	\$ -	\$ -	\$ 5,174	\$ 5,488,200	\$ 9,525,800	\$ -	\$ -
<u>Expenditures</u>										
<u>General Fund</u>										
<i>Current:</i>										
Central administration	\$ 2,007,754	\$ 1,734,048	\$ 1,587,712	\$ 1,608,371	\$ 1,593,852	\$ 1,658,908	\$ 1,756,494	\$ 1,664,724	\$ 1,414,020	\$ 1,461,269
Centralized instruction costs	4,074,573	4,053,997	3,768,680	3,795,451	3,687,727	3,832,984	3,711,762	3,499,585	3,008,025	3,136,131
Instructional costs:										
Salem High School	10,504,638	10,516,395	10,459,247	10,090,056	10,048,013	9,976,964	9,965,723	10,119,284	9,380,598	8,931,027
Andrew Lewis Middle School	7,343,857	7,133,729	7,110,842	6,985,732	6,629,696	6,769,119	6,765,055	6,780,842	6,078,634	5,966,676
G.W. Carver Elementary School	3,779,518	3,734,148	3,694,139	3,525,927	3,473,543	3,590,403	3,634,528	3,497,209	3,342,917	3,515,038
West Salem Elementary School	3,592,948	3,570,397	3,383,487	3,019,223	2,999,504	3,013,001	3,167,012	3,142,102	2,951,348	2,940,070
South Salem Elementary School	3,210,750	3,193,441	3,248,699	2,984,447	2,946,511	2,985,015	3,006,075	2,990,425	2,984,114	3,174,639
East Salem Elementary School	3,764,485	3,902,247	3,778,488	3,634,861	3,543,633	3,472,215	3,185,659	3,281,198	3,153,029	3,274,535
Regional Program	695,930	736,901	743,403	754,116	733,930	698,011	616,896	743,384	-	-
Federal and state grants programs	2,114,568	2,119,327	1,969,614	2,142,407	2,027,663	1,958,910	2,974,412	2,203,948	2,824,695	4,456,948
Attendance and health services	1,136,256	1,088,768	1,085,034	1,049,120	1,001,682	988,485	889,226	893,663	838,160	853,611
Transportation	1,390,916	1,577,945	1,410,894	1,317,610	1,269,037	1,269,076	1,529,625	1,282,845	1,297,167	1,426,223
Non-departmental	-	-	-	-	-	-	-	548,520	250,000	250,000
<i>Capital / lease debt service:</i>										
Principal	95,293	104,768	137,071	131,405	142,981	-	-	-	-	-
Interest	9,475	-	5,911	965	10,612	-	-	-	-	-
Total General Fund	\$ 43,720,961	\$ 43,466,111	\$ 42,383,221	\$ 41,039,691	\$ 40,108,384	\$ 40,213,091	\$ 41,202,467	\$ 40,647,729	\$ 37,522,707	\$ 39,386,167

(CONTINUED)

TABLE 4
UNAUDITED
(CONTINUED)

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

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Expenditures							(1)			
<u>Cafeteria Fund</u>										
Food services	\$ 1,895,820	\$ 1,842,020	\$ 1,792,337	\$ 1,739,573	\$ 1,673,417	\$ 1,871,733	\$ 1,615,499	\$ 1,616,530	\$ 1,688,711	\$ 1,746,782
Total Cafeteria Fund	\$ 1,895,820	\$ 1,842,020	\$ 1,792,337	\$ 1,739,573	\$ 1,673,417	\$ 1,871,733	\$ 1,615,499	\$ 1,616,530	\$ 1,688,711	\$ 1,746,782
<u>Capital Projects Fund</u>										
Capital projects	\$ 6,199,149	\$ 2,270,996	\$ 719,859	\$ 1,085,321	\$ 1,219,802	\$ 1,335,621	\$ 4,297,458	\$ 13,588,552	\$ 1,717,361	\$ 1,373,173
Total Capital Projects Fund	\$ 6,199,149	\$ 2,270,996	\$ 719,859	\$ 1,085,321	\$ 1,219,802	\$ 1,335,621	\$ 4,297,458	\$ 13,588,552	\$ 1,717,361	\$ 1,373,173
Excess (deficiency) of revenues over (under) expenditures										
General Fund	\$ 2,266,219	\$ 2,428,416	\$ 1,754,895	\$ 2,169,517	\$ 2,361,796	\$ 1,749,625	\$ 1,311,070	\$ 2,085,920	\$ 286,989	\$ 1,251,550
Cafeteria Fund	86,240	134,993	119,482	43,322	(19,622)	(148,751)	40,325	34,421	43,208	(25,936)
Capital Projects Fund	(1,357,427)	(2,270,996)	(719,859)	(1,085,321)	(1,219,802)	(1,330,447)	1,190,742	(4,062,752)	(1,717,361)	(1,373,173)
	\$ 995,032	\$ 292,413	\$ 1,154,518	\$ 1,127,518	\$ 1,122,372	\$ 270,427	\$ 2,542,137	\$ (1,942,411)	\$ (1,387,164)	\$ (147,559)
Other financing sources (uses)										
<u>General Fund</u>										
Transfers out	\$ (2,402,801)	\$ (984,463)	\$ (1,426,201)	\$ (2,200,827)	\$ (591,607)	\$ (926,492)	\$ (1,773,406)	\$ (968,000)	\$ (2,720,313)	\$ (989,832)
Total General Fund	\$ (2,402,801)	\$ (984,463)	\$ (1,426,201)	\$ (2,200,827)	\$ (591,607)	\$ (926,492)	\$ (1,773,406)	\$ (968,000)	\$ (2,720,313)	\$ (989,832)
<u>Cafeteria Fund</u>										
Transfers in	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,000	\$ 25,000
Total Cafeteria Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,000	\$ 25,000
<u>Capital Projects Fund</u>										
Issuance of capital leases	\$ -	\$ 299,980	\$ -	\$ -	\$ 411,457	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers in	2,402,801	984,463	1,426,201	2,200,827	591,607	926,492	1,773,406	968,000	2,705,313	964,832
Total Capital Projects Fund	\$ 2,402,801	\$ 1,284,443	\$ 1,426,201	\$ 2,200,827	\$ 1,003,064	\$ 926,492	\$ 1,773,406	\$ 968,000	\$ 2,705,313	\$ 964,832
Net change in fund balances										
General Fund	\$ (136,582)	\$ 1,443,953	\$ 328,694	\$ (31,310)	\$ 1,770,189	\$ 823,133	\$ (462,336)	\$ 1,117,920	\$ (2,433,324)	\$ 261,718
Cafeteria Fund	86,240	134,993	119,482	43,322	(19,622)	(148,751)	40,325	34,421	58,208	(936)
Capital Projects Fund	1,045,374	(986,553)	706,342	1,115,506	(216,738)	(403,955)	2,964,148	(3,094,752)	987,952	(408,341)
	\$ 995,032	\$ 592,393	\$ 1,154,518	\$ 1,127,518	\$ 1,533,829	\$ 270,427	\$ 2,542,137	\$ (1,942,411)	\$ (1,387,164)	\$ (147,559)
Capital outlay	\$ 6,290,605	\$ 2,559,481	\$ 525,195	\$ 831,774	\$ 1,133,365	\$ 1,202,283	\$ 3,831,996	\$ 13,367,244	\$ 1,830,225	\$ 1,286,754
Ratio of debt service expenditures to non-capital expenditures	0.23%	0.23%	0.32%	0.31%	0.37%	0.00%	0.00%	0.59%	0.61%	0.64%

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
MAJOR REVENUE SOURCES
GENERAL FUND
LAST TEN FISCAL YEARS

Fiscal Year	City of Salem		Commonwealth of Virginia	
	Revenue	Increase (Decrease)	Revenue	Increase (Decrease)
2020	\$ 20,499,426	\$ (526,951)	\$ 22,563,977	\$ 685,711
2019	21,026,377	856,079	21,878,266	811,007
2018	20,170,298	410,056	21,067,259	1,015,218
2017	19,760,242	20,730	20,052,041	560,932
2016	19,739,512	588,242	19,491,109	35,649
2015	19,151,270	(470,773)	19,455,460	2,597
2014	19,622,043	(1,154,385)	19,452,863	946,923
2013	20,776,428	2,304,775	18,505,940	714,052
2012	18,471,653	51,653	17,791,888	921,361
2011	18,420,000	-	16,870,527	(828,546)

Note:

Source: City of Salem Finance Department

TABLE 6
UNAUDITED

CITY OF SALEM SCHOOL DIVISION
CHARGES FOR SERVICES REVENUE - FOOD SALES
CAFETERIA FUND
LAST TEN FISCAL YEARS

Fiscal Year	Food Sales	Increase (Decrease)
2020	\$ 569,747	\$ (275,593)
2019	845,340	8,539
2018	836,801	(4,833)
2017	841,634	26,017
2016	815,617	56,476
2015	759,141	(73,501)
2014	832,642	(35,061)
2013	867,703	(35,790)
2012	903,493	(18,860)
2011	922,353	(52,270)

Note:

Source: City of Salem Finance Department

CITY OF SALEM, VIRGINIA
ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS

Fiscal Year	Real Estate			Personal Property			Machinery and Tools			Public Service Corporation			Mobile Homes			Total Taxable Assessed Value			Total Direct Tax Rate
	Assessed Value	Direct Tax Rate		Assessed Value	Direct Tax Rate		Assessed Value	Direct Tax Rate		Assessed Value	Direct Tax Rate		Assessed Value	Direct Tax Rate					
2020	\$ 2,223,003,261	\$1.20		\$ 319,099,250	\$3.40		\$ 98,084,487	\$3.20		\$ 60,840,085	\$1.20		\$ 758,822	\$1.20		\$ 2,701,785,905			\$1.54
2019	2,144,567,539	1.18		310,426,127	3.25		91,646,255	3.20		53,418,469	1.18		749,392	1.18		2,600,807,782			1.51
2018	2,092,863,676	1.18		306,890,700	3.25		97,999,444	3.20		51,247,569	1.18		816,174	1.18		2,549,817,563			1.50
2017	2,054,446,049	1.18		312,495,313	3.25		89,186,639	3.20		44,507,648	1.18		984,368	1.18		2,501,620,017			1.51
2016	2,022,951,024	1.18		295,173,346	3.25		91,322,128	3.20		41,308,358	1.18		1,059,063	1.18		2,451,813,919			1.50
2015	2,012,050,247	1.18		282,311,121	3.25		91,977,805	3.20		40,513,445	1.18		1,195,515	1.18		2,428,048,133			1.50
2014	2,003,007,334	1.18		276,846,201	3.20		91,226,535	3.20		41,408,575	1.18		1,249,050	1.18		2,413,737,695			1.49
2013	1,997,447,800	1.18		267,755,307	3.20		84,169,172	3.20		42,281,759	1.18		1,431,949	1.18		2,393,085,987			1.47
2012	1,977,986,400	1.18		267,877,285	3.20		90,287,324	3.20		37,468,284	1.18		1,668,743	1.18		2,375,288,036			1.48
2011	1,973,655,843	1.18		265,450,351	3.20		80,706,659	3.20		37,993,502	1.18		1,460,966	1.18		2,359,267,321			1.48

Note:

Source: City of Salem Finance Department
Tax rates are per \$100 of assessed value.

TABLE 8
UNAUDITED

CITY OF SALEM, VIRGINIA
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN CALENDAR YEARS

Calendar Year Ended December 31,	Taxes Levied for the Calendar Year	Collected within the Calendar Year of the Levy		Supplemental Assessments & Exonerations Levied in Subsequent Years	Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy			Amount	Percentage of Levy
2020	\$ 39,175,662	\$ 35,634,651	90.96%	\$ -	\$ -	\$ 35,634,651	90.96%
2019	36,274,839	35,191,478	97.01%	179,372	994,178	36,185,656	99.26%
2018	35,837,963	34,375,408	95.92%	(345,210)	1,011,820	35,387,228	99.70%
2017	35,253,119	34,012,836	96.48%	(69,236)	1,107,086	35,119,922	99.82%
2016	33,896,364	32,608,317	96.20%	(19,524)	1,211,040	33,819,357	99.83%
2015	33,407,499	31,903,905	95.50%	-	1,328,851	33,232,756	99.48%
2014	32,905,743	31,229,276	94.91%	(83,736)	1,551,278	32,780,554	99.87%
2013	32,537,416	30,854,728	94.83%	64,769	1,685,992	32,540,720	99.81%
2012	32,672,916	31,351,991	95.96%	32,561	1,324,039	32,676,030	99.91%
2011	32,104,079	30,836,144	96.05%	105,503	1,290,264	32,126,408	99.74%

Notes:

Source: City of Salem Finance Department

In 2020, the due date for the second half of Real Estate and Personal Property was extended to June 30th due to the COVID-19 pandemic.

TABLE 9
UNAUDITED

CITY OF SALEM, VIRGINIA
PRINCIPAL REAL ESTATE PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO

Taxpayer	2020			2011		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Lewis-Gale Medical Center LLC (1)	\$64,080,400	1	2.81%	\$ 36,118,600	1	1.85%
Yokohama Industries	14,410,100	2	0.63%	16,142,400	3	0.83%
Lowes/VALO LLC	13,451,800	3	0.59%	12,462,800	4	0.64%
Spartan Square	11,617,600	4	0.51%	7,944,600	9	0.45%
Carter Machinery/Carthy Corp/Mount Sinai	11,629,500	5	0.51%	7,586,000	10	0.39%
U.S. Food Service, Inc.	10,754,600	6	0.47%	10,524,500	6	0.54%
Chateau Riviera Apts/CSW Associates	9,995,800	7	0.44%	9,190,500	7	0.47%
General Electric	9,344,200	8	0.41%	10,665,400	5	0.55%
Salem Terrace/White Whale	8,682,900	9	0.38%	8,690,500	8	0.44%
Valley Properties and L & M Properties LLC	8,435,900	10	0.37%			
Lewis-Gale Clinic/HRT				22,095,300	2	1.12%

Note:

Source: City of Salem Real Estate Valuation Department

(1) In 2018, Lewis-Gale Medical Center LLC acquired the assets of Lewis-Gale Hospital HCA and Lewis Gale Clinic/HRT.

TABLE 10
UNAUDITED

CITY OF SALEM, VIRGINIA
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities	Business-Type Activities	Total Primary Government	Capital Lease Obligation
	General Obligation Bonds	General Obligation Bonds		
	(1)			
2020	\$ 60,686,620	\$ 39,296,513	\$ 99,983,133	\$ 99,520
2019	32,910,038	40,780,877	73,690,915	121,467
2018	30,897,265	41,669,640	72,566,905	198,016
2017	33,916,905	45,723,894	79,640,799	271,203
2016	36,971,375	49,665,950	86,637,325	341,175
2015	34,681,163	47,663,394	82,344,557	-
2014	37,640,582	49,258,943	86,899,525	-
2013	32,625,067	50,697,384	83,322,451	-
2012	25,470,726	53,677,900	79,148,626	-
2011	27,913,904	55,461,508	83,375,412	-

Fiscal Year	Total Taxable Assessed Value	Percentage of Estimated Actual Value of Taxable Property	Population	Bonded Debt Per Capita	Per Capita Personal Income	Percentage of Bonded Debt Per Capita to Per Capita Personal Income
	(2)		(3)		(3)	
2020	\$ 2,701,785,905	3.70%	25,301	\$ 3,952	\$ 52,248	8.00%
2019	2,600,807,782	2.83%	25,643	2,874	49,860	6.00%
2018	2,549,817,563	2.85%	25,862	2,806	48,384	6.00%
2017	2,501,620,017	3.18%	25,549	3,117	48,047	6.00%
2016	2,451,813,919	3.53%	25,432	3,407	45,577	7.00%
2015	2,428,048,133	3.39%	25,483	3,231	43,418	7.00%
2014	2,413,737,695	3.60%	25,299	3,435	42,288	8.00%
2013	2,393,085,987	3.48%	25,267	3,298	40,688	8.00%
2012	2,375,288,036	3.33%	25,145	3,148	39,866	8.00%
2011	2,359,267,321	3.53%	24,970	3,339	39,866	8.00%

Notes:

Source: City of Salem Finance Department

Details regarding the City's outstanding debt can be found in the notes to the financial statements in the City of Salem's Comprehensive Annual Financial Report. The report may be obtained from the City of Salem Finance Department, P.O. Box 869, Salem, VA 24153. The City is independent from any county, town, or other political subdivisions of the Commonwealth of Virginia. There is no overlapping general obligation debt or taxing powers.

(1) Outstanding debt for School Division is included with Governmental Activities.

(2) See Table 7 for actual value of taxable property.

(3) See Table 12 for population and per capita personal income.

CITY OF SALEM, VIRGINIA
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS

Fiscal Year	Assessed Value of Real Property	Debt Limit 10% of Assessed Value	Total General Obligation Bonds	Amount of Debt Applicable to Limit				Net Debt Applicable to Limit as a Percent of Debt Limit
				Enterprise Bonds	RVRA Supported Debt	Net Debt Applicable to Limit	Legal Debt Margin	
				(2)		(3)		
2020	\$ 2,283,843,346	\$ 228,384,335	\$ 99,983,133	\$ (39,296,513)	\$ (789,921)	\$ 59,896,699	\$ 168,487,636	26.23%
2019	2,197,986,008	219,798,601	73,690,915	(40,470,877)	(998,082)	31,911,956	187,886,645	14.52%
2018	2,144,111,245	214,411,125	72,566,905	(41,669,640)	(1,209,879)	29,687,386	184,723,739	13.85%
2017	2,098,953,697	209,895,370	79,640,799	(45,723,894)	(1,425,312)	32,491,593	177,403,777	15.48%
2016	2,064,259,382	206,425,938	86,637,325	(49,665,950)	-	36,971,375	169,454,563	17.91%
2015	2,052,563,692	205,256,369	82,344,557	(47,663,394)	-	34,681,163	170,575,206	16.90%
2014	2,044,415,909	204,441,591	86,899,525	(49,258,943)	-	37,640,582	166,801,009	18.41%
2013	2,039,729,559	203,972,956	83,322,451	(50,697,384)	-	32,625,067	171,347,889	15.99%
2012	2,015,454,684	201,545,468	79,148,626	(53,677,900)	-	25,470,726	176,074,742	12.64%
2011	2,011,649,345	201,164,935	83,375,412	(55,461,508)	-	27,913,904	173,251,031	13.88%

Notes:

Source: City of Salem Finance Department

(1) Includes real estate and public service corporation assessments from Table 7.

(2) The Enterprise Fund bonds are backed by the full faith and credit of the City but are expected to be paid from the revenue and receipts of the Enterprise Funds.

(3) The School Division debt is included in the amount of debt applicable to limit.

TABLE 12
UNAUDITED

CITY OF SALEM, VIRGINIA
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS

Fiscal Year Ended	Population	Total Personal Income (In Thousands)	Per Capita Personal Income	Public School Enrollment	Unemployment Rate
(1)	(2)	(3)	(3)	(4)	(5)
2020	25,301	\$ 6,254,966	\$ 52,248	3,882	7.7%
2019	25,643	5,962,802	49,860	3,872	2.9%
2018	25,862	5,785,780	48,384	3,889	3.4%
2017	25,549	5,758,037	48,047	3,843	4.1%
2016	25,432	5,435,865	45,577	3,751	4.0%
2015	25,483	5,159,100	43,418	3,797	5.2%
2014	25,299	4,984,547	42,288	3,770	5.2%
2013	25,267	4,789,030	40,688	3,823	6.6%
2012	25,145	4,672,291	39,866	3,867	6.5%
2011	24,970	4,672,291	39,866	3,892	6.1%

Notes:

- (1) Population, public school enrollment, and unemployment rate figures are based on fiscal years ending June 30. Per capita personal income figures are as of November 2019.
- (2) Population is based on intercensal estimates of the resident population for counties of Virginia: April 1, 2000 to July 1, 2010. U.S. Census Bureau, Population Division. Population for 2011 through 2020 was obtained from U.S. Census Bureau Population Estimates Program.
- (3) Bureau of Economic Analysis (BEA). Total personal income reported is for Roanoke County and the City of Salem. No data is available for the City of Salem only. Per capita personal income was computed using Census Bureau midyear population estimates.
- (4) Director of Business, School Division
- (5) Virginia Employment Commission

TABLE 13
UNAUDITED

CITY OF SALEM, VIRGINIA
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

Employer	2020			2011		
	Employees	Rank	Percentage of Total City Employment (1)	Employees	Rank	Percentage of Total City Employment (1)
Veterans Administration Medical Center	2,200	1	11.33%	1,950	1	8.81%
Lewis-Gale Hospital HCA	1,317	2	6.78%	1,419	2	6.41%
Virginia Department of Transportation	811	3	4.18%	768	4	3.47%
Yokohama Industries	711	4	3.66%	950	3	4.29%
Lewis-Gale Physicians	650	5	3.35%			
City of Salem Schools	570	6	2.94%	587	7	2.65%
City of Salem	498	7	2.56%	515	8	2.33%
Roanoke College	433	8	2.23%	481	9	2.17%
Integer	419	9	2.16%			
Carter Machinery	396	10	2.04%			
General Electric				750	5	3.39%
Liberty Medical				625	6	2.82%
U.S. Food Service, Inc.				431	10	1.95%

Notes:

Source: City of Salem Economic Development Department, Virginia Employment Commission

(1) Calculated using data provided by Virginia Employment Commission

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

Fiscal Year Ended	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), (7)	(3), (8)	(4)	(2)	(2)	
2020	3,931	3,810	3,882	3,860	3,652	622	N/A	N/A	0.3715
2019	3,962	3,836	3,872	3,876	3,676	584	\$11,349	\$12,931	0.3715
2018	3,953	3,872	3,889	3,906	3,709	586	11,038	12,548	0.3704
2017	3,852	3,775	3,843	3,818	3,625	527	11,017	12,171	0.3704
2016	3,808	3,716	3,751	3,752	3,585	514	10,858	11,745	0.3695
2015	3,815	3,774	3,797	3,813	3,636	528	10,844	11,523	0.3695
2014 (6)	3,799	3,761	3,772	3,796	3,628	505	11,057	11,242	0.3628
2013 (6)	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

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

2019	4,393
2018	4,429
2017	4,317
2016	4,285
2015	4,364
2014	4,361
2013	4,446
2012	4,411

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 (2011-2019)

(3) Superintendent's Annual Report Table 8 (2011-2019)

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

(5) Weldon Cooper Center at the University of Virginia will estimate school age population in Virginia. The latest estimate is as of July 1, 2019.

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

(7) End of year financial verification report

(8) Spring student record collection

TABLE 15
UNAUDITED

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

COURSE	2020		2019		2018		2017		2016		2015		2014		2013		2012		2011	
	SALEM	VA	SALEM	VA	SALEM	VA	SALEM	VA	SALEM	VA	SALEM	VA	SALEM	VA	SALEM	VA	SALEM	VA	SALEM	VA
Grade 3 English RLR	*	*	80	71	77	72	81	75	83	76	85	75	78	69	83	72	96	86	95	83
Grade 3 Mathematics	*	*	86	82	80	73	83	75	86	77	85	74	75	67	78	65	83	64	97	91
Grade 3 History	*	*	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	93	86	94	87	96	87	97	85
Grade 3 Science	*	*	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	88	83	92	84	96	90	98	90
Grade 4 English RLR	*	*	77	75	77	76	84	79	84	77	84	77	79	70	82	70	96	88	95	87
Grade 4 Mathematics	*	*	83	83	83	79	88	81	91	83	88	84	86	80	87	74	75	70	90	89
VA Studies	*	*	80	81	87	85	87	87	89	87	93	87	92	85	94	87	94	89	93	87
Grade 5 English RLR	*	*	77	78	83	80	83	81	88	81	83	79	82	73	84	73	91	89	94	89
Grade 5 English Writing	*	*	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	71	71	81	87	93	87	89	87
Grade 5 Mathematics	*	*	88	81	83	77	78	79	79	79	85	79	76	73	74	69	69	67	92	89
Grade 5 Science	*	*	79	79	85	79	79	79	83	81	86	79	81	73	75	75	94	88	92	87
Grade 6 English RLR	*	*	83	77	79	80	82	78	85	77	84	76	80	73	80	73	90	89	94	87
Grade 6 Mathematics	*	*	71	78	71	79	77	82	88	82	80	83	73	76	76	77	66	74	59	73
Grade 6 US History I	*	*	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	83	81	83	85	85	81	89	81
Grade 7 English RLR	*	*	80	79	80	81	88	82	87	82	91	81	82	76	93	74	94	88	98	89
Grade 7 Mathematics	*	*	70	78	65	69	74	71	84	72	85	72	74	65	68	61	67	58	91	77
Grade 7 US History II	*	*	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	84	81	77	82	85	84	84	85
Grade 8 English RLR	*	*	77	76	79	77	81	76	82	75	81	75	72	70	77	71	95	89	96	80
Grade 8 English Writing	*	*	78	70	77	73	77	73	78	71	76	72	72	70	80	71	95	88	94	88
Grade 8 Mathematics	*	*	75	77	63	71	72	74	69	73	86	74	77	67	72	61	67	60	93	82
Grade 8 Civics	*	*	79	82	85	86	87	87	87	87	92	86	83	83	83	85	92	84	92	89
Grade 8 Science	*	*	84	78	87	78	88	79	87	79	87	78	85	74	82	76	95	92	98	92
End of Course English RLR	*	*	91	86	91	87	91	87	91	89	91	89	93	90	92	89	95	94	95	94
End of Course English Writing	*	*	<	81	82	84	87	84	88	83	88	83	90	84	89	70	95	93	95	93
Algebra I	*	*	83	86	82	81	89	82	83	83	90	82	81	79	81	76	81	75	98	94
Algebra II	*	*	98	91	93	89	98	90	99	89	98	87	81	82	81	76	84	69	97	91
Geometry	*	*	83	83	80	77	91	78	86	80	90	80	86	77	73	76	84	74	94	87
Earth Science	*	*	91	81	84	81	93	82	97	84	93	83	91	83	87	83	97	90	93	89
Biology	*	*	86	83	89	82	90	82	89	84	92	84	89	83	91	83	97	92	94	90
Chemistry	*	*	91	88	93	89	96	89	98	88	100	88	95	87	97	86	99	93	99	93
World History I	*	*	82	80	92	82	93	85	95	84	98	85	93	85	91	84	97	84	88	81
World History II	*	*	57	81	89	84	95	87	95	86	94	87	96	86	91	85	92	85	88	82
World Geography	*	*	83	80	85	82	86	83	88	86	88	86	88	86	90	n/a	89	n/a	95	n/a
VAVUS History	*	*	72	68	89	84	92	86	91	86	90	87	96	87	95	86	96	85	92	83

Notes:

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

n/a: not applicable

< = A group below state definition for personally identifiable results

* Virginia Governor Ralph Northam issued Executive Order Fifty-Three closing all K-12 schools for the remainder of the 19-20 school year. No SOL testing took place.

TABLE 16
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
2020	157	1,134	1,116	1,051
2019	171	1,099	1,112	1,039
2018	173	1,108	1,095	1,044
2017	157	1,080	1,288	1,264
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

Note:

Source: Director of Instruction and Innovation

TABLE 17
UNAUDITED

CITY OF SALEM SCHOOL DIVISION
ACCREDITATION STATUS
2019-2020 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: Director of Instruction and Innovation

TABLE 18
UNAUDITED

CITY OF SALEM SCHOOL DIVISION
FULL-TIME EQUIVALENT POSITIONS
LAST TEN FISCAL YEARS

Positions	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Board Member	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Administrator	9.1	9.1	8.5	9.7	9.5	10.3	9.7	9.8	8.0	8.0
Principal	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Assistant Principal	8.5	9.5	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Teachers	307.7	306.6	303.1	300.5	302.1	307.1	309.6	315.1	308.0	312.3
Instructional Assistants	74.3	71.6	72.1	71.7	65.1	54.3	49.7	51.5	75.0	84.5
Secretary/Specialist	24.9	22.8	21.6	21.7	21.4	21.8	25.2	23.8	21.7	21.6
Attendance & Health	10.5	10.3	10.5	10.4	10.5	10.6	10.6	10.3	14.0	14.0
Transportation	30.6	30.0	30.4	27.5	26.2	27.1	31.4	31.5	31.1	28.6
Maintenance	39.3	38.0	37.3	37.6	37.3	38.5	39.3	41.0	41.5	41.0
Technology	10.7	10.8	10.8	9.8	9.7	10.0	8.8	9.0	11.0	10.8
School Nutrition	6.0	10.8	14.6	20.0	20.0	27.0	28.8	28.1	29.1	30.2
Total	532.6	530.5	528.9	528.9	521.8	526.7	533.1	540.1	559.4	571.0

Note:

Source: Annual School Report

TABLE 19
UNAUDITED

**CITY OF SALEM SCHOOL DIVISION
TEACHER SALARY INFORMATION
LAST TEN FISCAL YEARS**

Degree	Level	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Bachelors	Minimum	\$42,714	\$42,000	\$42,000	\$42,000	\$42,000	\$42,000	\$41,000	\$41,000	\$40,796	\$40,392
	Maximum	65,613	64,516	63,469	61,710	60,328	60,179	59,736	60,482	57,771	57,914
Masters	Minimum	46,554	45,776	45,776	45,776	45,776	45,720	44,647	44,647	44,236	43,797
	Maximum	71,182	69,958	68,494	66,035	64,104	63,899	63,383	64,129	61,211	61,319
Doctorate	Minimum	48,406	47,597	47,597	47,597	47,597	47,514	46,406	46,406	45,896	45,437
	Maximum	73,818	72,584	70,919	68,122	65,925	65,693	65,142	65,888	62,871	62,959
Average Salary		\$58,760	\$57,980	\$58,418	\$57,387	\$55,776	\$55,352	\$55,115	\$56,206	\$54,492	\$53,186
Virginia Average Salary		\$60,265	\$58,714	\$56,861	\$56,351	\$54,891	\$54,486	\$53,818	\$52,942	\$52,093	\$51,478

Note:

Source: Salary Scales and Annual School Report
N/A Not available

CITY OF SALEM SCHOOL DIVISION
EXPENDITURES BY FUNCTION - GENERAL FUND
LAST TEN FISCAL YEARS

Function	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
<i>Current:</i>			(1)							
Central administration	\$ 2,007,754 4.59%	\$ 1,734,048 3.99%	\$ 1,587,712 3.75%	\$ 1,608,371 3.92%	\$ 1,593,852 3.97%	\$ 1,658,908 4.13%	\$ 1,756,494 4.26%	\$ 1,664,724 4.10%	\$ 1,414,020 3.77%	\$ 1,461,269 3.71%
Centralized instruction costs	4,074,573 9.32%	4,053,997 9.33%	3,768,680 8.89%	3,795,451 9.25%	3,687,727 9.19%	3,832,984 9.53%	3,711,762 9.01%	3,499,585 8.61%	3,008,025 8.02%	3,136,131 7.96%
Instructional costs:	35,006,694 80.07%	34,906,585 80.31%	34,387,919 81.14%	30,994,362 75.52%	30,374,830 75.73%	30,504,728 75.86%	30,340,948 73.64%	30,554,444 75.17%	27,890,640 74.33%	27,801,985 70.59%
Attendance and health services	1,136,256 2.60%	1,088,768 2.50%	1,085,034 2.56%	1,049,120 2.56%	1,001,682 2.50%	988,485 2.46%	889,226 2.16%	893,663 2.20%	838,160 2.23%	853,611 2.17%
Transportation	1,390,916 3.18%	1,577,945 3.63%	1,410,894 3.33%	1,317,610 3.21%	1,269,037 3.16%	1,269,076 3.16%	1,529,625 3.71%	1,282,845 3.16%	1,297,167 3.46%	1,426,223 3.62%
Federal and state grants programs	- 0.00%	- 0.00%	- 0.00%	2,142,407 5.22%	2,027,663 5.06%	1,958,910 4.87%	2,974,412 7.22%	2,203,948 5.42%	2,824,695 7.53%	4,456,948 11.32%
Non-departmental	- 0.00%	- 0.00%	- 0.00%	- 0.00%	- 0.00%	- 0.00%	- 0.00%	548,520 1.35%	250,000 0.67%	250,000 0.63%
<i>Capital lease debt service:</i>										
Principal	95,293 0.22%	104,768 24.00%	137,071 0.32%	131,405 0.32%	142,981 0.36%	- 0.00%	- 0.00%	- 0.00%	- 0.00%	- 0.00%
Interest	9,475 0.02%	- 0.00%	5,911 0.01%	965 0.00%	10,612 0.03%	- 0.00%	- 0.00%	- 0.00%	- 0.00%	- 0.00%
Total expenditures	\$ 43,720,961	\$ 43,466,111	\$ 42,383,221	\$ 41,039,691	\$ 40,108,384	\$ 40,213,091	\$ 41,202,467	\$ 40,647,729	\$ 37,522,707	\$ 39,386,167

Notes:

Source: City of Salem Finance Department

(1) Beginning in 2018, the School Division included expenditures for federal and state grants programs in the instructional costs function.

CITY OF SALEM SCHOOL DIVISION
CAPITAL ASSET STATISTICS
LAST TEN FISCAL YEARS

School / Statistic	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
East Salem Elementary (1962)										
Square feet	56,308	56,308	56,308	56,308	56,308	56,308	53,714	53,714	53,714	53,714
Capacity (students)	500	500	500	500	500	500	500	500	500	500
Enrollment	406	397	387	413	419	416	414	403	410	405
G W Carver Elementary (1939)										
Square feet	83,000	83,000	83,000	83,000	83,000	83,000	83,000	83,000	83,000	83,000
Capacity (students)	600	600	600	600	600	600	600	600	600	600
Enrollment	431	422	431	462	461	444	423	427	482	478
South Salem Elementary (2013)										
Square feet	88,000	88,000	88,000	88,000	88,000	88,000	88,000	88,000	49,000	49,000
Capacity (students)	600	600	600	600	600	600	600	600	450	450
Enrollment	401	419	420	397	394	412	408	409	427	450
West Salem Elementary (1952)										
Square feet	73,000	73,000	73,000	73,000	73,000	73,000	73,000	73,000	73,000	73,000
Capacity (students)	450	450	450	450	450	450	450	450	450	450
Enrollment	460	426	439	427	396	423	406	426	413	408
Andrew Lewis Middle (1933)										
Square feet	183,000	183,000	183,000	183,000	183,000	183,000	183,000	183,000	183,000	183,000
Capacity (students)	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Enrollment	916	942	914	893	898	901	924	905	878	906
Salem High School (1977)										
Square feet	220,812	220,812	220,812	220,812	220,812	220,812	220,812	220,812	220,812	220,812
Capacity (students)	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400
Enrollment	1,258	1,281	1,278	1,188	1,170	1,187	1,191	1,215	1,249	1,257
Central Administration Office (1958)										
Square feet	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000
AIMS Alternative Education Center (1965)										
Square feet	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500

Note:

Source: City of Salem School Division Business Office

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COMPLIANCE SECTION

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 School Division (the "School Division"), a component unity of the City of Salem, Virginia, as of and for the year ended June 30, 2020, 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 16, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School Division's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the School Division's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. **Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School Division's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.**

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 16, 2020

CITY OF SALEM SCHOOL DIVISION
SUMMARY OF COMPLIANCE MATTERS
June 30, 2020

As more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the School Division's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia:

Budget and Appropriation Laws
Cash and Investment Laws
Conflicts of Interest Act
Local Retirement Systems
Procurement Laws
Uniform Disposition of Unclaimed Property Act

State Agency Requirements:

Education