



CITY OF SALEM, VIRGINIA

Annual Comprehensive Financial Report

Year Ended June 30, 2025

CITY OF SALEM, VIRGINIA



ANNUAL COMPREHENSIVE FINANCIAL REPORT YEAR ENDED JUNE 30, 2025

DEPARTMENT OF FINANCE

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INTRODUCTORY SECTION



The Introductory Section of the City of Salem, Virginia's Annual Comprehensive Financial Report contains the Letter of Transmittal, which presents an overview of the profile of the City of Salem government, the local economic condition and outlook, major initiatives and accomplishments, and financial policies and financial planning. Also included in this section are an organizational chart and the Certificate of Achievement for Excellence in Financial Reporting awarded by the Government Finance Officers Association of the United States and Canada (GFOA) for the Annual Comprehensive Financial Report for the fiscal year ended June 30, 2024. It is the highest form of recognition in governmental financial reporting.

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CITY OF SALEM, VIRGINIA

November 24, 2025

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

We are pleased to present the City of Salem, Virginia (City) Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2025, as required by state law. This report was prepared by the Department of Finance in accordance with the standards of financial reporting as prescribed by the Governmental Accounting Standards Board (GASB). Brown, Edwards & Company, L.L.P., has issued unmodified opinions on the City's basic financial statements as of and for the fiscal year ended June 30, 2025.

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

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

Management's discussion and analysis (MD&A) beginning on page 18 provides a narrative introduction, overview, and analysis to assist users in interpreting the basic financial statements. This letter is meant to complement the MD&A and should be read in conjunction with it.

Profile of the Government

Salem is located in Virginia's Blue Ridge Mountains, approximately 190 miles west of Richmond and 250 miles southwest of Washington, DC. The City lies at the region's crossroads of major rail and highway systems, making it a part of the principal trade, industrial, transportation, medical and cultural center of western Virginia.

Chartered by the Commonwealth of Virginia as a town in 1806 and as a city in 1968, Salem encompasses a land area of 14.4 square miles. The City's 2025 population, 25,346, accounts for approximately 8.1% of the population in its metropolitan statistical area (MSA), which includes the neighboring City of Roanoke and Counties of Botetourt, Craig, Franklin, and Roanoke.

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

The financial reporting entity reflected in the Annual Comprehensive Financial Report includes all funds of the City as well as its component units. Component units are legally separate entities for which the primary government is financially accountable. The City's reporting entity includes two discretely presented component units, the City of Salem School Division and the Economic Development Authority of the City of Salem (EDA). The discretely presented component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position and results of operations from that of the primary government. Additional information concerning these legally separate organizations can be found in Note 1 to the financial statements.

There are several commissions and authorities where the City's accountability is limited to appointments to, or seats on, the respective boards. The City does not exercise financial or administrative control over these entities, so they are excluded from this report.

Local Economic Condition and Outlook

Salem continues to offer a strong environment and a high quality of life that supports both families and businesses. The City has long maintained stable property values, consistent tax rates, a strong public school system, and access to a skilled regional workforce within a market where the cost of doing business remains highly competitive. As of the second quarter of 2025, the region's cost-of-living index was 9.3% below the national average (Cost of Living Index, Q2 2025), offering a clear advantage to employers choosing to locate and grow in Salem.

As of June 2025, Salem's unemployment rate stood at 3.8%, an increase of 0.6% from the prior year. Despite this rise, Salem continues to outperform the national unemployment rate of 4.4% and remains closely aligned with the Virginia state average of 3.9%.

A key contributor to Salem's economic resilience is its diverse industry base, which includes healthcare, manufacturing, higher education, retail trade, and government. Local manufacturers produce a broad range of products—from high-tech medical devices and biopharmaceuticals to tires, steel, railroad equipment, and concrete materials.

Healthcare remains a cornerstone of Salem's economy. The Salem Veterans Affairs Medical Center is the City's largest employer with more than 1,700 employees, followed by LewisGale Medical Center, part of the HCA Health System, with over 1,200 employees. Over the past two years, the City has celebrated three state-supported business announcements, totaling more than \$70 million in capital investment and the creation of over 190 new jobs, with average annual wages exceeding \$50,000.

Downtown Salem continues to attract private investment and revitalization. Since the adoption of the Downtown Plan and Façade Grant Program in 2016, these tools have supported adaptive reuse of historic structures and reinvestment in key commercial properties. Recent public improvements include updated streetscaping, landscaping, and lighting throughout the downtown area. In fiscal year 2025, Phase 4 improvements from Thompson Memorial Drive to North Market Street were completed. Engineering is now underway for Phase 5, which extends from White Oak Alley to North Market Street and is targeted for completion in fiscal year 2026.

Salem experienced continued momentum in new and existing business activity in fiscal year 2025, further contributing to the City's growing economic vitality. Notable examples include:

- QualiChem Inc. will invest \$9 million to expand operations into a new 48,500-square-foot facility, creating 12 new jobs. The company is a leading producer of metalworking fluids used in the production and fabrication of metal components.
- Developers Joe Thompson and Ed Walker partnered to redevelop the former Valleydale meat-packing site. The \$50 million project will include three new multi-family buildings totaling over 300 upscale apartments. Amenities will feature a rooftop lounge, a two-story club room, a state-of-the-art fitness center, pickleball courts, a resort-style infinity pool, a game room with a sports simulator, a coworking lounge, meeting space, outdoor gathering areas, and fenced dog parks. The first building has reached 60% capacity, and groundwork has begun on the remaining two. The City has committed \$1.5 million to streetscape and utility improvements in the area.
- Novonesis, a global biotechnology leader specializing in enzymes and microbial BioSolutions, announced a \$5 million expansion at its Salem facilities to enhance spore production. The 18-month investment will upgrade three of its five local facilities and create five new jobs.
- Integer, a global medical contract development and manufacturing company, will expand its Salem operations over the next five years. The company plans to lease an additional facility to increase production of catheter components, adding 83 new jobs.
- Wawa, the Pennsylvania-based convenience store chain, announced its expansion into Southwest Virginia with a new Salem location on West Main Street, scheduled to open in 2026.
- Roanoke College has continued construction on a new \$30 million facility. Phase One is expected to be completed in fall 2026.
- Shrewd Outdoors, a 12,000-square-foot experiential retail store located on Main Street, officially opened, offering a wide selection of gear and expert support for archery, hiking, trail running, and other outdoor activities. The store has created 10 new jobs in downtown Salem.

In addition to these projects, fiscal year 2025 saw the opening of several locally owned retail and restaurant establishments. Several national chains also announced expansion plans and began construction in Salem, with openings anticipated in fiscal year 2026. Examples include 7 Brew, Cook Out, and First Watch.

With most developable land already built out, the City has prioritized strategic partnerships to support future growth. As a founding member of the Western Virginia Regional Industrial Facility Authority (WVRIFA), Salem works collaboratively with neighboring localities to expand regional development opportunities. One key project is Wood Haven Technology Park, a 109-acre site near the intersection of I-81 and I-581. Fully graded by the end of 2022, the site has since seen a significant increase in interest from manufacturers considering investments ranging from tens to hundreds of millions of dollars.

The City acquired a 12-acre site off Mill Lane, adjacent to the Southside Drive industrial park. This property was secured to retain local control over future commercial development. The Economic Development Department is actively marketing the site and conducting engineering analysis to prepare it for investment.

As permitted under the Code of Virginia, the City and its Economic Development Authority (EDA) may enter into performance-based agreements with qualifying businesses. These agreements, which may include grant funding, are carefully structured to ensure public investment yields long-term returns in the form of new jobs, real estate improvements, and capital investment.

Major Initiatives and Accomplishments

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

Salem students demonstrated high levels of performance in academic, extracurricular, and athletic activities. All six Salem schools were fully accredited by the Virginia Department of Education. The City of Salem School Division has one of the highest on-time graduation rates in the area at 93.4%. Approximately 78% of Salem High School graduates attend a 2-year or 4-year college or university.

Renovations at Fire Station #2 were underway in fiscal year 2025, which were a two-part process with the addition of an auxiliary building and station renovations. The on-site auxiliary building is heated which allows for the storage of emergency vehicles and houses the department's second personal protective gearing washing machine. This building will provide needed storage space for the swift water and technical rescue assets. The station renovations included the replacement of front and rear concrete pads, improvements to the interior of the station to include sound deafening windows, new air conditioning and heating systems, renovated restroom, renovated dayroom, renovations of two sleeping quarters and asbestos abatement. This renovation will replace original systems that were 50 years or older.

The jury room at the Salem City Courthouse was expanded in fiscal year 2025. Restrooms were renovated and a small kitchenette area was added. Technology upgrades, construction of a fence for added security and a roof over the walkway from the Courthouse to the jury room were also completed.

Work continued on the Colorado Street bridge replacement project. Construction was completed in the fall of 2025. Replacement of the Apperson Drive bridge began in fiscal year 2025 and is expected to be complete by the end of December 2026. The estimated cost of the project is \$9 million.

Substantial water infrastructure work was done in fiscal year 2025. Due to frequent line failures, two major water line replacement projects were completed. Approximately 4,700 feet of aging galvanized water pipe was replaced with new 6-inch water mains to enhance system durability and fire flow capacity. The projects also included installation of copper service lines, fire hydrants, valves and related appurtenances.

To supplement flow to the water treatment plant and ensure a reliable supply during drought conditions, two new wells are being constructed to produce up to an additional 3 million gallons of water per day. The project is scheduled for completion in November 2025.

The Franklin Street water tank replacement project was completed in fiscal year 2025. A 500,000 gallon painted steel water tank is being replaced with a 256,000 gallon bolted glass-fused-to-steel storage tank. After evaluating the condition of the old tank, it was determined that a complete replacement with a smaller tank was comparable in price to rehabilitating the original structure which was constructed in 1976. The new tank will not require painting, is expected to have a lower overall life cycle cost and will reduce the risk of water quality issues.

Investment in Salem Civic Center infrastructure included work on a roof replacement project, which began in fiscal year 2025. Equipment purchases included an outdoor electronic message center marquee, a weapons detection system and a scoreboard for the arena.

Salem hosts hundreds of high school, collegiate and amateur tournaments, and championships. In fiscal year 2025, the City hosted Old Dominion Athletic Conference (ODAC) men's and women's basketball, softball and indoor track. Virginia High School League (VHSL) championships in volleyball, football, wrestling, baseball, softball and soccer were held. Salem also hosted the Central Intercollegiate Athletic Association (CIAA) championships in football and cross country. The City, in conjunction with ODAC and Roanoke College, hosted the NCAA Division II and III women's lacrosse championship, Division III women's and men's volleyball along with DIII women's basketball. While all NCAA events are streamed, women's basketball and volleyball were streamed on ESPN+ with increased exposure for Salem. Approximately

29,000 people traveled to Salem to attend events in fiscal year 2025 with an estimated economic impact of \$8 million.

The NCAA awarded Salem and its long-time partners, ODAC and Roanoke College, fifteen national championship events beginning in fiscal year 2023, including Division III championships in men's and women's soccer, women's basketball, softball, lacrosse and men's and women's volleyball. The historic 50th annual Amos Alonzo Stagg Bowl, NCAA Division III football championship, was held in Salem in December 2023 and returns January 2027. Salem previously hosted the Stagg Bowl for 25 consecutive years, from 1993 to 2017. By the end of fiscal year 2025, the City celebrated hosting 108 NCAA National Championships, a feat unmatched in the country.

Financial Policies and Financial Planning

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

City Council adopted a formal fund balance policy to establish guidelines to maintain a prudent level of financial resources to ensure that a strong financial position is maintained. The policy establishes a minimum acceptable level of unassigned fund balance as 10% of the sum of General Fund, Debt Service Fund and School Division operating expenditures, net of the General Fund transfer to School Division. As of June 30, 2025, unassigned fund balance is 41.3%, well in excess of this minimum.

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

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

In fiscal year 2024, the City adopted a Capital Planning and Reserve Policy to define guidelines and goals for capital planning and capital asset replacement reserves. The policy defines how annual contributions to capital reserve are calculated, while maintaining a healthy fund balance in the General Fund. The City prepares a six-year capital improvement plan, which identifies and prioritizes major City projects and includes cost estimates and potential funding sources. The City utilizes this plan as a tool for capital planning and use of capital reserve. The City closely monitors available funding and proceeds with capital purchases only as funds become available. The City may issue debt obligations to finance the construction or acquisition of capital assets or major renovations to existing capital assets within the guidelines established in the debt management policy.

Independent Audit

Virginia law and the Charter of the City of Salem require that the financial statements of the City be audited by a certified public accountant. Brown, Edwards & Company, L.L.P., has performed an annual audit of the basic financial statements and other supplementary information contained within the City's Annual Comprehensive Financial Report. Their audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the

Specifications for Audits of Counties, Cities and Towns and Specifications for Audits of Authorities, Boards, and Commissions issued by the Auditor of Public Accounts of the Commonwealth of Virginia. The report of the independent auditor, which includes their opinion on the financial statements of the City, is contained in the Financial Section of this report. Other auditor's reports are included in the Compliance Section.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) has awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City for its Annual Comprehensive Financial Report for 2024. This represents the thirty-seventh year Salem has earned this distinction. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized annual comprehensive financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. We believe this report conforms to the Certificate of Achievement Program requirements and standards and are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

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

Respectfully submitted,



Christopher J. Dorsey
City Manager



Rosemarie B. Jordan
Director of Finance

**CITY OF SALEM, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
JUNE 30, 2025**

MEMBERS OF CITY COUNCIL

Renée F. Turk	Mayor
Anne Marie Green	Vice-Mayor
Byron R. Foley	Member
H. Hunter Holliday, III	Member
John E. Saunders	Member

ELECTED OFFICERS

Danielle C. Crawford	Treasurer
Kristie D. Chittum	Commissioner of the Revenue
Thomas E. Bowers	Commonwealth's Attorney
Gary Chance Crawford	Clerk of Circuit Court
Christopher G. Shelor	City Sheriff

GENERAL CITY GOVERNMENT

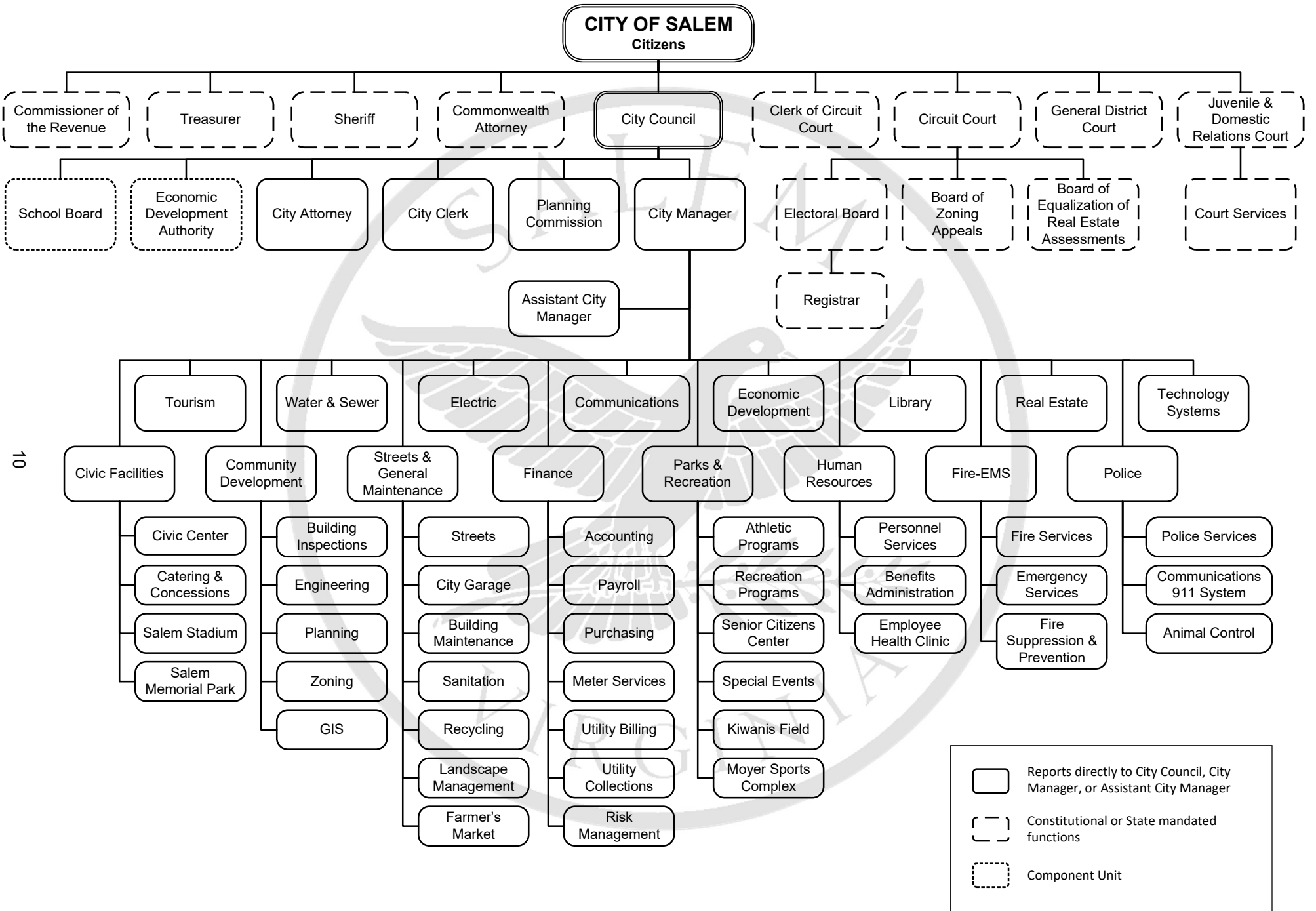
Christopher J. Dorsey	City Manager
H. Robert Light	Assistant City Manager
Rosemarie B. Jordan, CPA	Director of Finance
Jim H. Guynn, Jr.	City Attorney
Beth A. Rodgers	Director of Human Resources
Patrick W. Morton	Director of Technology Systems
Derek M. Weeks	Police Chief
Stephen G. Simon	Fire Chief
Charles E. Van Allman, Jr.	Director of Community Development
Todd W. Sutphin.	Director of Streets and General Maintenance
John P. Shaner	Director of Parks and Recreation
Ann G. Tripp	Library Director
Benjamin E. Leeson	Director of Elections
A. K. Briele, III	Director of Electric Department
Larado M. Robinson	Director of Water and Sewer Department
Justin W. Kuzmich	Real Estate Assessor
Troy D. Loving	Building Official
Thomas J. Miller	Director of Economic Development
Wendy S. Delano	Director of Civic Facilities
R. Carey Harveycutter, Jr.	Director of Tourism
Mike Stevens	Director of Communications

MEMBERS OF SCHOOL BOARD

John A. (Andy) Raines	Chairman
Teresa E. Sizemore	Vice Chairman
Stacey G. Danstrom	Member
Macel H. Janoschka	Member
Christopher M. King	Member

SCHOOL ADMINISTRATION

Dr. Curtis N. Hicks	Superintendent of Schools
Jennifer P. Dean	Assistant Superintendent
Kirstine M. Barber	Executive Director of Human Resources
Mandy C. Hall	Chief Financial Officer
Dr. Randy L. Jennings	Director of Student Services
Dr. Forest I. Jones	Director of Administrative Services
Mark A. Thompson	Director of Technology and Data Management
Rosemarie B. Jordan, CPA	Director of Finance





Government Finance Officers Association

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

Presented to

**City of Salem
Virginia**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2024

Christopher P. Morill

Executive Director/CEO

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FINANCIAL SECTION



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

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business -type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Salem, Virginia (the "City"), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2025, and the respective changes in financial position and, where applicable, cash flows thereof and the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of Counties, Cities, and Towns and the Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As described in Note 21 to the financial statements, in 2025, the City adopted new accounting guidance, GASB Statement No. 101, *Compensated Absences*. Our opinion is not modified with respect to this matter.



Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.



We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management, and, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section, other supplemental schedules, and statistical section, but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the



basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2025 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 24, 2025

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2025**

The following discussion and analysis of the City of Salem, Virginia's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2025. It should be read in conjunction with the transmittal letter and the City's basic financial statements.

FINANCIAL HIGHLIGHTS

- As of June 30, 2025, the primary government had \$291.3 million in total net position, an increase of \$27.3 million from prior year. Unrestricted net position available to fund future expenses was \$90.5 million or 31.1% of total net position.
- As of June 30, 2025, the governmental activities had \$151.3 million in total net position, which increased \$20.6 million from prior year. Unrestricted net position was \$31.6 million or 20.9% of total net position.
- As of June 30, 2025, the business-type activities had \$140 million in total net position, an increase of \$6.8 million from prior year. Unrestricted net position available to fund future expenses was \$58.9 million or 42.1% of total net position.
- As of June 30, 2025, the General Fund had \$68.6 million in total fund balance, which increased by \$3.3 million from prior year. Unassigned fund balance was \$60 million or 87.5% of total fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The government-wide financial statements begin on page 34 and include the Statement of Net Position and the Statement of Activities. These statements provide information about the City as a whole using the accrual basis of accounting, which is the method used by most private-sector enterprises. All current year revenues and expenses are reported in the Statement of Activities regardless of when cash is received or paid. These statements allow readers to answer the question, "Is the City's financial position, as a whole, better or worse as a result of the year's activities?"

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

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

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

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2025**

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

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

Fund Financial Statements

The fund financial statements begin on page 36 and provide detailed information about the most significant funds, rather than the City as a whole. The City has three types of funds:

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

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

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

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

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

A comparative analysis of government-wide information follows beginning on the next page.

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2025**

Summary of Net Position

The following table presents a condensed summary of net position:

Summary of Net Position (In Millions)								
	Governmental Activities		Business-type Activities		Total Primary Government		Component Units	
	2025	2024	2025	2024	2025	2024	2025	2024
Current and other assets	\$ 118.2	\$ 112.7	\$ 81.9	\$ 77.6	\$ 200.1	\$ 190.3	\$ 37.7	\$ 39.3
Capital assets, net	141.1	131.2	104.3	101.5	245.4	232.7	71.8	73.1
Total assets	259.3	243.9	186.2	179.1	445.5	423.0	109.5	112.4
Deferred outflows of resources	10.8	7.8	3.1	2.3	13.9	10.1	11.4	10.7
Current and other liabilities	8.9	9.6	10.2	8.8	19.1	18.4	16.6	17.2
Long-term liabilities	101.3	107.0	36.7	38.1	138.0	145.1	40.0	43.9
Total liabilities	110.2	116.6	46.9	46.9	157.1	163.5	56.6	61.1
Deferred inflows of resources	8.6	4.4	2.4	1.3	11.0	5.7	6.6	4.4
Net investment in capital assets	113.8	100.3	81.1	75.2	194.9	175.5	71.7	73.0
Restricted	5.9	7.6	-	-	5.9	7.6	1.4	0.8
Unrestricted	31.6	22.8	58.9	58.0	90.5	80.8	(15.4)	(16.2)
Total net position	\$ 151.3	\$ 130.7	\$ 140.0	\$ 133.2	\$ 291.3	\$ 263.9	\$ 57.7	\$ 57.6

The primary government net position increased from \$263.9 million, as restated, to \$291.3 million. Net position of governmental activities increased \$20.6 million, and net position of business-type activities increased \$6.8 million. A detailed description of the changes in revenues and expenses that create the differences in net position is discussed in the next section. Beginning net position was restated due to the implementation of GASB Statement 101, *Compensated Absences*.

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

The primary government's unrestricted net position, the portion of net position that can be used to finance the daily operations of the City, was \$90.5 million. Debt totaling \$792,000 issued for Civic Center improvements is being repaid by governmental activities while the related asset is recorded in business-type activities. The City also assumed \$31.3 million of debt including premiums issued for school improvements while the School Division recorded the related asset. As such, \$32.1 million is included in governmental activities long-term liabilities, which directly reduced unrestricted net position.

Net position is reported as restricted when constraints on asset use are externally imposed by creditors, grantors, contributors, regulators, or are imposed by law through constitutional provisions or enabling legislation. The City had restricted net position totaling \$5.9 million as of June 30, 2025, for governmental activities. Approximately \$3.3 million in state funding was received, but not yet spent, on highway maintenance. Federal and state grant funding totaling \$605,000 was received, but not yet spent, for fire programs, asset forfeiture and four for life grants. Unspent donations totaling \$234,000 were restricted for law enforcement and public safety programs. Opioid settlement funds totaling \$1.8 million were also restricted.

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2025**

As of June 30, 2025, the component units had \$57.7 million in total net position, an increase of \$71,000. Unrestricted net position (deficit) available to fund future expenses was (\$15.4) million. Net investment in capital assets was \$71.7 million, a decrease of \$1.3 million. Restricted net position was \$1.4 million.

Summary of Changes in Net Position

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

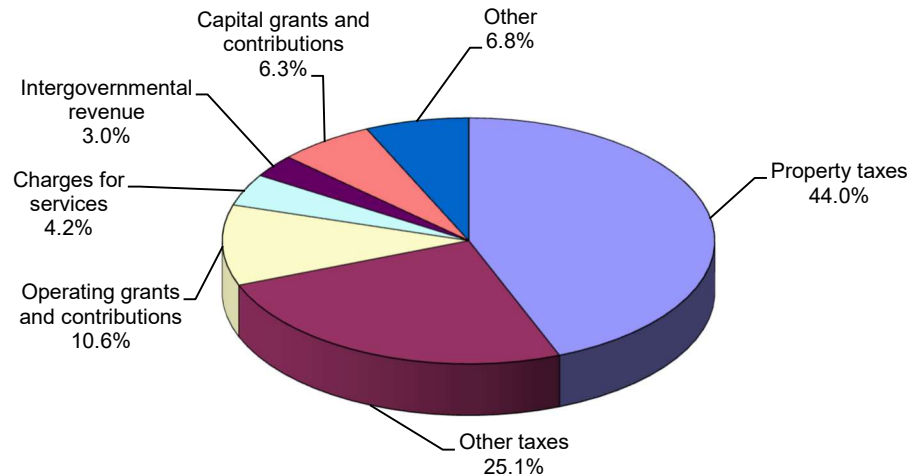
Summary of Changes in Net Position (In Millions)								
	Governmental Activities		Business-type Activities		Total Primary Government		Component Units	
	2025	2024	2025	2024	2025	2024	2025	2024
Revenues								
<i>Program Revenues:</i>								
Charges for services	\$ 5.2	\$ 5.7	\$ 72.1	\$ 66.3	\$ 77.3	\$ 72.0	\$ 2.0	\$ 1.9
Operating grants and contributions	12.9	12.1	-	-	12.9	12.1	18.3	18.5
Capital grants and contributions	7.7	4.6	-	-	7.7	4.6	-	0.8
<i>General Revenues:</i>								
Property taxes	53.6	49.0	-	-	53.6	49.0	-	-
Local sales and use taxes	9.8	9.7	-	-	9.8	9.7	-	-
Business license taxes	8.0	7.2	-	-	8.0	7.2	-	-
Meals taxes	6.8	6.8	-	-	6.8	6.8	-	-
Utility taxes	1.2	1.2	-	-	1.2	1.2	-	-
Lodging taxes	1.9	1.9	-	-	1.9	1.9	-	-
Other taxes	2.8	2.8	-	-	2.8	2.8	-	-
Intergovernmental revenue	3.6	9.2	-	-	3.6	9.2	-	-
Investment earnings	7.3	8.3	0.2	0.1	7.5	8.4	0.6	0.4
Gain on disposal of capital assets	-	0.1	-	-	-	0.1	-	-
Payments from City of Salem	-	-	-	-	-	-	24.2	24.1
State aid	-	-	-	-	-	-	21.1	19.3
Other	1.0	0.9	-	0.2	1.0	1.1	0.7	1.0
Total revenues	121.8	119.5	72.3	66.6	194.1	186.1	66.9	66.0
Expenses								
General government	11.8	10.3	-	-	11.8	10.3	-	-
Judicial administration	3.0	2.8	-	-	3.0	2.8	-	-
Public safety	24.0	22.1	-	-	24.0	22.1	-	-
Public works	15.8	12.4	-	-	15.8	12.4	-	-
Health and welfare	7.7	6.7	-	-	7.7	6.7	-	-
Education	23.8	24.1	-	-	23.8	24.1	65.9	64.8
Parks, recreation and cultural	9.9	7.8	-	-	9.9	7.8	-	-
Community development	4.3	3.2	-	-	4.3	3.2	0.9	0.4
Interest	1.5	1.8	-	-	1.5	1.8	-	-
Electric	-	-	46.2	44.5	46.2	44.5	-	-
Water and sewer	-	-	12.3	11.3	12.3	11.3	-	-
Civic center	-	-	5.4	5.9	5.4	5.9	-	-
Catering and concessions	-	-	1.0	0.9	1.0	0.9	-	-
Total expenses	101.8	91.2	64.9	62.6	166.7	153.8	66.8	65.2
Excess before transfers	20.0	28.3	7.4	4.0	27.4	32.3	0.1	0.8
Transfers	0.6	(2.7)	(0.6)	2.7	-	-	-	-
Increase in net position	20.6	25.6	6.8	6.7	27.4	32.3	0.1	0.8
Net position, beginning*	130.7	105.1	133.2	126.5	263.9	231.6	57.6	56.8
Net position, ending	\$ 151.3	\$ 130.7	\$ 140.0	\$ 133.2	\$ 291.3	\$ 263.9	\$ 57.7	\$ 57.6

* Restated, due to implementation of the guidance in GASB Statement 101, *Compensated Absences*

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2025**

Governmental Activities – Revenues

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



Property taxes, which were 44% of total governmental activities revenue, include real estate tax, the local portion of personal property tax, machinery and tools tax and public service corporation taxes. Property taxes in total increased \$4.6 million or 9.4% from the previous year. Current year real estate tax revenue was up approximately \$3.3 million or 9.9% from the prior year due to higher assessments and new construction. In fiscal year 2025, vehicle values remained relatively flat but tangible business property assessments increased which resulted in growth of \$863,000 or 7.6% in current year personal property tax revenue. Machinery and tools tax increased \$174,000 or 5%. Public service corporation tax was up \$356,000.

Intergovernmental revenue not restricted, which was 3% of total governmental activities revenue, decreased \$5.6 million. The City was awarded \$31.2 million in American Rescue Plan Act (ARPA) funding. In fiscal year 2024, the City recognized the remaining \$5.3 million in ARPA revenue to cover the amount expended on general government services.

Capital grants and contributions, which comprised 6.3% of governmental activities revenue, was up \$3 million. Reimbursement for the Colorado Street bridge replacement project was higher in the Public Works function. In the Community Development function, grant reimbursements were higher for downtown improvement projects.

Unrestricted investment earnings, which comprised 6% of governmental activities revenue, decreased \$1 million from the previous year. Declining interest rates resulted in lower interest earnings.

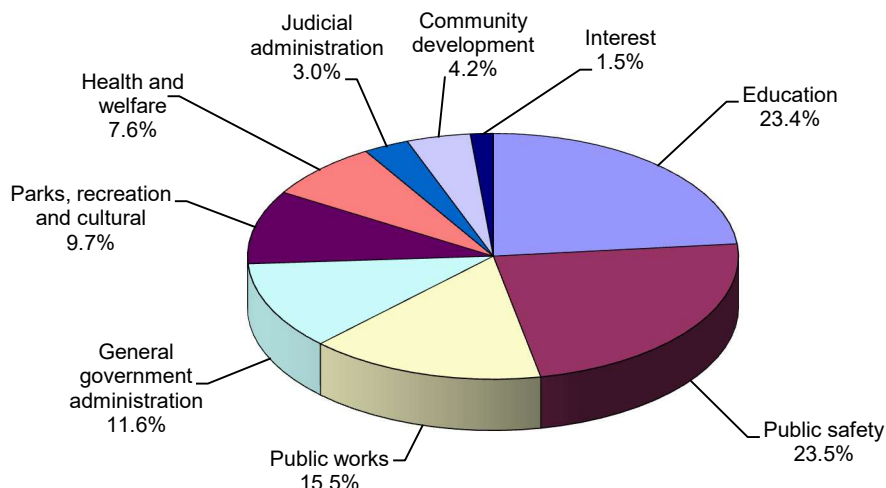
Operating grants and contributions, which were 10.6% of governmental activities revenue, increased \$783,000. In the Public Works function, highway maintenance funding from the state was \$154,000 higher than the prior year. Children's Services Act revenue increased by \$404,000 but there was a corresponding increase in health and welfare expenses. In the Community Development function, the City received a brownfield restoration grant in fiscal year 2025 in addition to a higher amount of tourism grants.

Business license tax, which is based on gross receipts for the previous calendar year, increased \$877,000 or 12.2%. Local sales and use, utility and lodging taxes remained relatively flat, with less than 1% growth from the prior year. After several years of steady growth, meals tax showed a slight decrease of 0.1%.

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2025**

Governmental Activities – Expenses

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



Pension expenses increased across all functions due to higher expenses for differences between expected and actual experience in the total pension liability, partially offset by lower expenses from differences between projected and actual earnings on plan investments. The allocation of internal service fund activity resulted in an increase in expense of \$1.4 million. In fiscal year 2024, the internal service fund had a positive change in net position of \$1 million but had a decrease in net position of \$408,000 in fiscal year 2025 due to higher claims expenses. These increases are partially offset by a decrease in OPEB expense.

General government expenses were 11.6% of total governmental activities expenses and increased \$1.5 million or 14.3%. Pension expense was \$331,000 higher than the prior year. Depreciation expense was \$294,000 higher than the prior year. Allocation of internal service fund activity resulted in a \$273,000 increase in expenses. Salary costs were \$171,000 higher than the previous year. Bank charges grew by \$131,000 due to more customers paying by credit card.

Public safety expenses, which were 23.5% of total governmental activities expenses, increased \$1.9 million or 8.5%. Pension expense was \$731,000 higher than the prior year. Allocation of internal service fund activity resulted in a \$647,000 increase in expenses. Depreciation expense was up by \$327,000. Salary costs grew by \$241,000.

Public works expenses, which were 15.5% of governmental activities expenses, increased \$3.4 million or 27.2%. Highway maintenance costs were \$2.4 million higher than the prior year. More paving and bridge repairs were done in fiscal year 2025. Salary costs increased \$232,000. Depreciation expense was up \$220,000. Pension expense was \$250,000 higher than the prior year. Allocation of internal service fund activity resulted in a \$328,000 increase in expenses.

Education expenses, which were 23.4% of governmental activities expenses, decreased \$272,000 or 1.1%. Operating support totaled \$23.8 million, an increase of \$885,000 or 3.9%. In fiscal year 2024, \$801,000 was transferred to cover Salem High School renovation costs. The project was completed in fiscal year 2024, so no transfers were necessary in fiscal year 2025. Meals tax revenue is shared with the School Division and \$356,000 was transferred in fiscal year 2024. No meals tax revenue was transferred in fiscal year 2025.

Parks, recreation and cultural expenses, which were 9.7% of governmental activities expenses, increased \$2.1 million or 26.3%. Depreciation expense was \$1 million higher than the prior year due to capitalization

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2025**

of the \$27 million renovation project at James I. Moyer Sports Complex. Operating expenses also increased. Pension expense was \$175,000 higher than the prior year. Allocation of internal service fund activity resulted in a \$134,000 increase in expenses.

Business-type Activities

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

Component Units

Payments from the City to the School Division totaled \$23.8 million and were down \$272,000 or 1.1% from the previous year. Operating support totaled \$23.8 million, an increase of \$885,000 or 3.9%. In fiscal year 2024, funds totaling \$801,000 were transferred to cover Salem High School renovation costs. Meals tax revenue is shared with the School Division and \$356,000 was transferred in fiscal year 2024. No funding was transferred for projects or meals tax in fiscal year 2025. Funding from the City to the Economic Development Authority totaled \$393,000 and increased \$344,000 from the previous year due to higher incentive payments.

Unrestricted state aid increased \$1.8 million or 9.3% due to higher basic aid payments. Capital grants and contributions decreased \$779,000 due to receipt of Coronavirus Response and Relief Supplemental Appropriation Act funding and American Rescue Plan Act funding used for capital in the prior fiscal year. The EDA earned \$616,000 in interest from the loans provided to private companies.

The School Division incurred expenses of \$65.9 million for the fiscal year ended June 30, 2025, an increase of \$3.4 million or 5.5% from the prior year. Salary costs were \$2.5 million higher than the prior year. Depreciation expense was up \$569,000. These increases are partially offset by a decrease in online tuition costs due to lower enrollment. Expenses of the Economic Development Authority totaled \$979,000 and increased \$576,000 due to higher interest expense on the 2023 bonds and higher incentive payments.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

As of June 30, 2025, the governmental funds had \$102.3 million in total fund balance, an increase of \$6.6 million from prior year. Unassigned fund balances available to fund future expenditures were \$60 million or 58.6% of total fund balance. Unassigned fund balance, which contains all amounts not included in other classifications, is available to pay for future years' capital expenditures and provide for unforeseen circumstances. Restricted fund balance totaled \$4.8 million and can be spent only for specific purposes stipulated by grantors and donors. Assigned fund balance totaled \$36.1 million and represents \$33.8 million appropriated for future capital projects and \$2.3 million set aside to liquidate encumbrances. Committed fund balance totaled \$203,000 and represents funds appropriated for the E-summons program and stormwater management. Nonspendable fund balance totaled \$1.2 million and represents inventories and prepaid assets that are non-liquid in form and cannot be spent.

General Fund

The General Fund is the chief operating fund of the City. As of June 30, 2025, the General Fund had \$68.6 million in total fund balance, which increased \$3.3 million from the prior year. Unassigned fund balance available to fund future expenditures was \$60.1 million or 87.7% of total fund balance and increased \$4.3 million from the previous year. As a measure of the General Fund's liquidity, it may be useful to compare both total fund balance and unassigned fund balance to total fund expenditures. Total fund balance to total fund expenditures decreased from 71.9% to 69.3%. Unassigned fund balance to total fund expenditures decreased from 61.5% to 60.6%.

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2025**

Property taxes, which were 47.3% of total General Fund revenue, increased \$4.5 million or 9.2% from the prior year. Much of this increase was attributable to real estate tax. Higher assessed values and new construction resulted in \$3.1 million or 9.3% growth in current year real estate tax revenue. Public service corporation tax was up \$373,000. Current year personal property tax revenue increased \$800,000 or 7.4%. In fiscal year 2025, vehicle values showed modest growth of 2% compared to the prior year while tangible business property assessments increased 10.8%. Machinery and tools tax increased \$174,000 or 5%.

Other local taxes, which comprised 26.8% of total General Fund revenue, increased \$948,000 or 3.2% from the previous year. Business license tax, which is based on gross receipts of businesses, showed growth of \$877,000 or 12.2%. Sales and lodging tax revenues remained relatively flat, with growth of less than 1% from the prior year. As has been the trend for several years, cigarette tax revenue declined \$107,000 or 19.7%. After years of growth, meals tax revenue showed a slight decrease of 0.1%.

Revenue from use of money and property decreased \$928,000 or 11% due to declining interest rates.

Intergovernmental revenue increased \$963,000 or 6.1%. Children's Services Act revenue from the state increased \$404,000 but there was a corresponding increase in program costs in health and welfare expenditures. Program costs can fluctuate significantly from year to year based on the number of children requiring services and the type of services needed. The City was awarded a Preservation Trust Fund Program grant to purchase property for a downtown pocket park. Grant revenue of \$179,000 was received in fiscal year 2025. Highway maintenance funding from the state was \$154,000 higher than the prior year. Reimbursement from Virginia Compensation Board for constitutional offices increased \$106,000. Tourism grant revenue was \$61,000 higher than the prior year.

Public works expenditures, which were 14.3% of total General Fund expenditures, increased \$2.7 million or 23.1%. Highway maintenance spending increased \$2.3 million. Costs for paving were \$1 million higher than the prior year, \$572,000 more in bridge repair work was done and sidewalk repairs were \$571,000 higher than the prior year. Local funding of \$376,000 was also spent on paving in fiscal year 2025. Salary and benefits increased \$249,000 in this function.

Public safety expenditures, which were 25.2% of total General Fund expenditures, increased \$1.7 million or 7.4%. Salary and benefit costs increased \$293,000 or 1.7%. Capital outlay for the inception of subscriptions for Police and Fire totaled \$1.2 million and capital outlay for financed purchases totaled \$303,000 in the Police Department.

Parks, recreation and cultural expenditures, which were 8.9% of General Fund expenditures, increased \$1.2 million or 16.4%. Renovation of pickleball courts totaled \$155,000. Playground equipment was purchased at a cost of \$149,000. Capital purchases at Salem Memorial Park and Salem Stadium were \$355,000 higher than the prior year and included the purchase of a mower, seating, wall pad, netting system, restroom partitions and HVAC work. A new passenger bus was purchased for the Senior Center at a cost of \$132,000. Salary and benefit costs were \$125,000 higher than the prior year. Operating costs of the James I. Moyer Sports Complex were higher than the prior year as the complex re-opened after renovations were completed.

Education expenditures comprised 24% of total General Fund expenditures and increased \$529,000 or 2.3%. Local operating support of \$23.8 million was provided in fiscal year 2025, an increase of \$885,000. Meals tax revenue is shared with the School Division and \$356,000 was transferred in fiscal year 2024. No meals tax was transferred in fiscal year 2025.

Transfers in were significantly lower than the prior year. The City was allocated \$31.2 million in ARPA funding. City Council determined that these funds should be used to provide general government services. In fiscal year 2024, transfers from the Special Revenue fund totaled \$5.3 million and were transferred to cover the amount of ARPA funds expended on general government services. No transfers from the Special

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2025**

Revenue Fund were made in fiscal year 2025 as all ARPA funding was expended by the end of fiscal year 2024.

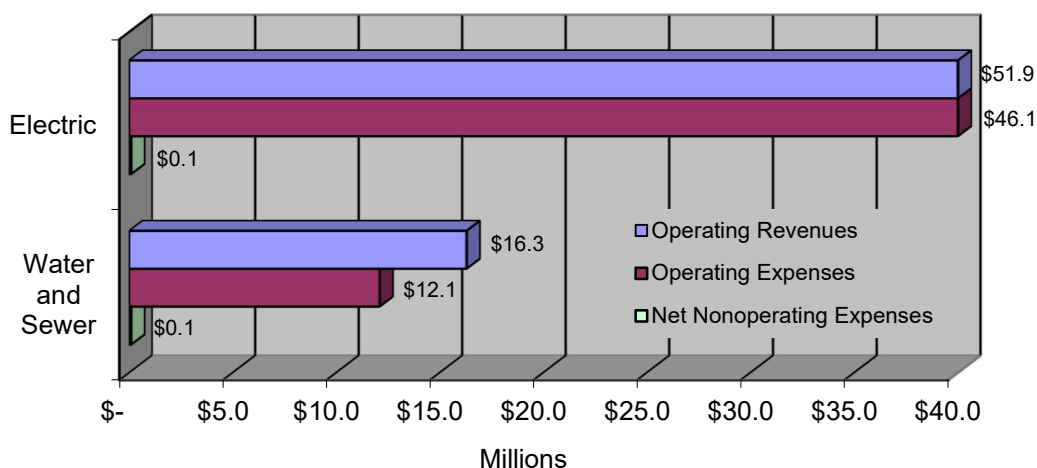
Transfers out were lower in fiscal year 2025. In fiscal year 2024, the City adopted a Capital Planning and Reserve Policy to define guidelines and goals for capital planning and asset replacement. Based on the policy, \$17 million was transferred to the Capital Projects Fund in fiscal year 2024. Only \$6.2 million was transferred to the Capital Projects Fund pursuant to the policy in fiscal year 2025. In addition, \$3.4 million was transferred to the Water and Sewer Capital Fund and \$1.9 million was transferred to the Capital Projects Fund in fiscal year 2024 as a result of the use of ARPA funds for general government services, which freed up local funding for various capital projects. In addition, a larger amount of General Fund funding was transferred to Capital Projects Fund in fiscal year 2024 to provide local match for several grant-funded projects and to provide funding for other projects.

Capital Projects Fund

During fiscal year 2025, Capital Projects Fund expenditures were \$12.6 million, which was \$8.5 million lower than the previous year. Renovation of the Moyer Sports Complex was substantially completed in fiscal year 2024 with \$14.5 million expended. Only \$286,000 was expended on this project in fiscal year 2025. Bond proceeds and interest totaling \$15.5 million were allocated to this project along with \$12.2 million in cash funding. Downtown improvements continued with \$3.1 million expended in fiscal year 2025 compared to \$1.2 million in the prior fiscal year. Grant funding covered \$2.9 million in replacement work on the Colorado Bridge project and \$1.3 million of the Apperson Drive bridge replacement project. Renovation of Fire Station #2 continued, with \$1.1 million expended in fiscal year 2025. Expenditures were incurred for several other large projects including Valleydale streetscape improvements, jury room expansion at the Courthouse, Elizabeth Campus Greenway and new restrooms at Longwood Park and Civic Center Fields.

Proprietary Funds

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



Electric Fund

As of June 30, 2025, the Electric Fund had \$59.6 million in total net position, which increased by \$2.5 million from the prior year. Net investment in capital assets was \$34.3 million or 57.5% of total net position. Unrestricted net position available to fund future expenses was \$25.4 million or 42.5% of total net position.

In fiscal year 2025, operating revenue increased \$5.7 million or 12.3% compared to the previous fiscal year due to higher charges for services. Rates were increased to cover rising purchased power costs. In addition, consumption rose approximately 5%. Operating expenses were \$46.1 million and were \$1.8

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2025**

million or 4.0% higher than the prior year. Purchased power includes both the cost of purchasing electricity, which was \$2.1 million or 7.6% higher than the prior year, and transmission costs which decreased by \$483,000.

Water and Sewer Fund

As of June 30, 2025, the Water and Sewer Fund had \$79.2 million in total net position, an increase of \$3.9 million from prior year. Net investment in capital assets was \$43.1 million or 54.5% of total net position. Unrestricted net position available to fund future expenses was \$36.0 million or 45.5% of total net position.

For fiscal year 2025, operating revenue was \$16.3 million, which was \$847,000 or 5.5% higher than the previous year. Charges for services were up \$694,000 or 4.7% due to higher consumption and a rate increase that was effective January 1, 2025. Operating expenses were \$12.1 million, an increase of \$1.2 million or 11.2% from the prior year. Salary and fringe benefit costs grew \$259,000 from the prior year. Maintenance costs increased \$273,000. Treatment of sewage costs increased \$490,000 or 32.7% due to a 7.2% rate increase and a 4.2% increase in the number of gallons treated.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

**Budgetary Highlights for 2025
(In Millions)**

	Original Budget	Budget As Amended	Actual
Revenues	\$ 108.0	\$ 108.7	\$ 113.9
Expenditures	(105.0)	(108.9)	(99.0)
Other financing sources except transfers	-	0.1	2.1
Transfers in	3.3	3.3	3.3
Transfers out	(9.3)	(17.3)	(17.0)
Use of fund balance	<u>\$ (3.0)</u>	<u>\$ (14.1)</u>	<u>\$ 3.3</u>

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

- To re-appropriate monies for encumbrances established prior to July 1, 2024.
- To re-appropriate grants, donations and other revenues authorized in fiscal year 2024 or earlier but not expended or encumbered as of June 30, 2024.
- To appropriate grants, donations and other revenues accepted or adjusted in fiscal year 2025 when official notice of approval was received.

The Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - General Fund is shown on page 40. Property taxes exceeded budget by \$2 million or 3.8% largely due to personal property tax revenue. Because the City assesses and bills personal property in late spring, no current assessment data is available at the time revenue estimates are developed for the subsequent fiscal year. The Finance Department works with other City departments to determine reasonable revenue estimates based on the information that is available. Current year personal property tax exceeded budget by \$1.2 million. Current year real estate tax revenue achieved 101% of the budgeted amount. Public service corporation tax, which is assessed by the State Corporation Commission, exceeded budget by \$377,000.

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2025**

Other local taxes revenue exceeded budget by \$1.4 million or 4.9%. Business license tax, which is based on gross receipts, exceeded budget by \$1 million. The 2025 budget included an anticipated increase of 11.5% for business license tax. Sales tax revenue was \$230,000 or 2% higher than budget. Bank franchise tax exceeded budget by \$118,000 but was lower than prior year revenue. This revenue source has fluctuated historically and is budgeted conservatively as a result.

While interest rates declined during fiscal year 2025, revenue from use of money and property still exceeded the budget by \$1.1 million. Interest revenue was budgeted very conservatively because of economic uncertainties.

Several functions ended the year with expenditures less than budget. Public works expenditures were under budget by \$4.6 million or 24.7%. Amounts totaling \$2.7 million were encumbered but not spent as of June 30, 2025. Highway maintenance spending was \$595,000 under budget as some planned projects weren't completed in fiscal year 2025. Unspent highway maintenance funds are re-appropriated and spent in subsequent years. Salary and fringe benefit costs were \$399,000 below budget due to vacant positions.

General Government expenditures were under budget by \$1.5 million. Funds totaling \$744,000 were encumbered but not spent as of June 30, 2025. Salary and fringe costs were \$344,000 lower than budgeted due to vacant positions.

Public safety expenditures were under budget by \$1.4 million. Amounts totaling \$781,000 were encumbered but not spent as of June 30, 2025. Salary and fringe benefit costs were under budget due to vacant positions.

Parks, recreation and cultural expenditures were \$1.2 million or 12.3% under budget. Amounts totaling \$430,000 were encumbered but not spent as of June 30, 2025. Funding of \$401,000 was budgeted but not spent on various capital items in this function.

CAPITAL ASSETS

The City's total primary government capital assets, net of accumulated depreciation and amortization, increased 5.4% from \$232.7 million to \$245.4 million. This investment includes land, construction in progress, development in progress, machinery and equipment, buildings and improvements, public domain infrastructure, distribution and transmission, utility plant, sewage treatment contract, intangible right-to-use leased assets and subscription-based information technology arrangements.

The table on the next page presents a summary of capital asset balances at the end of the year. The changes in each category of capital assets, along with other important information regarding capital assets, are presented in Note 7 of the financial statements.

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2025**

**Capital Assets, Net of Depreciation and Amortization
(In Millions)**

	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2025	2024	2025	2024	2025	2024	2025	2024
Land	\$ 7.5	\$ 7.4	\$ 1.6	\$ 1.6	\$ 9.1	\$ 9.0	\$ 1.1	\$ 1.1
Construction in progress	13.3	35.0	6.4	5.9	19.7	40.9	0.6	0.3
Development in progress	-	0.7	-	-	-	0.7	-	-
Machinery and equipment	12.6	11.2	2.7	2.1	15.3	13.3	3.3	3.0
Buildings and improvements	33.6	18.7	12.7	13.2	46.3	31.9	66.6	68.5
Public domain infrastructure	71.9	57.6	-	-	71.9	57.6	-	-
Distribution and transmission	-	-	28.2	28.4	28.2	28.4	-	-
Utility plant	-	-	35.0	34.0	35.0	34.0	-	-
Sewage treatment contract	-	-	17.7	16.3	17.7	16.3	-	-
Right-to-use leased assets	0.1	-	-	-	0.1	-	0.1	0.1
Subscription-based information technology arrangements	2.1	0.6	-	-	2.1	0.6	0.1	0.1
Total	<u>\$ 141.1</u>	<u>\$ 131.2</u>	<u>\$ 104.3</u>	<u>\$ 101.5</u>	<u>\$ 245.4</u>	<u>\$ 232.7</u>	<u>\$ 71.8</u>	<u>\$ 73.1</u>

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

- Renovations to the Moyer Sports Complex were completed at a capitalized cost of \$27.1 million.
- Work on Downtown projects continued with \$3.9 million capitalized for the Market Street to Thompson Memorial Drive section of Downtown.
- Repair work on the Colorado Street Bridge continued with \$6.7 million included in construction in progress.
- Work on the Apperson Drive Bridge Replacement project continued with \$2.3 million included in construction in progress.
- The renovation of Fire Station #2 continued, with \$1.2 million included in construction in progress.
- The jury room expansion project at the Courthouse was completed at a capitalized cost of \$855,000.
- New restrooms were installed at Longwood Park and the Civic Center Fields at a total cost of \$461,000.

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

- In the Electric Fund, work continued on the new Valleydale development with \$1.1 million included in construction in progress.
- The Franklin Street water tank replacement project was completed with a capitalized cost of \$686,000.
- Two major water line replacement projects were completed at a capitalized cost of \$1.8 million.
- Construction of two new wells continued with \$2.6 million included in construction in progress.
- The City's share of the renovation of the anaerobic digestion facilities at the Western Virginia Water Authority Regional Wastewater Treatment Plant was capitalized at a cost of \$2.3 million.

LONG-TERM DEBT

At June 30, 2025, the City's long-term liabilities, excluding financed purchase obligations, lease liabilities, subscription liabilities, compensated absences, net pension liabilities, net OPEB liabilities, bond premiums, and bond discounts, totaled \$75.6 million. This amount was comprised of \$52.8 million related to

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2025**

governmental activities (including \$28.6 million for debt held on behalf of the School Division) and \$22.8 million related to business-type activities. The City issued \$3.8 million of new debt, made \$7.8 million in principal payments and amortized \$772,000 in discounts and premiums. Detailed information regarding these changes in long-term debt is disclosed in Note 9 to the financial statements. Bonds payable decreased net of \$4.8 million during the fiscal year.

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

The City Charter and the *Code of Virginia* limit the City's net debt to 10% of the assessed valuation of real estate within the City limits. This limit applies to governmental fund tax supported debt and certain long-term liabilities of proprietary funds. The City considers long-term debt of its electric, water and sewer funds to be self-supporting. The City's tax-supported debt of \$56.6 million is below the legal debt limit of \$260.0 million. Table 11 of the statistical section provides additional information related to the legal debt margin.

The School Division relies upon the City to provide full faith and credit for any debt obligations incurred. Therefore, the City reports School Division long-term liabilities, other than financed purchase obligations, lease liabilities, subscription liabilities, compensated absences, net pension liabilities and net OPEB liabilities as its own. In addition to bonded debt, the City's long-term obligations include financed purchase obligations, lease liabilities, subscription liabilities, compensated absences, net pension liabilities and net OPEB liabilities. Additional information concerning the City's long-term liabilities is presented in Note 9 of the financial statements and Tables 9 and 10 of the statistical section.

Interest and other fiscal charges for fiscal year 2025 were \$1.5 million or 1.5% of total governmental activities expenses.

FACTORS INFLUENCING FUTURE BUDGETS

The City continues to face challenges related to future budgets. A slowdown in the economy could negatively impact tax revenue. Several local tax revenue streams that are more reflective of economic trends, including sales, meals and lodging tax revenue, reflected much slower growth in fiscal year 2025 than previous years. Higher tariffs along with continued high inflation will result in higher prices for equipment and supplies.

The City has signed a new contract for a majority of the electric requirements for our customers beginning in June 2026. There will be additional costs incurred with the new process to include paying for transmission and capacity costs. Additionally, the City has authorized a contract for the installation of a battery storage facility to be located within one of the City's substations. This project will help to offset some of the transmission and capacity cost increases.

In the Water and Sewer Fund, a rate study was completed in fiscal year 2024. A rate increase of 7% for water and 3% for sewer was effective January 1, 2025, with additional increases of 3% in fiscal year 2026 to keep up with rising operating costs and to cover needed capital improvements. A slight increase in consumption is anticipated in fiscal year 2025. The rate the City pays for sewage treatment increased 19.6% in fiscal year 2026.

REQUESTS FOR INFORMATION

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

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2025**

Additional information on the Component Unit can be obtained from the Chief Financial Officer, Salem City Schools, 510 South College Avenue, Salem, Virginia 24153, or visit the School Division's website at www.salem.k12.va.us.

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BASIC FINANCIAL STATEMENTS



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

**CITY OF SALEM, VIRGINIA
STATEMENT OF NET POSITION
JUNE 30, 2025**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 100,235,808	\$ 57,472,526	\$ 157,708,334	\$ 18,972,260
Receivables, net	6,266,159	9,976,697	16,242,856	14,706,923
Lease receivable	879,035	351,079	1,230,114	462,770
Due from component unit	-	8,384,699	8,384,699	-
Due from other governmental units	9,609,271	-	9,609,271	1,758,233
Net pension asset	-	-	-	825,010
Net OPEB asset	-	-	-	546,393
Inventories	992,825	3,180,013	4,172,838	63,718
Prepaid items	179,079	361,156	540,235	385,915
<i>Restricted assets:</i>				
Cash and cash equivalents	65,785	2,220,651	2,286,436	-
<i>Capital assets:</i>				
Nondepreciable and nonamortizable	20,829,739	7,972,582	28,802,321	1,680,988
Depreciable and amortizable, net	120,238,818	96,281,516	216,520,334	70,144,226
Total assets	<u>259,296,519</u>	<u>186,200,919</u>	<u>445,497,438</u>	<u>109,546,436</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>10,753,926</u>	<u>3,070,675</u>	<u>13,824,601</u>	<u>11,383,096</u>
LIABILITIES				
Accounts payable and accrued liabilities	6,194,819	6,874,000	13,068,819	878,776
Accrued payroll and related liabilities	1,334,833	403,241	1,738,074	6,624,044
Accrued interest	358,332	127,003	485,335	40,302
Self-insurance claims liability	540,202	-	540,202	528,038
Due to primary government	-	-	-	8,060,478
Due to component unit	324,221	-	324,221	-
Unearned revenues	168,567	1,710,336	1,878,903	495,038
Customer security deposits	-	1,102,222	1,102,222	-
<i>Long-term liabilities due in less than one year:</i>				
Bonds payable	4,172,276	4,745,355	8,917,631	517,000
Financed purchase obligation	57,720	-	57,720	-
Lease liability	43,827	5,440	49,267	43,097
Subscription liability	545,156	9,476	554,632	54,896
Compensated absences	2,739,611	691,974	3,431,585	2,436,460
<i>Long-term liabilities due in more than one year:</i>				
Bonds payable	52,177,153	19,757,750	71,934,903	5,825,618
Financed purchase obligation	181,537	-	181,537	-
Lease liability	47,843	7,135	54,978	31,853
Subscription liability	553,205	-	553,205	-
Compensated absences	106,438	118,297	224,735	520,798
Net pension liability	32,030,850	8,583,268	40,614,118	25,983,974
Net OPEB liability	8,593,676	2,788,232	11,381,908	4,624,909
Total liabilities	<u>110,170,266</u>	<u>46,923,729</u>	<u>157,093,995</u>	<u>56,665,281</u>
DEFERRED INFLOWS OF RESOURCES	<u>8,561,154</u>	<u>2,391,324</u>	<u>10,952,478</u>	<u>6,587,735</u>
NET POSITION				
Net investment in capital assets	113,797,282	81,028,131	194,825,413	71,695,368
Restricted for:				
Grant programs and donations	839,690	-	839,690	-
Highway maintenance	3,264,355	-	3,264,355	-
Opioid abatement	1,843,072	-	1,843,072	-
Net pension asset	-	-	-	825,010
Net OPEB asset	-	-	-	546,393
Unrestricted (deficit)	31,574,626	58,928,410	90,503,036	(15,390,255)
Total net position	<u>\$ 151,319,025</u>	<u>\$ 139,956,541</u>	<u>\$ 291,275,566</u>	<u>\$ 57,676,516</u>

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

**CITY OF SALEM, VIRGINIA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2025**

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
Functions/Programs	Expenses	Charges for Services	Operating	Capital	Primary Government			Component Units
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary Government								
<i>Governmental activities:</i>								
General government	\$ 11,817,347	\$ 231,293	\$ 446,479	\$ -	\$ (11,139,575)		\$ (11,139,575)	
Judicial administration	3,015,798	193,138	1,577,127	-	(1,245,533)		(1,245,533)	
Public safety	23,960,886	1,930,505	1,322,767	45,497	(20,662,117)		(20,662,117)	
Public works	15,791,472	1,922,468	5,749,018	4,122,611	(3,997,375)		(3,997,375)	
Health and welfare	7,699,952	-	3,350,399	-	(4,349,553)		(4,349,553)	
Education	23,781,130	-	-	-	(23,781,130)		(23,781,130)	
Parks, recreation and cultural	9,905,247	810,227	304,182	545,965	(8,244,873)		(8,244,873)	
Community development	4,274,139	55,754	156,258	2,936,618	(1,125,509)		(1,125,509)	
Interest	1,523,071	-	-	-	(1,523,071)		(1,523,071)	
Total governmental activities	101,769,042	5,143,385	12,906,230	7,650,691	(76,068,736)		(76,068,736)	
<i>Business-type activities:</i>								
Electric	46,231,865	51,854,469	-	-		\$ 5,622,604	5,622,604	
Water and sewer	12,329,606	16,261,188	11,780	-		3,943,362	3,943,362	
Civic Center	5,362,694	2,970,633	-	-		(2,392,061)	(2,392,061)	
Catering and concessions	1,028,923	1,020,691	-	-		(8,232)	(8,232)	
Total business-type activities	64,953,088	72,106,981	11,780	-		7,165,673	7,165,673	
Total primary government	\$ 166,722,130	\$ 77,250,366	\$ 12,918,010	\$ 7,650,691	(76,068,736)	7,165,673	(68,903,063)	
Component Units	\$ 66,885,056	\$ 2,029,947	\$ 18,322,104	\$ 16,895				\$ (46,516,110)
<i>General revenues:</i>								
					53,589,523	-	53,589,523	-
					9,779,960	-	9,779,960	-
					8,041,846	-	8,041,846	-
					6,763,479	-	6,763,479	-
					1,233,253	-	1,233,253	-
					1,930,051	-	1,930,051	-
					2,796,728	-	2,796,728	-
					3,607,269	-	3,607,269	-
					7,280,654	155,969	7,436,623	616,387
					40,766	-	40,766	-
					-	-	-	24,174,469
					-	-	-	21,137,461
					995,275	21,707	1,016,982	658,360
					580,275	(580,275)	-	-
					96,639,079	(402,599)	96,236,480	46,586,677
					20,570,343	6,763,074	27,333,417	70,567
					130,748,682	133,193,467	263,942,149	57,605,949
					\$ 151,319,025	\$ 139,956,541	\$ 291,275,566	\$ 57,676,516

* Restated, due to implementation of the guidance in GASB Statement 101, *Compensated Absences*

**CITY OF SALEM, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2025**

	General	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 64,440,759	\$ -	\$ -	\$ 31,860,995	\$ 96,301,754
Cash and cash equivalents, restricted	65,785	-	-	-	65,785
Receivables, net	6,196,511	3,625	-	-	6,200,136
Lease receivable	879,035	-	-	-	879,035
Due from other governmental units	5,642,039	-	-	3,967,232	9,609,271
Inventories	992,825	-	-	-	992,825
Prepaid items	179,079	-	-	-	179,079
Total assets	<u>\$ 78,396,033</u>	<u>\$ 3,625</u>	<u>\$ -</u>	<u>\$ 35,828,227</u>	<u>\$ 114,227,885</u>
LIABILITIES					
Accounts payable and accrued liabilities	\$ 4,098,192	\$ 3,625	\$ -	\$ 2,039,488	\$ 6,141,305
Accrued payroll and related liabilities	1,328,145	-	-	-	1,328,145
Due to component unit	324,221	-	-	-	324,221
Unearned revenues	109,485	-	-	-	109,485
Total liabilities	<u>5,860,043</u>	<u>3,625</u>	<u>-</u>	<u>2,039,488</u>	<u>7,903,156</u>
DEFERRED INFLOWS OF RESOURCES	<u>3,978,341</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,978,341</u>
FUND BALANCES					
Nonspendable	1,171,904	-	-	-	1,171,904
Restricted	4,840,767	-	-	-	4,840,767
Committed	202,757	-	-	-	202,757
Assigned	2,349,089	-	-	33,788,739	36,137,828
Unassigned	59,993,132	-	-	-	59,993,132
Total fund balances	<u>68,557,649</u>	<u>-</u>	<u>-</u>	<u>33,788,739</u>	<u>102,346,388</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 78,396,033</u>	<u>\$ 3,625</u>	<u>\$ -</u>	<u>\$ 35,828,227</u>	<u>\$ 114,227,885</u>

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

CITY OF SALEM, VIRGINIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS' BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2025

Total fund balance of governmental funds	\$ 102,346,388
Capital assets used in governmental activities are not considered current financial resources and, therefore, are not reported in the governmental funds.	141,068,557
Some long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	
Deferred inflows of resources for unavailable revenues	3,008,363
For debt refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred outflow of resources or a deferred inflow of resources.	
Deferred amounts on refunding	142,739
Long-term liabilities related to governmental fund activities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Bonds payable	(52,788,568)
Bond premiums	(3,560,861)
Financed purchase obligation	(239,257)
Lease liability	(91,670)
Subscription liability	(1,098,361)
Accrued interest	(358,332)
Compensated absences	(2,839,024)
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	8,623,381
Deferred inflows of resources related to pension	(4,195,887)
Net pension liability	(31,763,283)
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	1,933,479
Deferred inflows of resources related to OPEB	(3,365,115)
Net OPEB liability	(8,571,928)
The internal service fund is used by management to charge the costs of health and dental insurance to individual funds. The assets, liabilities and net position of the internal service fund are included with governmental activities in the Statement of Net Position.	3,068,404
Net position of governmental activities	<u><u>\$ 151,319,025</u></u>

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

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2025

	General	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
REVENUES					
Property taxes	\$ 53,851,355	\$ -	\$ -	\$ -	\$ 53,851,355
Other local taxes	30,545,318	-	-	-	30,545,318
Permits, fees and licenses	545,820	-	-	-	545,820
Fines and forfeitures	109,894	-	-	-	109,894
Revenue from use of money and property	7,474,225	-	-	-	7,474,225
Charges for services	3,969,716	-	-	-	3,969,716
Other	672,236	-	-	-	672,236
Intergovernmental	16,685,610	10,450	-	7,458,454	24,154,514
Total revenues	<u>113,854,174</u>	<u>10,450</u>	<u>-</u>	<u>7,458,454</u>	<u>121,323,078</u>
EXPENDITURES					
<i>Current:</i>					
General government	11,953,962	10,450	-	-	11,964,412
Judicial administration	3,081,753	-	-	-	3,081,753
Public safety	24,980,954	-	-	-	24,980,954
Public works	14,129,162	-	-	-	14,129,162
Health and welfare	7,699,952	-	-	-	7,699,952
Education	23,781,130	-	-	-	23,781,130
Parks, recreation and cultural	8,797,570	-	-	-	8,797,570
Community development	3,943,657	-	-	-	3,943,657
Capital projects	-	-	-	12,634,947	12,634,947
<i>Debt service:</i>					
Principal retirement	591,790	-	4,170,609	-	4,762,399
Interest	18,820	-	1,830,299	-	1,849,119
Total expenditures	<u>98,978,750</u>	<u>10,450</u>	<u>6,000,908</u>	<u>12,634,947</u>	<u>117,625,055</u>
Excess (deficiency) of revenues over (under) expenditures	<u>14,875,424</u>	<u>-</u>	<u>(6,000,908)</u>	<u>(5,176,493)</u>	<u>3,698,023</u>
OTHER FINANCING SOURCES (USES)					
Issuance of long-term debt	302,674	-	-	-	302,674
Proceeds from sale of capital assets	27,809	-	-	-	27,809
Inception of leases	74,697	-	-	-	74,697
Inception of subscriptions	1,640,647	-	-	-	1,640,647
Insurance recoveries	107,676	-	-	-	107,676
Transfers in	3,310,575	-	6,000,908	8,840,530	18,152,013
Transfers out	(17,011,485)	-	-	(391,738)	(17,403,223)
Total other financing sources (uses), net	<u>(11,547,407)</u>	<u>-</u>	<u>6,000,908</u>	<u>8,448,792</u>	<u>2,902,293</u>
Net change in fund balances	<u>3,328,017</u>	<u>-</u>	<u>-</u>	<u>3,272,299</u>	<u>6,600,316</u>
Fund balances, beginning	<u>65,229,632</u>	<u>-</u>	<u>-</u>	<u>30,516,440</u>	<u>95,746,072</u>
Fund balances, ending	<u>\$ 68,557,649</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,788,739</u>	<u>\$ 102,346,388</u>

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

CITY OF SALEM, VIRGINIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS' STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2025

Net changes in fund balances of governmental funds	\$ 6,600,316
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense and amortization expense to allocate the costs of those assets over the lives of the assets.	
Capital outlay	18,701,998
Depreciation and amortization expense	(7,947,210)
The net effect of various transactions involving capital assets does not provide or use current financial resources and is not reported as revenues or expenditures in the governmental funds.	(838,084)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in governmental funds.	73,906
Issuance of debt and other obligations provides current financial resources to governmental funds but increases long-term liabilities in the Statement of Net Position. Repayment of bond, financed purchase obligation, lease, and subscription principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Position. Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, but these amounts are deferred and amortized in the Statement of Activities.	
Issuance of financed purchase obligations	(302,674)
Inception of leases	(74,697)
Inception of subscriptions	(1,640,647)
Principal payments	4,762,399
Amortization of current year bond premiums	337,524
Amortization of current year deferred amounts on refunding	(29,974)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Change in accrued interest payable	18,498
Change in compensated absences	(43,011)
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	4,909,364
Pension expense	(4,801,159)
Governmental funds report employer OPEB contributions as expenditures. However, in the Statement of Activities, the cost of OPEB benefits earned is reported as OPEB expense.	
Employer OPEB contributions	1,559,701
OPEB expense	(308,037)
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.	(407,870)
Change in net position of governmental activities	<u><u>\$ 20,570,343</u></u>

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

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2025

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 51,890,783	\$ 51,890,783	\$ 53,851,355	\$ 1,960,572
Other local taxes	29,110,800	29,110,800	30,545,318	1,434,518
Permits, fees and licenses	359,440	359,440	545,820	186,380
Fines and forfeitures	128,500	128,500	109,894	(18,606)
Revenue from use of money and property	6,342,391	6,342,391	7,474,225	1,131,834
Charges for services	3,755,697	3,790,697	3,969,716	179,019
Other	331,500	424,500	672,236	247,736
Intergovernmental	16,088,949	16,661,192	16,685,610	24,418
Total revenues	<u>108,008,060</u>	<u>108,708,303</u>	<u>113,854,174</u>	<u>5,145,871</u>
EXPENDITURES				
<i>Current:</i>				
General government	14,497,851	13,472,848	11,953,962	1,518,886
Judicial administration	3,135,634	3,261,978	3,081,753	180,225
Public safety	24,140,564	26,339,647	24,980,954	1,358,693
Public works	18,369,255	18,762,585	14,129,162	4,633,423
Health and welfare	7,137,055	7,718,129	7,699,952	18,177
Education	23,781,130	23,781,130	23,781,130	-
Parks, recreation and cultural	8,993,936	10,027,073	8,797,570	1,229,503
Community development	3,845,624	4,327,050	3,943,657	383,393
Contingency	1,060,475	599,922	-	599,922
<i>Debt service:</i>				
Principal retirement	-	591,790	591,790	-
Interest	-	18,821	18,820	1
Total expenditures	<u>104,961,524</u>	<u>108,900,973</u>	<u>98,978,750</u>	<u>9,922,223</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,046,536</u>	<u>(192,670)</u>	<u>14,875,424</u>	<u>15,068,094</u>
OTHER FINANCING SOURCES (USES)				
Issuance of long-term debt	-	-	302,674	302,674
Proceeds from sale of capital assets	-	-	27,809	27,809
Inception of leases	-	-	74,697	74,697
Inception of subscriptions	-	-	1,640,647	1,640,647
Insurance recoveries	-	107,605	107,676	71
Transfers in	3,307,696	3,307,696	3,310,575	2,879
Transfers out	(9,399,027)	(17,343,951)	(17,011,485)	332,466
Total other financing uses, net	<u>(6,091,331)</u>	<u>(13,928,650)</u>	<u>(11,547,407)</u>	<u>2,381,243</u>
Net change in fund balances	<u>\$ (3,044,795)</u>	<u>\$ (14,121,320)</u>	<u>\$ 3,328,017</u>	<u>\$ 17,449,337</u>

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

**CITY OF SALEM, VIRGINIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2025**

	Enterprise Funds				Internal Service Fund
	Electric	Water and Sewer	Nonmajor Proprietary Funds	Total	
ASSETS					
<i>Current assets:</i>					
Cash and cash equivalents	\$ 16,966,367	\$ 38,588,685	\$ 1,917,474	\$ 57,472,526	\$ 3,934,054
Cash and cash equivalents, restricted	-	2,220,651	-	2,220,651	-
Receivables, net	7,551,737	2,327,259	97,701	9,976,697	66,023
Lease receivable	-	113,627	-	113,627	-
Due from other funds	-	200,000	-	200,000	-
Due from component unit	184,587	-	-	184,587	-
Inventories	2,701,246	422,289	56,478	3,180,013	-
Prepaid items	78,856	50,148	232,152	361,156	-
Total current assets	27,482,793	43,922,659	2,303,805	73,709,257	4,000,077
<i>Noncurrent assets:</i>					
Due from component unit	8,200,112	-	-	8,200,112	-
Lease receivable	-	237,452	-	237,452	-
<i>Capital assets:</i>					
Nondepreciable and nonamortizable	3,612,441	4,002,688	357,453	7,972,582	-
Depreciable and amortizable, net	38,333,116	54,710,981	3,237,419	96,281,516	-
Total capital assets	41,945,557	58,713,669	3,594,872	104,254,098	-
Total noncurrent assets	50,145,669	58,951,121	3,594,872	112,691,662	-
Total assets	77,628,462	102,873,780	5,898,677	186,400,919	4,000,077
DEFERRED OUTFLOWS OF RESOURCES	1,239,221	1,286,086	545,368	3,070,675	54,327
LIABILITIES					
<i>Current liabilities:</i>					
Accounts payable and accrued liabilities	4,955,920	1,365,056	553,024	6,874,000	53,514
Accrued payroll and related liabilities	135,917	158,854	108,470	403,241	6,688
Accrued interest	52,204	74,799	-	127,003	-
Self-insurance claims liability	-	-	-	-	540,202
Due to other funds	-	-	200,000	200,000	-
Unearned revenues	19,260	-	1,691,076	1,710,336	59,082
Customer security deposits	1,102,222	-	-	1,102,222	-
Bonds payable	1,444,153	3,301,202	-	4,745,355	-
Lease liability	-	2,414	3,026	5,440	-
Subscription liability	9,476	-	-	9,476	-
Compensated absences	282,020	257,147	152,807	691,974	7,025
Total current liabilities	8,001,172	5,159,472	2,708,403	15,869,047	666,511
<i>Noncurrent liabilities:</i>					
Bonds payable	6,460,305	13,297,445	-	19,757,750	-
Lease liability	-	4,040	3,095	7,135	-
Compensated absences	58,482	26,791	33,024	118,297	-
Net pension liability	3,233,269	3,587,094	1,762,905	8,583,268	267,567
Net OPEB liability	798,974	1,556,904	432,354	2,788,232	21,748
Total noncurrent liabilities	10,551,030	18,472,274	2,231,378	31,254,682	289,315
Total liabilities	18,552,202	23,631,746	4,939,781	47,123,729	955,826
DEFERRED INFLOWS OF RESOURCES	666,490	1,336,627	388,207	2,391,324	30,174
NET POSITION					
Net investment in capital assets	34,297,709	43,141,671	3,588,751	81,028,131	-
Unrestricted (deficit)	25,351,282	36,049,822	(2,472,694)	58,928,410	3,068,404
Total net position	\$ 59,648,991	\$ 79,191,493	\$ 1,116,057	\$ 139,956,541	\$ 3,068,404

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

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2025

	Enterprise Funds				Internal Service Fund
	Electric	Water and Sewer	Nonmajor Proprietary Funds	Total	
OPERATING REVENUES					
Charges for services	\$ 51,293,153	\$ 15,553,048	\$ 3,930,870	\$ 70,777,071	\$ 6,833,658
Connections and transfers	20,650	310,498	-	331,148	-
Penalties	181,002	172,424	-	353,426	-
Pole rentals	275,374	-	-	275,374	-
Commissions	-	-	14,924	14,924	-
Other	84,290	236,998	45,530	366,818	257,847
Total operating revenues	51,854,469	16,272,968	3,991,324	72,118,761	7,091,505
OPERATING EXPENSES					
Salaries	-	2,687,499	1,854,584	4,542,083	142,706
Fringe benefits	-	1,082,706	573,917	1,656,623	55,834
Show expenses	-	-	2,242,103	2,242,103	-
Maintenance	-	1,293,922	270,603	1,564,525	7,334
Billing and collection	692,087	649,282	-	1,341,369	-
Professional services	9,291	169,191	76,026	254,508	306,504
Insurance	30,308	84,780	32,092	147,180	-
Purchased water	-	43,084	-	43,084	-
Purchased power	39,054,564	-	-	39,054,564	-
Distribution - operations	1,064,029	-	-	1,064,029	-
Distribution - maintenance	2,362,044	-	-	2,362,044	-
Administration	707,238	473,643	175,042	1,355,923	1,764
Travel and training	35,943	21,435	16,084	73,462	-
Materials and supplies	-	363,295	381,412	744,707	5,091
Expendable equipment and small tools	171,204	49,350	18,353	238,907	-
Utilities	-	566,566	391,911	958,477	6,771
Miscellaneous	171,361	18,235	7,747	197,343	2,202
Depreciation	1,760,176	2,613,040	333,442	4,706,658	-
Amortization	7,837	4,308	3,027	15,172	-
Treatment of sewage	-	1,991,233	-	1,991,233	-
Claims	-	-	-	-	7,136,188
Total operating expenses	46,066,082	12,111,569	6,376,343	64,553,994	7,664,394
Operating income (loss)	5,788,387	4,161,399	(2,385,019)	7,564,767	(572,889)
NONOPERATING REVENUES (EXPENSES)					
Investment income	62,095	91,340	2,534	155,969	165,019
Interest expense	(165,609)	(129,673)	(210)	(295,492)	-
Bond issuance costs	-	(80,544)	-	(80,544)	-
Loss on disposal of capital assets	(174)	(7,820)	(15,064)	(23,058)	-
Miscellaneous	9,179	1,000	11,528	21,707	-
Net nonoperating revenues (expenses)	(94,509)	(125,697)	(1,212)	(221,418)	165,019
Income (loss) before contributions and transfers	5,693,878	4,035,702	(2,386,231)	7,343,349	(407,870)
Capital contributions	-	-	168,515	168,515	-
Transfers in	-	-	2,561,785	2,561,785	-
Transfers out	(3,160,000)	(150,575)	-	(3,310,575)	-
Change in net position	2,533,878	3,885,127	344,069	6,763,074	(407,870)
Net position, beginning*	57,115,113	75,306,366	771,988	133,193,467	3,476,274
Net position, ending	\$ 59,648,991	\$ 79,191,493	\$ 1,116,057	\$ 139,956,541	\$ 3,068,404

* Restated, due to implementation of the guidance in GASB Statement 101, *Compensated Absences*

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

CITY OF SALEM, VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2025

	Enterprise Funds				Internal Service Fund
	Electric	Water and Sewer	Nonmajor Proprietary Funds	Total	
OPERATING ACTIVITIES					
Receipts from customers	\$ 52,515,152	\$ 16,087,022	\$ 5,411,169	\$ 74,013,343	\$ 6,824,393
Payments to suppliers	(41,210,141)	(5,352,151)	(3,313,849)	(49,876,141)	(303,371)
Payments to employees	(3,201,210)	(3,961,657)	(2,465,517)	(9,628,384)	(198,578)
Payments for claims	-	-	-	-	(6,748,775)
Other receipts	84,290	236,154	45,530	365,974	257,847
Nonoperating revenue	9,179	1,000	11,528	21,707	-
Net cash provided by (used in) operating activities	8,197,270	7,010,368	(311,139)	14,896,499	(168,484)
NONCAPITAL FINANCING ACTIVITIES					
Interfund loan	-	(25,000)	25,000	-	-
Component unit loan	170,395	-	-	170,395	-
Transfers in	-	-	2,561,785	2,561,785	-
Transfers out	(3,160,000)	(150,575)	-	(3,310,575)	-
Net cash provided by (used in) noncapital financing activities	(2,989,605)	(175,575)	2,586,785	(578,395)	-
CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases of capital assets	(2,973,928)	(4,846,421)	(511,329)	(8,331,678)	-
Proceeds from capital debt	-	3,767,393	-	3,767,393	-
Payment of bond issuance costs	-	(80,544)	-	(80,544)	-
Principal paid on capital debt	(1,174,535)	(2,906,684)	(2,957)	(4,084,176)	-
Interest paid on capital debt	(360,541)	(351,686)	(210)	(712,437)	-
Net cash used in capital and related financing activities	(4,509,004)	(4,417,942)	(514,496)	(9,441,442)	-
INVESTING ACTIVITIES					
Interest received	62,095	91,340	2,534	155,969	165,019
Net cash provided by investing activities	62,095	91,340	2,534	155,969	165,019
Net increase (decrease) in cash and cash equivalents	760,756	2,508,191	1,763,684	5,032,631	(3,465)
Cash and cash equivalents, beginning	16,205,611	38,301,145	153,790	54,660,546	3,937,519
Cash and cash equivalents, ending	<u>\$ 16,966,367</u>	<u>\$ 40,809,336</u>	<u>\$ 1,917,474</u>	<u>\$ 59,693,177</u>	<u>\$ 3,934,054</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR IS COMPRISED OF THE FOLLOWING:					
Cash and cash equivalents	\$ 16,966,367	\$ 38,588,685	\$ 1,917,474	\$ 57,472,526	\$ 3,934,054
Cash and cash equivalents, restricted	-	2,220,651	-	2,220,651	-
Total	<u>\$ 16,966,367</u>	<u>\$ 40,809,336</u>	<u>\$ 1,917,474</u>	<u>\$ 59,693,177</u>	<u>\$ 3,934,054</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Operating income (loss)	\$ 5,788,387	\$ 4,161,399	\$ (2,385,019)	\$ 7,564,767	\$ (572,889)
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i>					
Depreciation and amortization	1,768,013	2,617,348	336,469	4,721,830	-
Nonoperating revenue	9,179	1,000	11,528	21,707	-
Pension expense, net of employer contributions	(7,385)	(16,323)	(5,540)	(29,248)	(1,523)
OPEB expense, net of employer contributions	(95,548)	(160,752)	(58,915)	(315,215)	(2,442)
<i>Decrease (increase) in assets:</i>					
Receivables, net	712,857	50,208	61,841	824,906	(16,654)
Inventories	(172,936)	(1,183)	(17,738)	(191,857)	-
Prepaid items	(19,106)	(4,460)	(139,464)	(163,030)	222,842
<i>Increase (decrease) in liabilities:</i>					
Accounts payable and accrued liabilities	155,209	377,508	454,726	987,443	26,295
Accrued payroll and related liabilities	(9,150)	(4,934)	13,134	(950)	(532)
Self-insurance claims liability	-	-	-	-	164,571
Unearned revenues	5,555	-	1,403,534	1,409,089	7,389
Customer security deposits	26,561	-	-	26,561	-
Compensated absences	35,634	(9,443)	14,305	40,496	4,459
Net cash provided by (used in) operating activities	<u>\$ 8,197,270</u>	<u>\$ 7,010,368</u>	<u>\$ (311,139)</u>	<u>\$ 14,896,499</u>	<u>\$ (168,484)</u>
<i>Noncash investing, capital, and financing activities</i>					
Capital assets financed with accounts payable	\$ -	\$ 457,531	\$ -	\$ 457,531	\$ -
Capital assets financed with leases	\$ -	\$ 6,811	\$ -	\$ 6,811	\$ -
Capital assets financed with subscriptions	<u>\$ 18,941</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,941</u>	<u>\$ -</u>

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

CITY OF SALEM, VIRGINIA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2025

	Custodial Funds	OPEB Trust Fund
ASSETS		
Cash and cash equivalents	\$ 2,341,694	\$ -
Investments held by trustee, fair value of pooled funds	-	12,867,399
Receivables, net	596	-
Due from Commonwealth of Virginia	37,133	-
Total assets	<u>2,379,423</u>	<u>12,867,399</u>
LIABILITIES		
Accounts payable and accrued liabilities	216,565	-
Accrued payroll and related liabilities	36,546	-
Due to City of Salem	15,755	-
Unearned revenues	22,313	-
Total liabilities	<u>291,179</u>	<u>-</u>
NET POSITION		
Restricted for:		
Individuals, organizations, and other governments	2,088,244	-
OPEB	-	12,867,399
Total net position	<u>\$ 2,088,244</u>	<u>\$ 12,867,399</u>

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

CITY OF SALEM, VIRGINIA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2025

	Custodial Funds	OPEB Trust Fund
ADDITIONS		
Funds received for benefit of other organizations	\$ 2,685,225	\$ -
Employer contributions - City	-	1,811,496
Employer contributions - Custodial entities	-	44,588
<i>Investment income</i>		
Increase in fair value of investments	-	1,027,338
Total additions	<u>2,685,225</u>	<u>2,883,422</u>
DEDUCTIONS		
Funds disbursed for benefit of other organizations	2,783,955	-
Administrative	-	12,091
Retirement benefits - City	-	1,576,566
Retirement benefits - Custodial entities	-	41,088
Total deductions	<u>2,783,955</u>	<u>1,629,745</u>
Change in fiduciary net position	<u>(98,730)</u>	<u>1,253,677</u>
Net position, beginning	<u>2,186,974</u>	<u>11,613,722</u>
Net position, ending	<u><u>\$ 2,088,244</u></u>	<u><u>\$ 12,867,399</u></u>

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

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF NET POSITION
COMPONENT UNITS
JUNE 30, 2025

	School Division	Economic Development Authority	Total
ASSETS			
Cash and cash equivalents	\$ 18,024,373	\$ 947,887	\$ 18,972,260
Receivables	74,124	14,632,799	14,706,923
Lease receivable	462,770	-	462,770
Due from other governmental units	1,758,233	-	1,758,233
Net pension asset	825,010	-	825,010
Net OPEB asset	546,393	-	546,393
Inventories	63,718	-	63,718
Prepaid items	385,915	-	385,915
<i>Capital assets:</i>			
Nondepreciable and nonamortizable	1,680,988	-	1,680,988
Depreciable and amortizable, net	70,144,226	-	70,144,226
Total assets	<u>93,965,750</u>	<u>15,580,686</u>	<u>109,546,436</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>11,383,096</u>	<u>-</u>	<u>11,383,096</u>
LIABILITIES			
Accounts payable and accrued liabilities	538,290	340,486	878,776
Accrued payroll and related liabilities	6,624,044	-	6,624,044
Accrued interest	-	40,302	40,302
Self-insurance claims liability	528,038	-	528,038
Due to primary government	-	8,060,478	8,060,478
Unearned revenues	454,736	40,302	495,038
<i>Long-term liabilities due in less than one year:</i>			
Bonds payable	-	517,000	517,000
Lease liability	43,097	-	43,097
Subscription liability	54,896	-	54,896
Compensated absences	2,436,460	-	2,436,460
<i>Long-term liabilities due in more than one year:</i>			
Bonds payable	-	5,825,618	5,825,618
Lease liability	31,853	-	31,853
Compensated absences	520,798	-	520,798
Net pension liability	25,983,974	-	25,983,974
Net OPEB liability	4,624,909	-	4,624,909
Total liabilities	<u>41,841,095</u>	<u>14,824,186</u>	<u>56,665,281</u>
DEFERRED INFLOWS OF RESOURCES	<u>6,587,735</u>	<u>-</u>	<u>6,587,735</u>
NET POSITION			
Net investment in capital assets	71,695,368	-	71,695,368
Restricted for:			
Net pension asset	825,010	-	825,010
Net OPEB asset	546,393	-	546,393
Unrestricted (deficit)	(16,146,755)	756,500	(15,390,255)
Total net position	<u>\$ 56,920,016</u>	<u>\$ 756,500</u>	<u>\$ 57,676,516</u>

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

**CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
YEAR ENDED JUNE 30, 2025**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					<i>School Division</i>	<i>Economic Development Authority</i>	Total Component Units
School Division	\$ 65,906,036	\$ 1,992,772	\$ 18,322,104	\$ 16,895	\$ (45,574,265)	\$ -	\$ (45,574,265)
Economic Development Authority	979,020	37,175	-	-	-	(941,845)	(941,845)
Total component units	\$ 66,885,056	\$ 2,029,947	\$ 18,322,104	\$ 16,895	(45,574,265)	(941,845)	(46,516,110)

General revenues:

Unrestricted investment earnings	-	616,387	616,387
Payments from City of Salem	23,781,130	393,339	24,174,469
Unrestricted state aid	21,137,461	-	21,137,461
Other	658,360	-	658,360
Total general revenues	45,576,951	1,009,726	46,586,677
Change in net position	2,686	67,881	70,567
Net position, beginning*	56,917,330	688,619	57,605,949
Net position, ending	\$ 56,920,016	\$ 756,500	\$ 57,676,516

* Restated, due to implementation of the guidance in GASB Statement 101, *Compensated Absences*

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

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

1. Summary of Significant Accounting Policies

The Financial Reporting Entity

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

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

Discretely Presented Component Units

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

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

During the current year, the City provided \$23,781,130 of operating support to the School Division and made debt service payments of \$2,757,671 on behalf of the School Division.

The Economic Development Authority of the City of Salem (Economic Development Authority) is a legally separate entity, which operates under the direction of City Council. The City provides financial resources to the Economic Development Authority, which it then uses for economic development incentives for local businesses and other operating costs. Based on these facts, the City reports the Economic Development Authority as a discretely presented component unit. During the current year, the City provided \$393,339 in operating support to the Economic Development Authority. Separate financial statements are not issued for the Economic Development Authority.

Government-wide Financial Statements

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

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

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

1. Summary of Significant Accounting Policies (Continued)

Government-wide Financial Statements (Continued)

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

Fund Financial Statements

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

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

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

- The *General Fund* is the government's primary operating fund and accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Special Revenue Fund* accounts for resources received from revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The revenue source for this fund is federal Coronavirus State and Local Fiscal Recovery Funds received under the American Rescue Plan Act, which was signed into law on March 11, 2021.
- The *Debt Service Fund* accounts for the accumulation of resources and payments made for principal and interest on long-term general obligation debt not being financed by the proprietary funds.
- The *Capital Projects Fund* accounts for resources to be used for the acquisition or construction of major capital facilities not being financed by the proprietary funds.

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

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

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

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

1. Summary of Significant Accounting Policies (Continued)

Fund Financial Statements (Continued)

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

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

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

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

Measurement Focus and Basis of Accounting

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the current period. General fund tax revenues are considered measurable when they have been levied and available if collected within 60 days of year-end. Interest revenues are considered measurable and available if collected within 60 days of year-end. Grant revenues are considered measurable when the legal and contractual requirements have been met and available if collected within one year of the end of the current fiscal period. All other revenue items are considered measurable and available when cash is received by the City. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, long-term debt service, compensated absences, pension, and other postemployment benefit expenditures, as well as expenditures related to claims and judgments are recorded only when payment is due. General capital asset acquisitions, including entering into contracts giving the government right-to-use lease assets and subscription assets, are reported as expenditures. Proceeds of long-term debt, financing through leases, financing through subscriptions, and insurance recoveries 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, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

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 fund's principal ongoing operations. Operating revenues include charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Fiduciary Fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. In custodial funds, a liability is recognized when an event occurs that compels the City to disburse fiduciary resources.

Budgets and Budgetary Accounting

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

Annual Budget Adoption – Not less than thirty days before the last regular meeting of City Council in May, the City Manager submits to City Council a proposed operating and capital budget for the fiscal year commencing July 1. This budget includes proposed expenditures and the means of financing them. A public hearing is conducted to obtain citizen comments. Prior to June 30, the budgets are legally adopted through passage of an appropriation ordinance by City Council.

Projects/Grants – The Capital Projects Fund utilizes a project length budget, and the Special Revenue Fund utilizes a grant length budget. These budgets are not legally enacted on an annual basis; therefore, budgetary comparison statements are not presented.

Amendment – The City Manager is authorized to transfer amounts within and between departments and categories within the same fund. City Council must approve budget amendments between funds and any budget amendments increasing or decreasing appropriations. During the year, City Council approved \$11,884,373 of additional appropriations primarily for grants, capital outlay, capital reserve, unforeseen operating expenditures and the reappropriation of fund balances for encumbrances.

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

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

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

1. Summary of Significant Accounting Policies (Continued)

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, Special Revenue 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. These encumbrances are subject to reappropriation by City Council in the subsequent fiscal year. Significant encumbrances as of June 30, 2025, total \$4,678,394 in the General Fund and \$7,875,472 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.

Allowance for Uncollectible Accounts

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

Property Taxes

The City levies real estate taxes on all real estate within its boundaries, except that exempted by statute, each year as of July 1 based on 100% of estimated fair market value of the property. The City reassesses all property annually. Real estate taxes are due in equal semiannual payments on December 5 and June 5 and are considered delinquent after each due date. Real estate taxes become a lien on real property the first day of the levy year. The tax rate for 2025 was \$1.20 per \$100 of assessed value.

The City levies personal property taxes on motor vehicles and business and other tangible personal property each year as of January 1. Personal property taxes are due the following May 31 and are considered delinquent after the due date. Personal property taxes do not create a lien on property; however, a penalty of 10% of delinquent personal property tax or \$10, whichever is greater, is due for late payment. Interest on delinquent taxes is accrued monthly at a rate of 0.83%, or 10% annually. Personal property transactions during the year are taxed on a prorated basis. The tax rate for personal property for 2025 was \$3.40 per \$100 of assessed value. The tax rate for machinery and tools for 2025 was \$3.20 per \$100 of assessed value.

Interfund Balances

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

Inventory

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

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

1. Summary of Significant Accounting Policies (Continued)

Inventory (Continued)

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

Prepaid Items

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

Proprietary fund prepaid items consist primarily of fees for civic and community events held after year-end and software maintenance and support for a subsequent period. These costs are expensed in the subsequent fiscal year for proper matching of revenues and expenses.

Leases

City as Lessee – The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the applicable governmental or business-type activities column in the government-wide financial statements. Proprietary fund lease liabilities and intangible right-to-use lease assets are reported in the applicable fund financial statements. The City recognizes lease liabilities with initial values of \$10,000 or more, individually or in aggregate.

At the commencement of a lease, the City measures the lease liability initially at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is measured initially as the amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset, but if the lease contains a purchase option the City is reasonably certain to exercise, the lease asset is amortized over the useful life of the underlying asset. If the underlying asset is nondepreciable, the lease asset is not amortized.

Key estimates and judgments related to leases include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) the lease term, and (3) lease payments. The City makes determinations as follows:

- The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for equipment leases and prime for building and infrastructure leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and any purchase option price that the City is reasonably certain to exercise.

The City monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Right-to-use lease assets are reported with other capital assets, and lease liabilities are reported with long-term debt on the statement of net position.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

1. Summary of Significant Accounting Policies (Continued)

Leases (Continued)

City as Lessor – The City recognizes a lease receivable and a deferred inflow of resources in the government-wide, governmental fund, and proprietary fund financial statements. At the commencement of a lease, the City measures the lease receivable initially at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is measured initially as the amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the City determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts. The City makes determinations as follows:

- The City uses its estimated incremental borrowing rate as the discount rate for equipment leases and prime for building and infrastructure leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee.

The City monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Subscription-Based Information Technology Arrangements

The City recognizes a subscription liability and a subscription-based information technology arrangement asset (subscription asset) in the applicable governmental or business-type activities column in the government-wide financial statements. Proprietary fund subscription liabilities and subscription assets are reported in the applicable fund financial statements. The City recognizes subscription liabilities with initial, individual values of \$10,000 or more and subscription terms greater than twelve months, including any options to extend.

At the commencement of a subscription term, the City measures the subscription liability initially at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The subscription asset is measured initially as the amount of the subscription liability, plus any payments made to the subscription vendor at the commencement of the subscription term associated with the contract and any capitalizable initial implementation costs. Subsequently, the subscription asset is amortized on a straight-line basis over the shorter of the subscription term or the useful life of the underlying asset.

Key estimates and judgments related to subscriptions include how the City determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) the subscription term, and (3) subscription payments. The City makes determinations as follows:

- The City uses the interest rate charged by the subscription vendor as the discount rate. When the interest rate charged by the subscription vendor is not provided, the City uses its estimated incremental borrowing rate as the discount rate.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

1. Summary of Significant Accounting Policies (Continued)

Subscription-Based Information Technology Arrangements (Continued)

- The subscription term includes the noncancellable period of the subscription, plus periods covered by the City's or the subscription vendor's option to extend if it is reasonably certain the City or subscription vendor will extend, and periods covered by the City's or subscription vendor's option to terminate if it is reasonably certain the City or subscription vendor will not terminate. Periods for which both the City and subscription vendor have the option to terminate without permission from the other party, or for which both parties have to agree to extend, are excluded from the subscription term.

The City monitors changes in circumstances that would require a remeasurement of its subscriptions and will remeasure the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the subscription asset or liability. Subscription assets are reported with other capital assets, and subscription liabilities are reported with long-term debt on the statement of net position.

Capital Assets

Capital assets, which include property, plant and equipment, infrastructure, right-to-use lease assets, and subscription-based information technology arrangement assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Proprietary fund capital assets are reported in the applicable fund financial statements. Capital assets are defined by the City as assets with initial individual costs in excess of \$0 for land, \$10,000 for machinery and equipment, \$15,000 for buildings, plant and infrastructure, or aggregate costs of at least \$100,000 when acquired, and estimated useful lives 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 leases section of this note provides additional information about right-to-use lease assets. The subscription-based information technology arrangements section of this note provides additional information about subscription assets. The City includes the costs of other intangible assets with definite lives in the appropriate asset classes.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are completed. Depreciable capital assets are depreciated using the straight-line method over the following estimated useful lives:

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

Right-to-use lease assets and subscription assets are amortized as described in the leases and subscription-based information technology arrangements sections of this note. Other amortizable capital assets are amortized using the straight-line method over the estimated useful lives of the underlying assets. Depreciation expense and amortization expense are identified with functions, whenever possible, and included as direct expenses. Upon the sale or retirement of a capital asset, the cost and related accumulated depreciation or accumulated amortization, if applicable, are eliminated from the respective accounts, and any resulting gain or loss is included in the results of operations.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

1. Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

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

Deferred Outflows/Inflows of Resources

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

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

The City and School Division have the following items that qualify for reporting as deferred outflows and/or deferred inflows:

- A deferred loss on refunding is a deferred outflow that results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- A deferred gain on refunding is a deferred inflow that results from the difference in the reacquisition price of refunded debt and its carrying value. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Property taxes and lease inflows collected in advance of the periods of service are deferred inflows, which will be recognized as revenue over the periods of service.
- Pension and OPEB deferred outflows and deferred inflows are as follows:
 - Differences between expected and actual experience of economic or demographic factors in the measurement of the total pension or OPEB liability are deferred outflows or deferred inflows, which will be recognized in pension or OPEB expense over the expected average remaining service life of all employees provided with benefits in the plan.
 - Differences between projected and actual earnings on pension and OPEB plan investments are deferred inflows or deferred outflows, which will be recognized in pension or OPEB expense over a closed five-year period.
 - Changes in assumptions about future economic factors, demographic factors, or other inputs into the measurement of the net pension or OPEB liability are deferred outflows or deferred inflows, which will be recognized in pension or OPEB expense over the expected average remaining service life of all employees provided with benefits in the plan.
 - Changes in the employer's proportionate share of collective net pension and OPEB liabilities and differences between employer contributions and the employer's proportionate share of contributions for pension and OPEB are deferred outflows or deferred inflows, which will be recognized in pension or OPEB expense over the expected average remaining service life of all employees provided with benefits in the plan.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

1. Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources (Continued)

- Employer contributions subsequent to the measurement date for pension and OPEB are always deferred outflows and will be applied to the net pension or OPEB liability in the next fiscal year.
- At the fund level, property taxes and charges for services and fees that are not yet available to finance expenditures of the current period are reported as deferred inflows. These will be recognized as revenue when they become available to finance expenditures of the reporting period.

Surety Bond Payable

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

Unearned Revenues

Unearned revenues arise when assets are recognized before revenue recognition criteria can be satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue. Unearned revenues consist primarily of retiree health insurance premiums billed in advance, event deposits, and rentals.

Long-Term Obligations

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

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

Compensated Absences

The City and the School Division have policies to allow the accumulation and vesting of limited amounts of paid leave and extended illness leave until termination or retirement. The government-wide financial statements include an accrual for leave attributable to services already rendered that accumulates and is more likely than not to be used for time off or otherwise settled in the future. The governmental fund financial statements report a liability when leave is 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 liabilities, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of the plans and the additions to/deductions from the plans' fiduciary net positions have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

1. Summary of Significant Accounting Policies (Continued)

Other Postemployment Benefits – Retiree Health Plan

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

Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit

The VRS Group Life Insurance Program and VRS Teacher Employee Health Insurance Credit Program are multiple-employer, cost-sharing plans. The VRS Political Subdivision Health Insurance Credit Program is a multiple-employer, agent defined benefit plan. The VRS 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 VRS Political Subdivision Health Insurance Credit Program and VRS 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 VRS Group Life Insurance Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. The VRS Political Subdivision Health Insurance Credit Program and VRS Teacher Employee Health Insurance Program are defined benefit plans that provide credits toward the cost of health insurance coverage for retired political subdivision employees of participating employers and retired teachers. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources, and OPEB expense related to each plan, information about the fiduciary net position and the additions to/deductions from fiduciary net position for each plan 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 accumulated amortization, less any debt that remains outstanding which was used to finance those assets, less other capital-related liabilities.
- **Restricted** – consists of assets where there are limitations imposed on their use through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- **Unrestricted** – all other net position is reported in this category.

Net investment in capital assets for governmental activities excludes \$31,085,084 of School Division debt and \$792,110 of Civic Center debt reported by the City because the related assets are reported by the School Division and Civic Center, respectively. Noncapital debt of \$777,173, \$1,894, and \$192,914 is also excluded from the net investment in capital assets for governmental activities, the Electric Fund, and the Water and Sewer Fund, respectively.

The Catering and Concessions Fund, a Non-Major Proprietary Fund, has a deficit of \$574,520 in total net position as of June 30, 2025, because sales revenues have not covered operating expenses in that fund in prior years.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

1. Summary of Significant Accounting Policies (Continued)

Fund Balances

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

- **Nonspendable** – Amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.
- **Restricted** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** – Amounts constrained to specific purposes by the City, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purposes unless the same highest level of action is taken to remove or change the constraint.
- **Assigned** – Amounts the City intends to use for a specified purpose; intent can be expressed by the governing body (City Council) or by an official or body to which the governing body designates the authority.
- **Unassigned** – Amounts that are available for any purpose; positive amounts are reported only in the General Fund.

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

Restricted Amounts

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Minimum Fund Balance

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

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

Reclassifications

Certain amounts in the prior-year comparison information have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

1. Summary of Significant Accounting Policies (Continued)

Estimates

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

2. Deposits and Investments

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

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.

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).

Investments

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

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

	Primary Government	Component Units	Total
Cash and cash equivalents	\$ 157,708,334	\$ 18,972,260	\$ 176,680,594
Cash and cash equivalents, restricted	2,286,436	-	2,286,436
	<u>\$ 159,994,770</u>	<u>\$ 18,972,260</u>	<u>\$ 178,967,030</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

2. Deposits and Investments (Continued)

Investments (Continued)

As of June 30, 2025, the City's deposits and investments consisted of the following:

Investment Type	Fair Value	S&P Credit Rating
Primary Government		
Demand & time deposits	\$ 50,612,879	unrated
Cash on hand	9,660	unrated
Local Government Investment Pool (LGIP)	107,151,580	AAAm
VA State Non-Arbitrage Program (SNAP)	2,220,651	AAAm
Total primary government	159,994,770	
Component Units		
Demand & time deposits	12,275,801	unrated
Cash on hand	515	unrated
Local Government Investment Pool (LGIP)	6,695,944	AAAm
Total component units	18,972,260	
Grand Total	\$ 178,967,030	

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

Credit Risk

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

Concentration of Credit Risk

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

Interest Rate Risk

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

2. Deposits and Investments (Continued)

Custodial Credit Risk

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

3. Receivables

Receivables, Net

Receivables other than lease receivables are aggregated into a single receivables line net of allowances for uncollectible accounts. Details of receivables other than lease receivables are as follows:

	Governmental Activities	Business-type Activities			Component Units
		Electric	Water and Sewer	Nonmajor Proprietary	
Tax receivables	\$ 4,400,985	\$ -	\$ -	\$ -	\$ -
Opioid abatement receivables	1,209,179	-	-	-	-
Interest receivables	208,073	-	-	-	-
Account receivables	66,023	7,691,238	2,359,023	106,546	-
Other receivables	1,327,543	-	-	-	14,706,923
Gross receivables	7,211,803	7,691,238	2,359,023	106,546	14,706,923
Allowance for uncollectibles	(945,644)	(139,501)	(31,764)	(8,845)	-
Receivables, net	\$ 6,266,159	\$ 7,551,737	\$ 2,327,259	\$ 97,701	\$ 14,706,923

Lease Receivable

The City, as a lessor, has entered into lease agreements involving City-owned office space and space on certain City-owned water tanks and property. The total amount of inflows of resources, including lease revenue, interest revenue, and other lease-related inflows, recognized during the fiscal year was \$312,852. This total includes \$4,410 of variable payments and other payments not previously included in the measurement of the lease receivable. Future payments included in the measurement of the lease receivable are as follows:

Fiscal Year	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2026	\$ 156,350	\$ 2,840	\$ 113,627	\$ 8,621
2027	157,278	1,911	96,941	5,385
2028	158,238	951	79,883	2,854
2029	141,989	105	48,442	804
2030	129,884	-	12,186	62
2031-2035	135,296	-	-	-
	\$ 879,035	\$ 5,807	\$ 351,079	\$ 17,726

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

3. Receivables (Continued)

Lease Receivable (Continued)

The School Division, as a lessor, has entered into a lease agreement involving School Division-owned broadband channels. The total amount of inflows of resources, including lease revenue, interest revenue, and other lease-related inflows, recognized during the fiscal year was \$39,675. There were no variable payments or other payments related to the leases not previously included in the measurement of the lease receivable. Future payments included in the measurement of the lease receivable are as follows:

Fiscal Year	Component Unit - School Division	
	Principal	Interest
2026	\$ 12,466	\$ 15,302
2027	13,736	14,866
2028	15,073	14,386
2029	16,487	13,860
2030	17,973	13,285
2031-2035	114,974	55,936
2036-2040	165,406	32,720
2041-2045	106,655	4,769
	<u>\$ 462,770</u>	<u>\$ 165,124</u>

4. Interfund Balances and Transfers

The composition of the interfund balances is as follows:

	Due from (fund)	
	Nonmajor Proprietary	
Due to (fund) Water and Sewer	\$	200,000

The amount due to the Water and Sewer Fund from the Nonmajor Proprietary Funds is a short-term loan to fund operations in the Catering and Concessions Fund.

The composition of the interfund transfers is as follows:

	Transfer out (fund)				
	General	Capital Projects	Electric	Water and Sewer	Total
Transfer in (fund) General	\$ -	\$ -	\$ 3,160,000	\$ 150,575	\$ 3,310,575
Debt Service	5,609,170	391,738	-	-	6,000,908
Capital Projects	8,840,530	-	-	-	8,840,530
Nonmajor Proprietary	2,561,785	-	-	-	2,561,785
Total	<u>\$ 17,011,485</u>	<u>\$ 391,738</u>	<u>\$ 3,160,000</u>	<u>\$ 150,575</u>	<u>\$ 20,713,798</u>

Transfers to the General Fund are payments in lieu of taxes. Transfers to the Debt Service Fund include principal and interest payments for general government and school debt. Transfers to the Capital Projects Fund are funding for current projects. Transfers to Nonmajor Proprietary Funds include funding assistance for operating expenses and building improvements.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

5. Due from/to Primary Government and Component Unit

The amount due to a component unit from governmental activities of \$324,221 is due from the General Fund to the Economic Development Authority for tax rebate payments due as of the end of the fiscal year. The amount due from a component unit to business-type activities is a loan from the Electric Fund to the Economic Development Authority. The Economic Development Authority used these funds to provide loans to three developers for rehabilitation projects within the City. The loan balance outstanding as of June 30, 2025, is \$8,384,699. The loan is being repaid as follows:

- \$1,903,631 over twenty years maturing February 1, 2039, with an interest rate of 3.79%.
- \$1,481,068 over twenty years maturing July 22, 2040, with an interest rate of 3.72%.
- \$5,000,000 at the end of six years maturing November 15, 2028, with an interest rate of 0%.

6. Due from Other Governmental Units

Amounts due from other governmental units are as follows:

	Governmental Activities	Component Units
Commonwealth of Virginia		
Personal property tax relief	\$ 2,588,707	\$ -
Local sales tax	1,619,699	-
Capital projects funding	3,967,232	-
Sales tax	-	795,906
Children's Services Act	649,995	-
Medicaid reimbursement	-	145,790
Communications tax	110,655	-
Compensation Board reimbursement	151,944	-
Preservation Trust Fund Program Grant	179,237	-
Other	325,942	15,111
Federal government		
School funds	-	801,426
Lease payment from General Services Administration	11,147	-
Other	4,713	-
	<u>\$ 9,609,271</u>	<u>\$ 1,758,233</u>

7. Capital Assets

Capital asset activity for the year for the primary government is as follows:

	Beginning Balance	Transfers and Additions	Transfers and Retirements	Ending Balance
Governmental Activities				
Capital assets, nondepreciable and nonamortizable				
Land	\$ 7,360,369	\$ 153,694	\$ -	\$ 7,514,063
Construction in progress	35,022,312	12,797,433	(34,546,569)	13,273,176
Development in progress	682,582	141,976	(782,058)	42,500
Capital assets, nondepreciable and nonamortizable	<u>43,065,263</u>	<u>13,093,103</u>	<u>(35,328,627)</u>	<u>20,829,739</u>

(Continued)

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

7. Capital Assets (Continued)

	Beginning Balance	Transfers and Additions	Transfers and Retirements	Ending Balance
Governmental Activities (Continued)				
Capital assets, depreciable and amortizable				
Machinery and equipment	31,606,459	3,762,273	(585,378)	34,783,354
Buildings and improvements	42,730,851	17,057,151	(618,283)	59,169,719
Leasehold improvements	42,806	-	-	42,806
Public domain infrastructure	122,268,281	17,955,847	(297,527)	139,926,601
Right-to-use leased machinery and equipment	97,632	74,697	(29,200)	143,129
Subscription-based information technology arrangements	841,342	2,110,232	(162,440)	2,789,134
Capital assets, depreciable and amortizable	197,587,371	40,960,200	(1,692,828)	236,854,743
Accumulated depreciation and accumulated amortization				
Machinery and equipment	(20,424,795)	(2,202,949)	395,919	(22,231,825)
Buildings and improvements	(24,081,592)	(1,625,713)	73,370	(25,633,935)
Leasehold improvements	(23,306)	(2,853)	-	(26,159)
Public domain infrastructure	(64,700,778)	(3,498,540)	193,815	(68,005,503)
Right-to-use leased machinery and equipment	(54,488)	(27,250)	29,200	(52,538)
Subscription-based information technology arrangements	(215,822)	(612,583)	162,440	(665,965)
Accumulated depreciation and accumulated amortization	(109,500,781)	(7,969,888)	854,744	(116,615,925)
Capital assets, depreciable and amortizable, net	88,086,590	32,990,312	(838,084)	120,238,818
Capital assets, net	<u>\$ 131,151,853</u>	<u>\$ 46,083,415</u>	<u>\$ (36,166,711)</u>	<u>\$ 141,068,557</u>
Business-type Activities				
Capital assets, nondepreciable and nonamortizable				
Land	\$ 1,585,417	\$ 16,000	\$ -	\$ 1,601,417
Construction in progress	5,857,535	5,787,645	(5,274,015)	6,371,165
Capital assets, nondepreciable and nonamortizable	7,442,952	5,803,645	(5,274,015)	7,972,582
Capital assets, depreciable and amortizable				
Machinery and equipment	10,198,725	1,107,937	(70,044)	11,236,618
Buildings and improvements	28,257,147	180,074	(238,297)	28,198,924
Distribution and transmission	53,414,320	859,041	(6,803)	54,266,558
Utility plant	91,983,443	2,515,218	(103,733)	94,394,928
Sewage treatment contract	31,955,606	2,285,715	-	34,241,321
Right-to-use leased machinery and equipment	27,887	6,811	(6,125)	28,573

(Continued)

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

7. Capital Assets (Continued)

	Beginning Balance	Transfers and Additions	Transfers and Retirements	Ending Balance
Business-type Activities (Continued)				
Capital assets, depreciable and amortizable (Continued)				
Subscription-based information technology arrangements	-	18,941	-	18,941
Capital assets, depreciable and amortizable	215,837,128	6,973,737	(425,002)	222,385,863
Accumulated depreciation and accumulated amortization				
Machinery and equipment	(8,122,116)	(503,288)	70,044	(8,555,360)
Buildings and improvements	(15,020,475)	(755,412)	223,233	(15,552,654)
Distribution and transmission	(24,979,543)	(1,085,934)	6,629	(26,058,848)
Utility plant	(58,000,138)	(1,503,079)	89,093	(59,414,124)
Sewage treatment contract	(15,643,010)	(858,945)	-	(16,501,955)
Right-to-use leased machinery and equipment	(12,359)	(7,335)	6,125	(13,569)
Subscription-based information technology arrangements	-	(7,837)	-	(7,837)
Accumulated depreciation and accumulated amortization	(121,777,641)	(4,721,830)	395,124	(126,104,347)
Capital assets, depreciable and amortizable, net	94,059,487	2,251,907	(29,878)	96,281,516
Capital assets, net	<u>\$ 101,502,439</u>	<u>\$ 8,055,552</u>	<u>\$ (5,303,893)</u>	<u>\$ 104,254,098</u>

Depreciation expense and amortization expense are charged to functions/programs of the primary government as follows:

Governmental Activities

General government	\$ 1,002,362
Judicial administration	60,389
Public safety	1,471,275
Public works	3,293,268
Parks, recreation and cultural	2,100,767
Community development	19,149
Total depreciation and amortization expense	<u>\$ 7,947,210</u>

Business-type Activities

Electric	\$ 1,768,013
Water and sewer	2,617,348
Civic Center	332,901
Catering and concessions	3,568
Total depreciation and amortization expense	<u>\$ 4,721,830</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

7. Capital Assets (Continued)

Current year increases to accumulated depreciation and accumulated amortization shown in the capital asset table for governmental activities exceed depreciation expense by \$22,678 because the table includes accumulated depreciation for machinery and equipment transferred from the Electric Fund to Governmental Activities.

Capital asset activity for the year for the component unit is as follows:

	Beginning Balance	Transfers and Additions	Transfers and Retirements	Ending Balance
Component Unit - School Division				
Capital assets, nondepreciable and nonamortizable				
Land	\$ 1,123,637	\$ -	\$ -	\$ 1,123,637
Construction in progress	346,597	639,096	(428,342)	557,351
Capital assets, nondepreciable and nonamortizable	1,470,234	639,096	(428,342)	1,680,988
Capital assets, depreciable and amortizable				
Machinery and equipment	10,202,333	938,115	(1,031,633)	10,108,815
Buildings and improvements	99,082,977	1,201,167	-	100,284,144
Right-to-use leased machinery and equipment	131,663	32,942	-	164,605
Subscription-based information technology arrangements	165,556	60,111	(34,059)	191,608
Capital assets, depreciable and amortizable	109,582,529	2,232,335	(1,065,692)	110,749,172
Accumulated depreciation and accumulated amortization				
Machinery and equipment	(7,235,250)	(569,889)	1,025,692	(6,779,447)
Buildings and improvements	(30,610,403)	(3,050,093)	-	(33,660,496)
Right-to-use leased machinery and equipment	(49,374)	(42,291)	-	(91,665)
Subscription-based information technology arrangements	(63,647)	(43,750)	34,059	(73,338)
Accumulated depreciation and accumulated amortization	(37,958,674)	(3,706,023)	1,059,751	(40,604,946)
Capital assets, depreciable and amortizable, net	71,623,855	(1,473,688)	(5,941)	70,144,226
Capital assets, net	\$ 73,094,089	\$ (834,592)	\$ (434,283)	\$ 71,825,214

Intangible Right-to Use Assets

As of June 30, 2025, the City and School Division recognized right-to-use assets for the value of copiers leased under long-term contracts as part of capital assets. The intangible right-to-use assets are being amortized over the lease terms for each lease. Terms of the leases are described in Note 9.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

7. Capital Assets (Continued)

Subscription-Based Information Technology Arrangements

As of June 30, 2025, the City and School Division recognized subscription-based information technology arrangement assets for the value of software subscriptions under subscription contracts as part of capital assets. The subscription-based information technology arrangement assets are being amortized over the subscription terms for each subscription. Terms of the subscriptions are described in Note 9.

8. Deferred Outflows/Inflows of Resources

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

	Governmental Activities	Business-type Activities	Component Units
Deferred outflows of resources			
Deferred loss on refunding of debt	\$ 142,739	\$ 264,192	\$ -
Pension	8,673,095	2,290,846	10,115,322
OPEB	1,938,092	515,637	1,267,774
Total deferred outflows of resources	<u>\$ 10,753,926</u>	<u>\$ 3,070,675</u>	<u>\$ 11,383,096</u>
Deferred inflows of resources			
Deferred gain on refunding of debt	\$ -	\$ 43,166	\$ -
Property taxes collected in advance	93,157	-	-
Leases	876,821	335,591	422,270
Pension	4,219,633	1,114,412	4,914,208
OPEB	3,371,543	898,155	1,251,257
Total deferred inflows of resources	<u>\$ 8,561,154</u>	<u>\$ 2,391,324</u>	<u>\$ 6,587,735</u>

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

	General
Deferred inflows of resources	
Unavailable revenue - property taxes	\$ 1,637,415
Property taxes collected in advance	93,157
Unavailable revenue - charges for services and fees	1,370,948
Leases	876,821
Total deferred inflows of resources	<u>\$ 3,978,341</u>

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

	Electric	Water and Sewer	Nonmajor Proprietary Funds	Internal Service Fund
Deferred outflows of resources				
Deferred loss on refunding of debt	\$ 264,192	\$ -	\$ -	\$ -
Pension	817,660	1,026,086	447,100	49,714
OPEB	157,369	260,000	98,268	4,613
Total deferred outflows of resources	<u>\$ 1,239,221</u>	<u>\$ 1,286,086</u>	<u>\$ 545,368</u>	<u>\$ 54,327</u>

(Continued)

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

8. Deferred Outflows/Inflows of Resources (Continued)

	Electric	Water and Sewer	Nonmajor Proprietary Funds	Internal Service Fund
Deferred inflows of resources				
Deferred gain on refunding of debt	\$ -	\$ 43,166	\$ -	\$ -
Leases	-	335,591	-	-
Pension	399,266	497,565	217,581	23,746
OPEB	267,224	460,305	170,626	6,428
Total deferred inflows of resources	<u>\$ 666,490</u>	<u>\$ 1,336,627</u>	<u>\$ 388,207</u>	<u>\$ 30,174</u>

9. Long-Term Liabilities

Summary of Changes in Long-Term Liabilities

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

In May 2023, the City's component unit, the Economic Development Authority, issued taxable revenue bonds in order to obtain a drawdown loan from a financial institution to provide economic incentives to a private company in the form of a loan. Drawdowns occurred in the first twelve months, and the interest rate was variable for the first twelve months. The Economic Development Authority made interest-only payments during the first year of the loan. At the one-year anniversary of the loan, the principal amount and interest rate became fixed. The Economic Development Authority makes principal and interest payments to the financial institution and is reimbursed by the private company for these payments.

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

	Beginning Balance*	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds	\$ 56,504,023	\$ -	\$ (3,715,455)	\$ 52,788,568	\$ 3,834,752
Bond premiums	3,898,385	-	(337,524)	3,560,861	337,524
Bonds payable	60,402,408	-	(4,052,979)	56,349,429	4,172,276
Financed purchase obligation	-	302,674	(63,417)	239,257	57,720
Lease liability	44,281	74,697	(27,308)	91,670	43,827
Subscription liability	413,933	1,640,647	(956,219)	1,098,361	545,156
Compensated absences**	2,798,578	47,471	-	2,846,049	2,739,611
Net pension liability	30,544,147	11,009,775	(9,523,072)	32,030,850	-
Net OPEB liability	12,779,139	2,951,156	(7,136,619)	8,593,676	-
	<u>\$ 106,982,486</u>	<u>\$ 16,026,420</u>	<u>\$ (21,759,614)</u>	<u>\$ 101,249,292</u>	<u>\$ 7,558,590</u>

* Restated, due to implementation of the guidance in GASB Statement 101, *Compensated Absences*

** Net change in compensated absences shown

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

9. Long-Term Liabilities (Continued)

Summary of Changes in Long-Term Liabilities (Continued)

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

	Beginning Balance*	Increases	Decreases	Ending Balance	Due Within One Year
Business-type Activities					
General obligation bonds	\$ 23,078,807	\$ 3,767,393	\$ (4,067,368)	\$ 22,778,832	\$ 4,311,040
Bond premiums	2,158,587	-	(434,314)	1,724,273	434,315
Bonds payable	25,237,394	3,767,393	(4,501,682)	24,503,105	4,745,355
Lease liability	13,107	6,811	(7,343)	12,575	5,440
Subscription liability	-	18,941	(9,465)	9,476	9,476
Compensated absences**	769,775	40,496	-	810,271	691,974
Net pension liability	8,170,971	2,905,641	(2,493,344)	8,583,268	-
Net OPEB liability	3,884,960	785,273	(1,882,001)	2,788,232	-
	<u>\$ 38,076,207</u>	<u>\$ 7,524,555</u>	<u>\$ (8,893,835)</u>	<u>\$ 36,706,927</u>	<u>\$ 5,452,245</u>
Component Unit - School Division					
Lease liability	\$ 83,931	\$ 32,943	\$ (41,924)	\$ 74,950	\$ 43,097
Subscription liability	-	54,896	-	54,896	54,896
Compensated absences**	3,091,958	-	(134,700)	2,957,258	2,436,460
Net pension liability	28,549,821	11,451,435	(14,017,282)	25,983,974	-
Net OPEB liability	5,353,194	1,198,910	(1,927,195)	4,624,909	-
	<u>\$ 37,078,904</u>	<u>\$ 12,738,184</u>	<u>\$ (16,121,101)</u>	<u>\$ 33,695,987</u>	<u>\$ 2,534,453</u>
Component Unit - Economic Development Authority					
Bonds payable	\$ 6,814,618	\$ -	\$ (472,000)	\$ 6,342,618	\$ 517,000

* Restated, due to implementation of the guidance in GASB Statement 101, *Compensated Absences*

** Net change in compensated absences shown

Bonds Payable

Details of long-term indebtedness for bonds payable are as follows:

	Interest Rates	Issue Date	Maturity Date	Issue Amount	Governmental Activities	Business-type Activities
General Obligation Bonds						
2004 Public Improvement	1.00%	04/04	07/26	\$ 11,052,222	\$ -	\$ 1,063,063
2010 Public Improvement	2.45%	09/10	03/30	3,648,124	-	1,172,581
2012 Public Improvement	2.35%	12/12	08/32	9,545,000	3,818,000	-
2013 Public Improvement	1.25%	03/13	04/34	3,058,522	-	1,583,079
2013 Public Improvement	3.03%	12/13	08/33	7,275,000	3,260,000	-
2016B Public Improvement	2.50%	06/16	04/26	6,393,385	150,694	558,126
2018 Public Improvement	0.00%	05/18	07/38	5,592,757	-	3,972,380
2019 Public Improvement	3.24%	02/19	04/39	5,025,000	3,850,000	-
2020 Public Improvement	2.00-5.00%	06/20	05/40	26,555,000	23,790,000	-
2020 Refunding	2.00-5.00%	06/20	05/36	24,035,000	3,797,874	8,757,127
2021 Refunding	1.24%	05/21	02/28	1,555,000	799,000	-
2022 Public Improvement	0.95%	03/22	03/43	2,285,715	-	2,120,476

(Continued)

9. Long-Term Liabilities (Continued)

	Interest Rates	Issue Date	Maturity Date	Issue Amount	Governmental Activities	Business-type Activities
General Obligation Bonds (Continued)						
2022 Public Improvement	3.03%	05/22	05/42	15,080,000	13,323,000	-
2024 Public Improvement	4.38%	11/24	05/45	3,552,000	-	3,552,000
					52,788,568	22,778,832
			Bond premiums		3,560,861	1,724,273
					<u>\$ 56,349,429</u>	<u>\$ 24,503,105</u>
					Component Unit - Economic Development Authority	
Revenue Bonds	Interest Rate	Issue Date	Maturity Date	Issue Amount		
2023 Revenue Bonds	7.50%	05/23	06/34	\$ 6,814,618	\$ 6,342,618	

	Component Unit - Economic Development Authority					
	Governmental Activities		Business-type Activities			
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2026	\$ 3,834,752	\$ 1,683,745	\$ 4,311,040	\$ 670,861	\$ 517,000	\$ 492,303
2027	3,788,166	1,531,834	3,527,507	529,341	556,000	442,990
2028	3,902,301	1,393,447	1,951,071	401,048	597,000	401,808
2029	3,985,436	1,250,152	2,010,971	335,880	644,000	355,314
2030	4,114,598	1,088,263	2,081,062	268,053	692,000	306,343
2031-2035	16,840,315	3,403,968	4,749,024	705,334	3,336,618	558,031
2036-2040	14,383,000	1,351,651	2,613,334	423,353	-	-
2041-2045	1,940,000	88,539	1,534,823	166,022	-	-
	\$52,788,568	\$11,791,599	\$22,778,832	\$ 3,499,892	\$ 6,342,618	\$ 2,556,789

On August 1, 2024, the City entered into a 60-month financed purchase obligation agreement with Axon Enterprise, Inc., to purchase police equipment. Under the agreement, the City pays \$63,416 annually to Axon Enterprise, Inc. Ownership transfers to the City at the end of the obligation. Future financed purchase obligation payments are as follows:

	Governmental Activities	
Fiscal Year	Principal	Interest
2026	\$ 57,720	\$ 5,696
2027	59,094	4,322
2028	60,501	2,915
2029	61,942	1,474
	<u>\$ 239,257</u>	<u>\$ 14,407</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

9. Long-Term Liabilities (Continued)

Financed Purchase Obligation (Continued)

The police equipment capital assets acquired through the financed purchase obligation are accounted for in the Statement of Net Position. At June 30, 2025, the original cost of the equipment was \$302,674, and accumulated depreciation was \$40,357.

Copier Leases

The City and School Division lease a variety of copiers from Xerox Corporation, US Bank Equipment Finance, and De Lage Landen Financial Services for terms ranging from 36 months to 60 months. Additionally, the City leases a piece of parks and recreation equipment from Turf Tank for a term of 24 months, and the School Division leases kitchen equipment from Ecolab for terms of 24 months to 60 months. For purposes of discounting future payments, the City and School Division used their incremental borrowing rates at lease inception. The leased equipment and accumulated amortization of the right-to-use assets are outlined in Note 7. Future minimum lease payments include:

Fiscal Year	Governmental Activities		Business-type Activities		Component Unit - School Division	
	Principal	Interest	Principal	Interest	Principal	Interest
2026	\$ 43,827	\$ 1,304	\$ 5,440	\$ 285	\$ 43,097	\$ 1,548
2027	33,658	1,133	5,380	153	21,965	508
2028	10,211	241	1,755	20	4,870	230
2029	3,397	61	-	-	5,018	82
2030	577	5	-	-	-	-
	<u>\$ 91,670</u>	<u>\$ 2,744</u>	<u>\$ 12,575</u>	<u>\$ 458</u>	<u>\$ 74,950</u>	<u>\$ 2,368</u>

Subscription-Based Information Technology Arrangements

The City and School Division subscribe to information technology assets, such as software, from vendors for terms greater than 12 months ranging from 14 months to 72 months. For purposes of discounting future payments, the City and School Division used their incremental borrowing rates at subscription inception. The subscription-based information technology arrangement assets and related accumulated amortization are outlined in Note 7. Future minimum subscription payments include:

Fiscal Year	Governmental Activities		Business-type Activities		Component Unit - School Division	
	Principal	Interest	Principal	Interest	Principal	Interest
2026	\$ 545,156	\$ 28,812	\$ 9,476	\$ 344	\$ 54,896	\$ 240
2027	317,218	14,518	-	-	-	-
2028	192,206	5,933	-	-	-	-
2029	21,106	1,269	-	-	-	-
2030	22,675	658	-	-	-	-
	<u>\$ 1,098,361</u>	<u>\$ 51,190</u>	<u>\$ 9,476</u>	<u>\$ 344</u>	<u>\$ 54,896</u>	<u>\$ 240</u>

Legal Debt Limit

The *Constitution of Virginia*, Article VII, Section 10(a), sets forth the City's legal debt limit as ten percent of the assessed valuation of the real estate in the City subject to taxation. As of June 30, 2025, ten percent of the assessed value of real property in the City is \$316,561,869. The City's net debt applicable to the legal debt limit is \$56,588,686, and the legal debt margin is \$259,973,183. Additional information about the City's legal debt margin is available in Table 11.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

10. Fund Balance

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

	General	Capital Projects	Total Governmental Funds
Fund Balances:			
Nonspendable:			
Inventories	\$ 992,825	\$ -	\$ 992,825
Prepays	179,079	-	179,079
	<u>1,171,904</u>	<u>-</u>	<u>1,171,904</u>
Restricted for:			
Fire and rescue	208,217	-	208,217
Highway maintenance	3,264,355	-	3,264,355
Law enforcement	597,968	-	597,968
Opioid abatement	736,722	-	736,722
Parks and recreation	33,505	-	33,505
	<u>4,840,767</u>	<u>-</u>	<u>4,840,767</u>
Committed to:			
Law enforcement	107,646	-	107,646
Stormwater management	95,111	-	95,111
	<u>202,757</u>	<u>-</u>	<u>202,757</u>
Assigned to:			
Building maintenance and improvements	410,146	202,868	613,014
Economic development	20,515	2,942,054	2,962,569
Engineering	84,094	-	84,094
Finance	20,732	-	20,732
Fire and rescue	747,335	4,191,827	4,939,162
Future capital projects	-	21,801,586	21,801,586
Highway maintenance	56,132	2,060,463	2,116,595
Human resources	12,850	-	12,850
Law enforcement	35,849	-	35,849
Library	-	1,095,000	1,095,000
Parks and recreation	210,114	777,991	988,105
Real estate	8,000	-	8,000
Street equipment	370,902	716,950	1,087,852
Technology systems	372,420	-	372,420
	<u>2,349,089</u>	<u>33,788,739</u>	<u>36,137,828</u>
Unassigned:	<u>59,993,132</u>	<u>-</u>	<u>59,993,132</u>
Total fund balances	<u>\$ 68,557,649</u>	<u>\$ 33,788,739</u>	<u>\$ 102,346,388</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

11. Risk Management

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

Workers' Compensation

Workers' Compensation Insurance is provided through the Virginia Risk Sharing Association (VRSA) for the City and through VACORP for the School Division. Benefits are those afforded through the Commonwealth of Virginia as outlined in *Code of Virginia* §65.2-100.

Premiums are based on covered payroll, job rates and claims experience. Total premiums for the current year were \$533,065 and \$95,019 for the City and School Division, respectively.

General Liability and Other

The City provides general liability and other insurance through VRSA. General liability and automotive liability have a \$1,000,000 limit per occurrence. Boiler and machinery coverage and property coverage are covered per statement of values. The City maintains an additional \$10,000,000 umbrella policy over all forms of liability. The City has flood insurance coverage through Selective Insurance Company of America for properties in designated flood zones or that are part of the water plant. Total premiums for the current fiscal year were \$547,356.

The School Division provides general liability and other insurance through VACORP. General liability, automobile liability, and property damage have a \$2,000,000 limit per occurrence. The School Division also has a separate student accident insurance policy through VACORP. Total premiums for the current fiscal year were \$133,976.

Line of Duty

The Line of Duty Act (LODA) provides benefits to local government employees who hold specified hazardous duty positions (*Code of Virginia* §9.1-400 et seq.). By statute, LODA benefits must be provided. The Virginia Department of Accounts administers the benefit. As of July 1, 2011, the General Assembly shifted the financial responsibility from the state government to local governments. The City provides an insured Line of Duty OPEB benefit plan through coverage with VRSA. In exchange for annual premiums paid while employees are in active service, VRSA covers the Line of Duty OPEB of those employees. The Line of Duty coverage provides a death benefit of \$100,000 to beneficiaries of public safety officers who die in the line of duty and a death benefit of \$25,000 to beneficiaries of public safety employees who die within five years of becoming disabled as a result of a qualifying illness as defined in the LODA. A health insurance benefit is also provided to the disabled public safety employees, their surviving spouses, and their dependents. The City retains an obligation for benefits in the event of VRSA's insolvency. The Commonwealth of Virginia has the authority to establish and amend LODA. Total premiums for the current year to VRSA for Line of Duty coverage were \$148,018.

Healthcare

The City's professionally administered self-insurance program provides health coverage for employees of the City and School Division on a cost-reimbursement basis. All active employees, retired City employees and retired School Division employees pay a premium equivalent for participation. The premium equivalent represents a minimum of 3% active or retired employee participation. The City is obligated for claims payments under the program. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$250,000 per covered individual.

During the current fiscal year, total claim expenses of \$11,611,944 were incurred. This represents claims processed and an estimate for claims incurred but not reported (IBNR) as of June 30, 2025. The estimated liability for the City and School Division was \$529,202 and \$513,038, respectively for a total of \$1,042,240 at year-end.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

11. Risk Management (Continued)

Healthcare (Continued)

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
2025	\$ 747,967	\$ 11,611,944	\$ 11,317,671	\$ 1,042,240
2024	679,113	8,704,448	8,635,594	747,967
2023	765,656	8,075,826	8,162,369	679,113

Dental

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

During the current fiscal year, total claim expenses of \$519,658 were incurred. This represents claims processed and an estimate for claims incurred but not reported (IBNR) as of June 30, 2025. The estimated liability for the City and School Division was \$11,000 and \$15,000, respectively for a total of \$26,000 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
2025	\$ 27,000	\$ 519,658	\$ 520,658	\$ 26,000
2024	15,000	550,249	538,249	27,000
2023	19,000	511,769	515,769	15,000

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.

12. Pension Plan – Virginia Retirement System Political Subdivision Retirement Plan

Plan Description

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

12. Pension Plan – Virginia Retirement System Political Subdivision Retirement Plan (Continued)

Plan Description (Continued)

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 available at:

- <https://www.varetire.org/retirement-plans/defined-benefit/plan1/>
- <https://www.varetire.org/retirement-plans/defined-benefit/plan2/>
- <https://www.varetire.org/retirement-plans/hybrid/>

Employees Covered by Benefit Terms

As of the June 30, 2023, actuarial valuation, the following City and School Division employees were covered by the benefit terms of the pension plan:

	<u>City of Salem</u>	<u>School Division (Non-Professional)</u>
Inactive members or their beneficiaries currently receiving benefits	744	85
Inactive members:		
Vested inactive members	170	19
Non-vested inactive members	259	56
Inactive members active elsewhere in VRS	229	18
Total inactive members	<u>658</u>	<u>93</u>
Active members	476	66
Total covered employees	<u><u>1,878</u></u>	<u><u>244</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 by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

The City's contractually required contribution rate for the year ended June 30, 2025, was 19.83% of covered employee compensation. The School Division's non-professional employees' contractually required contribution rate for the year ended June 30, 2025, was 3.58% of covered employee compensation. These rates were based on actuarially determined rates from actuarial valuations as of June 30, 2023. These rates, when combined with employee contributions, were expected to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liabilities.

Contributions to the VRS Political Subdivision Retirement Plan from the City were \$6,242,476 and \$5,969,000 for the years ended June 30, 2025, and June 30, 2024, respectively. Contributions to the VRS Political Subdivision Retirement Plan from the School Division were \$61,222 and \$18,737 for the years ended June 30, 2025, and June 30, 2024, respectively. Contributions for the fiscal year ended June 30, 2024, were adjusted to reflect actual amounts as shown on the VRS actuarial reports rather than estimated amounts used in the prior year's annual financial report.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

12. Pension Plan – Virginia Retirement System Political Subdivision Retirement Plan (Continued)

Contributions (Continued)

The defined contribution component of the Hybrid Plan includes member and employer mandatory and voluntary contributions. The Hybrid Plan member must contribute a mandatory rate of 1% of their covered payroll. The employer must also contribute a mandatory rate of 1% of this covered payroll, which totaled \$97,876 for the City and \$10,542 for the School Division in the VRS Political Subdivision Retirement Plan for the year ended June 30, 2025. Hybrid Plan members may also elect to contribute an additional voluntary rate of up to 4% of their covered payroll, which would require the employer to contribute a mandatory additional contribution rate of up to 2.5%. This additional employer mandatory contribution totaled \$104,085 for the City and \$10,218 for the School Division in the VRS Political Subdivision Retirement Plan for the year ended June 30, 2025. The Hybrid Plan participant covered payroll totaled \$9,787,578 for the City and \$1,054,169 for the School Division in the VRS Political Subdivision Retirement Plan for the year ended June 30, 2025.

Net Pension Liability

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. For political subdivisions, the net pension liability was measured as of June 30, 2024. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2023, rolled forward to the measurement date of June 30, 2024.

Actuarial Assumptions

The total pension liabilities for general employees and public safety employees with hazardous duty benefits in the City's and School Division's retirement plans were based on actuarial valuations as of June 30, 2023, 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, 2024.

Inflation	2.50%
General Employees – Salary increases, including inflation	3.50% - 5.35%
Public Safety Employees with Hazardous Duty Benefits – Salary increases, including inflation	3.50% - 4.75%
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Mortality rates:

General Employees – 15 to 20% of deaths are assumed to be service related. Mortality is projected using the applicable Pub-2010 Mortality Table and a Modified MP-2020 Improvement Scale with various set backs or set forwards for both males and females.

Public Safety Employees – 45% to 70% of deaths are assumed to be service related. Mortality is projected using the applicable Pub-2010 Mortality Table and a Modified MP-2020 Improvement Scale with various set backs or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2023, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020. Changes to the actuarial assumptions as a result of the experience study are as follows on the next page:

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

12. Pension Plan – Virginia Retirement System Political Subdivision Retirement Plan (Continued)

Actuarial Assumptions (Continued)

General Employees – Largest 10 – Non-Hazardous Duty and All Others (Non 10 Largest): Updated mortality table; adjusted retirement rates to better fit experience; adjusted withdrawal rates to better fit experience at each year age and service through 9 years of service; no change to disability rates; no change to salary scale; no change to line of duty disability; and no change to discount rate.

Public Safety Employees – Largest 10 – Hazardous Duty and All Others (Non 10 Largest): Updated mortality table; adjusted retirement rate to better fit experience and increased final retirement age to 70; decreased rates of withdrawal; no change to disability rates; no changes to salary scale; no change to line of duty disability; and no change to discount rate.

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:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	32.00%	6.70%	2.14%
Fixed Income	16.00%	5.40%	0.86%
Credit Strategies	16.00%	8.10%	1.30%
Real Assets	15.00%	7.20%	1.08%
Private Equity	15.00%	8.70%	1.31%
PIP - Private Investment Partnership	1.00%	8.00%	0.08%
Diversifying Strategies	6.00%	5.80%	0.35%
Cash	2.00%	3.00%	0.06%
Leverage	(3.00%)	3.50%	(0.11%)
Total	100.00%		7.07%
Expected arithmetic nominal return*			7.07%

* The above allocation provides for a one-year return of 7.07% (includes 2.50% inflation assumption). However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of 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 7.10%, including expected inflation of 2.50%. On June 15, 2023, the VRS Board elected a long-term rate of 6.75%, which was roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including expected inflation of 2.50%.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

12. Pension Plan – Virginia Retirement System Political Subdivision Retirement Plan (Continued)

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 System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. For the year ended June 30, 2024, the employer contribution was 100% of the actuarially determined employer contribution rate from the June 30, 2023, actuarial valuations. From July 1, 2024, on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rate. 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)
City of Salem			
Balances at June 30, 2023	\$ 225,457,808	\$ 186,742,690	\$ 38,715,118
Changes for the year:			
Service cost	3,533,139	-	3,533,139
Interest	15,116,506	-	15,116,506
Difference between expected and actual experience	8,563,540	-	8,563,540
Contributions - employer	-	5,969,000	(5,969,000)
Contributions - employee	-	1,461,014	(1,461,014)
Net investment income	-	18,005,127	(18,005,127)
Benefit payments, including refunds of employee contributions	(14,114,982)	(14,114,982)	-
Administrative expenses	-	(124,386)	124,386
Other changes	-	3,430	(3,430)
Net changes	13,098,203	11,199,203	1,899,000
Balances at June 30, 2024	\$ 238,556,011	\$ 197,941,893	\$ 40,614,118

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

12. Pension Plan – Virginia Retirement System Political Subdivision Retirement Plan (Continued)

Changes in Net Pension Liability (Asset) (Continued)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
School Division (Non-Professional)			
Balances at June 30, 2023	\$ 5,865,954	\$ 6,698,954	\$ (833,000)
Changes for the year:			
Service cost	158,192	-	158,192
Interest	391,474	-	391,474
Difference between expected and actual experience	189,347	-	189,347
Contributions - employer	-	18,737	(18,737)
Contributions - employee	-	79,846	(79,846)
Net investment income	-	636,787	(636,787)
Benefit payments, including refunds of employee contributions	(449,053)	(449,053)	-
Administrative expenses	-	(4,471)	4,471
Other changes	-	124	(124)
Net changes	289,960	281,970	7,990
Balances at June 30, 2024	\$ 6,155,914	\$ 6,980,924	\$ (825,010)

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

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

	Net Pension Liability (Asset)		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
City of Salem	\$ 68,901,769	\$ 40,614,118	\$ 17,257,695
School Division (Non-Professional)	(165,823)	(825,010)	(1,372,255)

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

12. Pension Plan – Virginia Retirement System Political Subdivision Retirement Plan (Continued)

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

For the year ended June 30, 2025, the City and School Division recognized pension expense of \$6,103,500 and \$55,608 respectively, under the VRS Political Subdivision Retirement Plan. At June 30, 2025, the City and School Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
City of Salem		
Differences between expected and actual experience	\$ 4,721,465	\$ -
Net difference between projected and actual earnings on pension plan investments	-	5,334,045
Employer contributions subsequent to the measurement date	6,242,476	-
	<u>\$ 10,963,941</u>	<u>\$ 5,334,045</u>
School Division (Non-Professional)		
Differences between expected and actual experience	\$ 77,307	\$ -
Net difference between projected and actual earnings on pension plan investments	-	191,774
Employer contributions subsequent to the measurement date	61,222	-
	<u>\$ 138,529</u>	<u>\$ 191,774</u>

The deferred outflow of resources related to pensions resulting from the City's contributions of \$6,242,476 subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2026. The deferred outflows of resources related to pensions resulting from the School Division's contributions of \$61,222 subsequent to the measurement date will be recognized as an increase to the net pension asset in the fiscal year ending June 30, 2026.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year Ended June 30	City of Salem	School Division (Non-Professional)
2026	\$ (737,807)	\$ (95,640)
2027	2,227,062	56,063
2028	(996,963)	(35,575)
2029	(1,104,872)	(39,315)
	<u>\$ (612,580)</u>	<u>\$ (114,467)</u>

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2024 Annual Comprehensive Financial Report. A copy of the report may be downloaded from the VRS website at <https://www.varetire.org/media/shared/pdf/publications/2024-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, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

12. Pension Plan – Virginia Retirement System Political Subdivision Retirement Plan (Continued)

Payables to the Pension Plan

At June 30, 2025, \$651,732 and \$12,657 were payable to the System under the VRS Political Subdivision Retirement Plan for the legally required contributions of the City and School Division, respectively, related to the June 2025 payroll.

13. Pension Plan – Virginia Retirement System Teacher Retirement Plan

Plan Description

All full-time, salaried, permanent (professional) employees of the School Division and other Virginia public school divisions are automatically covered by the VRS Teacher Retirement Plan upon employment. This multiple-employer, cost sharing plan is administered by VRS (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees in the VRS Teacher Retirement Plan – Plan 1, Plan 2, and Hybrid. The provisions and features of the plans, as well as all actuarial assumptions and long-term expected rate of return, are substantially the same as those referenced in the previous note.

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 provided to school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Each school division's contractually required contribution rate for the year ended June 30, 2025, was 14.21% of covered employee compensation. This was the General Assembly approved rate, which was based on an actuarially determined rate from an actuarial valuation as of June 30, 2023. 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 VRS Teacher Retirement Plan from the School Division were \$4,420,905 and \$4,668,802 for the years ended June 30, 2025, and June 30, 2024, respectively. Contributions for the fiscal year ended June 30, 2024, were adjusted to reflect actual amounts as shown on the VRS actuarial report rather than estimated amounts used in the prior year's annual financial report.

The defined contribution component of the Hybrid Plan includes member and employer mandatory and voluntary contributions. The Hybrid Plan member must contribute a mandatory rate of 1% of their covered payroll. The employer must also contribute a mandatory rate of 1% of this covered payroll, which totaled \$102,308 for the School Division in the VRS Teacher Retirement Plan for the year ended June 30, 2025. Hybrid Plan members may also elect to contribute an additional voluntary rate of up to 4% of their covered payroll, which would require the employer to contribute a mandatory additional contribution rate of up to 2.5%. This additional employer mandatory contribution totaled \$130,653 for the School Division in the VRS Teacher Retirement Plan for the year ended June 30, 2025. The Hybrid Plan participant covered payroll totaled \$10,230,795 for the School Division in the VRS Teacher Retirement Plan for the year ended June 30, 2025.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

13. Pension Plan – Virginia Retirement System Teacher Retirement Plan (Continued)

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

At June 30, 2025, the School Division reported a liability of \$25,983,974 for its proportionate share of the VRS Teacher Retirement Plan net pension liability. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2023, and rolled forward to the measurement date of June 30, 2024. 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, 2024, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2024, the School Division's proportion was 0.27681% as compared to 0.28247% at June 30, 2023.

For the year ended June 30, 2025, the School Division recognized pension expense of \$2,579,649 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. Beginning with the June 30, 2022 measurement date, the difference between the expected and actual contributions is included with the pension expense calculation.

At June 30, 2025, 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 (Professional)		
Differences between expected and actual experience	\$ 4,507,853	\$ 535,028
Changes in assumptions	471,644	-
Net difference between projected and actual earnings on pension plan investments	-	3,576,710
Changes in proportion and differences between employer contributions and proportionate share of contributions	576,391	610,696
Employer contributions subsequent to the measurement date	4,420,905	-
Total	<u>\$ 9,976,793</u>	<u>\$ 4,722,434</u>

The \$4,420,905 reported as deferred outflows of resources related to pensions resulting from the School Division's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2026. 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 (Professional)
2026	\$ (1,506,661)
2027	2,357,129
2028	377,070
2029	(394,084)
	<u>\$ 833,454</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

13. Pension Plan – Virginia Retirement System Teacher Retirement Plan (Continued)

Net Pension Liability

The net pension liability is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2024, net pension liability amounts for the VRS Teacher Employee Retirement Plan are as follows (amounts expressed in thousands):

	VRS Teacher Retirement Plan
Total pension liability	\$ 60,622,260
Plan fiduciary net position	51,235,326
Employers' net pension liability	<u>\$ 9,386,934</u>
Plan fiduciary net position as a percentage of the total pension liability	84.52%

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 GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

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 System member contributions will be made per the VRS Statutes, and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2024, the rate contributed by the School Division for the VRS Teacher Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 112% of the actuarially determined contribution rate. From July 1, 2024, on, school divisions are assumed to continue 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.

Sensitivity of the School Division's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the School Division's proportionate share of the net pension liability using the discount rate of 6.75%, as well as what the School Division's proportionate share of the net pension liability would be if it 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		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
School Division (Professional)	\$ 48,273,130	\$ 25,983,974	\$ 7,729,864

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

13. Pension Plan – Virginia Retirement System Teacher Retirement Plan (Continued)

Pension Plan Data

Detailed information about the VRS Teacher Retirement Plan's fiduciary net position is available in the separately issued VRS 2024 Annual Comprehensive Financial Report. A copy of the report may be downloaded from the VRS website at <https://www.varetire.org/media/shared/pdf/publications/2024-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

At June 30, 2025, \$568,614 was payable to the System under the VRS Teacher Retirement Plan for the legally required contributions of the School Division related to the June 2025 payroll.

14. Summary of Pension Elements

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

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units
Pension Expense				
VRS Political Subdivision Retirement Plan	\$ 4,828,331	\$ 1,275,169	\$ 6,103,500	\$ 55,608
VRS Teacher Retirement Plan	-	-	-	2,579,649
Total Pension Expense	<u>\$ 4,828,331</u>	<u>\$ 1,275,169</u>	<u>\$ 6,103,500</u>	<u>\$ 2,635,257</u>
Net Pension Asset				
VRS Political Subdivision Retirement Plan	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 825,010</u>
Net Pension Liability				
VRS Political Subdivision Retirement Plan	\$ 32,030,850	\$ 8,583,268	\$ 40,614,118	\$ -
VRS Teacher Retirement Plan	-	-	-	25,983,974
Total Pension Liability	<u>\$ 32,030,850</u>	<u>\$ 8,583,268</u>	<u>\$ 40,614,118</u>	<u>\$ 25,983,974</u>
Deferred Outflows of Resources				
Differences between expected and actual experience				
VRS Political Subdivision Retirement Plan	\$ 3,735,036	\$ 986,429	\$ 4,721,465	\$ 77,307
VRS Teacher Retirement Plan	-	-	-	4,507,853
Changes in assumptions				
VRS Teacher Retirement Plan	-	-	-	471,644
Changes in proportion and differences between employer contributions and proportionate share of contributions				
VRS Teacher Retirement Plan	-	-	-	576,391
Employer contributions subsequent to the measurement date				
VRS Political Subdivision Retirement Plan	4,938,059	1,304,417	6,242,476	61,222
VRS Teacher Retirement Plan	-	-	-	4,420,905
Total Deferred Outflows of Resources	<u>\$ 8,673,095</u>	<u>\$ 2,290,846</u>	<u>\$ 10,963,941</u>	<u>\$ 10,115,322</u>

(Continued)

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

14. Summary of Pension Elements (Continued)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Deferred Inflows of Resources				
Differences between expected and actual experience				
VRS Teacher Retirement Plan	\$ -	\$ -	\$ -	\$ 535,028
Net difference between projected and actual earnings on pension plan investments				
VRS Political Subdivision Retirement Plan	4,219,633	1,114,412	5,334,045	191,774
VRS Teacher Retirement Plan	-	-	-	3,576,710
Changes in proportion and differences between employer contributions and proportionate share of contributions				
VRS Teacher Retirement Plan	-	-	-	610,696
Total Deferred Inflows of Resources	<u>\$ 4,219,633</u>	<u>\$ 1,114,412</u>	<u>\$ 5,334,045</u>	<u>\$ 4,914,208</u>

15. Other Postemployment Benefits – Retiree Health Plans

Plan Description

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

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

In addition to the implicit rate subsidy, all pre-65 retirees who retired on or before October 1, 2010, receive a premium subsidy based on their coverage election. If the retiree elects retiree-only coverage, the City contributes between 86% and 97% of the subscriber-only premium. If the retiree elects retiree/child coverage, the City contributes between 75% and 85% of the retiree/child premium. If the retiree elects retiree/spouse, the City contributes between 53% and 66% of the retiree/spouse premium. If the retiree elects retiree/children, the City contributes between 53% and 67% of the retiree/children premium. If the retiree elects family coverage, the City contributes between 53% and 66% of the family premium. The actual City contribution within each range depends on the health plan selected by the retiree.

For individuals under the age of 65 retiring after October 1, 2010, and who were hired before July 1, 2010, the City will contribute 3% of the retiree-only premium for each year of service up to 90% of the total retiree-only premium for the lifetime of the retiree. For employees hired on or after July 1, 2010, the City will contribute 3% of the retiree-only premium for each year of service up to 50% of the total retiree-only premium up to age 65.

When a retiree turns age 65 or otherwise becomes eligible for Medicare, the retiree transfers to a Medicare health supplement plan and/or drug plan. These individuals no longer receive the implicit rate subsidy; however, they still receive a premium subsidy. The City contributes 3% of the retiree-only premium for each year of service up to 90% not to exceed \$3,300. Employees over the age of 65 hired on or after July 1, 2010, are not eligible to receive the Medicare health supplement plan and/or drug plan benefit.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

15. Other Postemployment Benefits – Retiree Health Plans (Continued)

Plan Description (Continued)

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

The benefits are governed by City Council or School Board policy and can be amended through Council or School Board action. The Retiree Health Plans do not issue publicly available financial reports.

The City participates in the OPEB Trust Fund, an irrevocable trust established for the purpose of accumulating assets to fund postemployment benefits other than pensions. The City and Schools maintain separate asset accounts within the OPEB Trust Fund. 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, 2025, the date of the latest actuarial valuation for the City and School Division, the following employees were covered by the benefit terms of the Retiree Health Plans:

	<u>City of Salem</u>	<u>School Division</u>
Active employees	493	571
Retired participants	<u>287</u>	<u>22</u>
Total participants	<u><u>780</u></u>	<u><u>593</u></u>

Contributions

The Retiree Health Plans are funded through member and employer contributions on a pay-as-you-go basis. City Retirees receiving benefits contribute a minimum of 3% to 14%, 15% to 25%, 34% to 47%, 33% to 47%, and 34% to 47% of the health insurance premium rate for retiree only, retiree + one minor child, retiree + spouse, retiree + children, and family coverage, respectively. The actual contribution within each range depends on the health plan selected by the retiree. School Division Retirees receiving benefits contribute 100% of the health insurance premium rate. During the current year, retired City and School Division members contributed \$557,874 and \$225,546, respectively, of the total premiums through their required monthly contributions of between \$13 and \$1,471, depending on the type of coverage and years of service.

The City and School Division contributed \$1,576,566 and \$150,673, respectively, in pay-as-you-go contributions to the Retiree Health Plans for the year ended June 30, 2025. In addition, the City and School Division contributed \$234,930 and \$97,135, respectively, to the OPEB Trust Fund. It is the intent of the City and School Division to fully fund the actuarially determined contributions each year.

Net OPEB Liability (Asset)

Under the Retiree Health Plans, the City's net OPEB liability and the School Division's net OPEB asset were measured as of June 30, 2025. The total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation performed as of June 30, 2025. The components of the net OPEB liability (asset) as of June 30, 2025, were as follows:

	<u>City of Salem</u>	<u>School Division</u>
Total OPEB liability	\$ 22,045,627	\$ 2,409,645
Plan fiduciary net position	11,962,098	2,956,038
Net OPEB liability (asset)	<u><u>\$ 10,083,529</u></u>	<u><u>\$ (546,393)</u></u>

Plan fiduciary net position as a percentage of total OPEB liability	54.26%	122.68%
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**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

15. Other Postemployment Benefits – Retiree Health Plans (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, 2025
Measurement date	June 30, 2025
Actuarial cost method	Entry age normal, level percentage of pay
Inflation	2.50%
Investment rate of return	6.5%, net of investment expense
Pre-65 healthcare cost trend rates	City: 5.80% for 2025 graded to 3.90% by 2072 School Division: 5.80% for 2025 graded to 3.90% by 2072
Post-65 healthcare cost trend rates	City: 5.70% for 2025 graded to 3.90% by 2072 School Division: N/A
Pre-retirement mortality	General Employees: Pub-2010 Amount Weighted General Employee Rates projected generationally; females set forward 2 years. Public Safety Employees: Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years. Teachers: Pub-2010 Amount Weighted Teachers Employee Rates projected generationally; 110% of rates for males.
Post-retirement mortality	General Employees: Pub-2010 Amount Weighted Healthy Retiree Rates projected generationally; 110% of rates for females. Public Safety Employees: Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years. Teachers: Pub-2010 Amount Weighted Teachers Healthy Retiree Rates projected generationally; males set forward 1 year; 105% of rates for females.

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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

15. Other Postemployment Benefits – Retiree Health Plans (Continued)

Plan Investments (Continued)

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 net asset value (NAV) per share (or its equivalent) of the investment. Investments in the Trust are valued using the NAV per share, which is determined by dividing the total value of the Trust by the number of outstanding shares. The NAV per share changes with the value of the underlying investments in the Trust. Generally, participants may redeem their investment at the end of a calendar quarter upon 90 days' written notice. The Trust currently invests in the following asset classes and strategies:

Asset Class	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Geometric Long-Term Expected Rate of Return
US Core Fixed Income	20.00%	2.35%	2.20%
US Large Cap Equity	21.00%	5.39%	3.78%
US Small Cap Equity	10.00%	6.80%	4.22%
Foreign Developed Equity	13.00%	6.61%	4.79%
Emerging Markets Equity	5.00%	8.78%	5.73%
Private Real Estate Property	15.00%	5.99%	4.57%
Private Equity	10.00%	10.43%	6.22%
Hedge Fund of Funds - Strategic	6.00%	2.49%	1.95%
Assumed Inflation - Mean		2.28%	2.32%
Assumed Inflation - Standard Deviation		1.47%	1.47%
Portfolio Real Mean Return		5.67%	4.74%
Portfolio Nominal Mean Return		7.95%	7.17%
Portfolio Standard Deviation			13.32%
Long-Term Expected Rate of Return			6.50%

At June 30, 2025, the Plans held no investments in any one organization that represented 5% or more of fiduciary net position.

Rate of Return

As of June 30, 2025, the annual money-weighted rate of return on the plan investments, net of OPEB plan investment expense, was 8.84% for the City and 8.85% 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 City to fully fund actuarially determined contribution amounts, the Retiree Health Plans' fiduciary net positions combined with future contributions are sufficient to cover all projected future benefit payments.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

15. Other Postemployment Benefits – Retiree Health Plans (Continued)

Discount Rate (Continued)

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 Plans' assets will be exhausted; therefore, the expected municipal bond rate was not applied in determining the discount rate.

Changes in Net OPEB Liability (Asset)

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
City of Salem			
Balances at June 30, 2024	\$ 26,069,467	\$ 10,739,723	\$ 15,329,744
Changes for the year:			
Service cost	245,804	-	245,804
Interest	1,701,208	-	1,701,208
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	(4,458,005)	-	(4,458,005)
Effect of assumption changes	63,719	-	63,719
Contributions - employer	-	1,811,496	(1,811,496)
Net investment income	-	999,229	(999,229)
Benefit payments	(1,576,566)	(1,576,566)	-
Administrative expenses	-	(11,784)	11,784
Other changes	-	-	-
Net changes	(4,023,840)	1,222,375	(5,246,215)
Balances at June 30, 2025	\$ 22,045,627	\$ 11,962,098	\$ 10,083,529
School Division			
Balances at June 30, 2024	\$ 2,961,987	\$ 2,629,094	\$ 332,893
Changes for the year:			
Service cost	71,294	-	71,294
Interest	192,343	-	192,343
Effect of economic/demographic gains or losses	(676,415)	-	(676,415)
Effect of assumption changes	11,109	-	11,109
Contributions - employer	-	247,808	(247,808)
Net investment income	-	232,737	(232,737)
Benefit payments	(150,673)	(150,673)	-
Administrative expenses	-	(2,928)	2,928
Other changes	-	-	-
Net changes	(552,342)	326,944	(879,286)
Balances at June 30, 2025	\$ 2,409,645	\$ 2,956,038	\$ (546,393)

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

15. Other Postemployment Benefits – Retiree Health Plans (Continued)

Changes in Net OPEB Liability (Asset) (Continued)

The table on the previous page presents amounts associated with the primary government. The OPEB Trust Fund financial statements present amounts associated with the primary government and custodial entities.

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

The following presents the net OPEB liability (asset) calculated using the discount rate of 6.50%, as well as what the net OPEB liability (asset) 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 (Asset)		
	1% Decrease (5.50%)	Current Discount (6.50%)	1% Increase (7.50%)
City of Salem	\$ 12,290,371	\$ 10,083,529	\$ 8,185,770
School Division	(369,559)	(546,393)	(711,049)

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

The following presents the net OPEB liability (asset) calculated using the current healthcare cost trend rate as well as what the net OPEB liability (asset) 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 (Asset)		
	1% Decrease	Current Trend Rate	1% Increase
City of Salem	\$ 8,811,846	\$ 10,083,529	\$ 11,569,588
School Division	(758,107)	(546,393)	(305,208)

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

For the year ended June 30, 2025, the City and School Division recognized OPEB expense of \$356,575 and \$(7,566), respectively. At June 30, 2025, the City and School Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
City of Salem		
Differences between expected and actual experience	\$ 1,190,261	\$ 3,877,015
Changes in assumptions	835,813	35,452
Net difference between projected and actual earnings on plan investments	-	122,179
Total	<u>\$ 2,026,074</u>	<u>\$ 4,034,646</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

15. Other Postemployment Benefits – Retiree Health Plans (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
School Division		
Differences between expected and actual experience	\$ 228,091	\$ 600,632
Changes in assumptions	56,465	48,303
Net difference between projected and actual earnings on plan investments	-	30,900
Total	<u>\$ 284,556</u>	<u>\$ 679,835</u>

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

Year ended June 30	City of Salem	School Division
2026	\$ 80,745	\$ (27,838)
2027	(166,090)	(82,122)
2028	(289,949)	(62,399)
2029	(423,259)	(49,839)
2030	(636,854)	(78,039)
Thereafter	(573,165)	(95,042)
	<u>\$ (2,008,572)</u>	<u>\$ (395,279)</u>

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

Virginia Retirement System OPEB Plans

In addition to their participation in the pension plans offered through VRS, the City and School Division also participate in various cost sharing and agent multi-employer other postemployment benefit plans, described as follows.

Plan Description – Group Life Insurance Program

All full-time, salaried, permanent employees of the City and School Division are automatically covered by the VRS Group Life Insurance (GLI) Program upon employment. 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 GLI Program OPEB.

Specific information for the GLI Program is available at <https://www.varetire.org/benefits-and-programs/benefits/life-insurance>. The GLI Program is administered by the VRS, along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia. This plan is considered a multiple-employer, cost sharing plan.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

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

Plan Description – Political Subdivision Health Insurance Credit Program

All full-time, salaried permanent (non-professional) employees of the School Division are automatically covered by the Political Subdivision Health Insurance Credit (HIC) Program. The Political Subdivision HIC provides all the same benefits as the Teacher HIC described below, except the Political Subdivision HIC Program is considered a multi-employer, agent defined benefit plan. As of the June 30, 2024, actuarial valuation, the following School Division employees were covered by the benefit terms of the Political Subdivision HIC Program:

	School Division (Non-Professional)
Inactive members or their beneficiaries currently receiving benefits	41
Inactive members:	
Vested inactive members	1
Inactive members active elsewhere in VRS	18
Total inactive members	19
Active members	66
Total covered employees	126

Plan Description – Teacher Employee Health Insurance Credit Program

All full time, salaried permanent (professional) employees of the School Division and other Virginia public school divisions are automatically covered by the VRS Teacher Employee Health Insurance Credit (HIC) Program. 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.

Specific information about the Teacher Employee HIC Program is available at <https://www.varetire.org/retirees/insurance/healthinscredit/index.html>. The Teacher Employee HIC Program is administered by the VRS, along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia. It is considered a multiple-employer, cost sharing plan.

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2023. The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to fund any unfunded accrued liability, with the exception of GLI, which was also combined with employee contributions. Specific details related to the contributions for the VRS OPEB programs are as follows:

	OPEB Contributions	
	Year Ended	Year Ended
	June 30, 2025	June 30, 2024
City of Salem - GLI	\$ 148,693	\$ 164,555
School Division - Non-Professional GLI	7,945	9,876
School Division - Professional GLI	146,220	158,508
School Division - Political Subdivision HIC	18,722	20,302
School Division - Teacher Employee HIC	376,382	355,177

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

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

Contributions (Continued)

Contributions for the fiscal year ended June 30, 2024, were adjusted to reflect actual amounts as shown on the VRS actuarial report rather than estimated amounts used in the prior year's annual financial report.

GLI Program

Governed by	<i>Code of Virginia</i> 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly
Total rate	1.18% of covered employee compensation; rate allocated 60/40, 0.71% employee and 0.47% employer; employers may elect to pay all or part of the employee contribution

Political Subdivision HIC Program

Governed by	<i>Code of Virginia</i> 51.1-1402(E) and may be impacted as a result of funding provided to governmental agencies by the Virginia General Assembly
Total rate	1.11% of covered employee compensation

Teacher Employee HIC Program

Governed by	<i>Code of Virginia</i> 51.1-1401(E) and may be impacted as a result of funding provided to school divisions by the Virginia General Assembly
Total rate	1.21% of covered employee compensation

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

The net OPEB liabilities were measured as of June 30, 2024, and the total OPEB liabilities used to calculate the net OPEB liabilities were determined by an actuarial valuation performed as of June 30, 2023, and rolled forward to the measurement date of June 30, 2024. The covered employer's proportions of the net OPEB liabilities were based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2024, relative to the total of the actuarially determined employer contributions for all participating employers. Specific details related to the City's and School Division's proportionate shares of the net VRS OPEB liabilities and VRS OPEB expenses for the GLI Program and Teacher Employee HIC Program are as follows:

	Proportionate Share of Net OPEB Liability	Employer's Proportion	
	June 30, 2025	June 30, 2024	June 30, 2023
City of Salem - GLI	\$ 1,298,379	0.12251%	0.11707%
School Division - Non-Professional GLI	79,454	0.00712%	0.00710%
School Division - Professional GLI	1,275,722	0.11432%	0.11861%
School Division - Teacher Employee HIC	3,166,244	0.27398%	0.28008%

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

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

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

	OPEB Expense
	Year Ended
	June 30, 2025
City of Salem - GLI	\$ 34,293
School Division - Non-Professional GLI	2,672
School Division - Professional GLI	22,971
School Division - Teacher Employee HIC	232,554

Since there was a change in proportionate share between measurement dates, portions of the OPEB expenses above were related to deferred amounts from changes in proportion.

The net OPEB liabilities for the GLI Program and the Teacher Employee HIC Program represent each program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2024, net OPEB liability amounts for the entire GLI Program and the entire Teacher Employee HIC Program are as follows (dollar amounts expressed in thousands):

	GLI Program	Teacher Employee HIC Program
Total OPEB liability	\$ 4,196,055	\$ 1,478,105
Plan fiduciary net position	3,080,133	322,457
Net OPEB liability	<u>\$ 1,115,922</u>	<u>\$ 1,155,648</u>
Plan fiduciary net position as a percentage of total OPEB liability	73.41%	21.82%

The total OPEB liabilities for the GLI Program and Teacher Employee HIC Program are calculated by the VRS actuary, and each plan's fiduciary net position is reported in the VRS financial statements. The net OPEB liabilities are disclosed in accordance with the requirements of GASB Statement No. 74 in the VRS notes to the financial statements and required supplementary information.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

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

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

Changes in the net OPEB liability of the Political Subdivision HIC Program were as follows:

	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, 2023	\$ 206,928	\$ 87,222	\$ 119,706
Changes for the year:			
Service cost	2,737	-	2,737
Interest	13,649	-	13,649
Differences between expected and actual experience	(3,776)	-	(3,776)
Contributions - employer	-	20,302	(20,302)
Net investment income	-	8,644	(8,644)
Benefit payments	(14,918)	(14,918)	-
Administrative expenses	-	(119)	119
Other changes	-	-	-
Net changes	(2,308)	13,909	(16,217)
Balances at June 30, 2024	\$ 204,620	\$ 101,131	\$ 103,489

In addition, for the year ended June 30, 2024, the School Division recognized OPEB expense of \$16,888 related to the Political Subdivision HIC Program.

At June 30, 2025, the City and School Division reported deferred outflows of resources and deferred inflows of resources related to VRS OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
City of Salem - GLI		
Differences between expected and actual experience	\$ 208,273	\$ 32,256
Net difference between projected and actual earnings on program investments	-	111,302
Changes in assumptions	7,528	65,441
Changes in proportion	63,161	26,053
Employer contributions subsequent to the measurement date	148,693	-
Total	\$ 427,655	\$ 235,052

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
School Division - Non-Professional GLI		
Differences between expected and actual experience	\$ 12,532	\$ 1,941
Net difference between projected and actual earnings on program investments	-	6,697
Changes in assumptions	453	3,938
Changes in proportion	7,658	1,178
Employer contributions subsequent to the measurement date	7,945	-
Total	<u>\$ 28,588</u>	<u>\$ 13,754</u>
School Division - Professional GLI		
Differences between expected and actual experience	\$ 201,211	\$ 31,162
Net difference between projected and actual earnings on program investments	-	107,530
Changes in assumptions	7,272	63,222
Changes in proportion	36,483	67,358
Employer contributions subsequent to the measurement date	146,220	-
Total	<u>\$ 391,186</u>	<u>\$ 269,272</u>
School Division - Political Subdivision HIC		
Differences between expected and actual experience	\$ 8,362	\$ 11,112
Changes in assumptions	7,953	-
Net difference between projected and actual earnings on program investments	-	1,664
Employer contributions subsequent to the measurement date	18,722	-
Total	<u>\$ 35,037</u>	<u>\$ 12,776</u>
School Division - Teacher Employee HIC		
Differences between expected and actual experience	\$ -	\$ 150,009
Net difference between projected and actual earnings on program investments	-	11,262
Changes in assumptions	54,545	-
Changes in proportion	97,480	114,349
Employer contributions subsequent to the measurement date	376,382	-
Total	<u>\$ 528,407</u>	<u>\$ 275,620</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

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

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

The deferred outflows of resources related to OPEB resulting from the City's and School Division's contributions subsequent to the measurement date will be recognized as reductions of the net OPEB liabilities in the fiscal year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to VRS OPEB will be recognized in OPEB expense in future reporting periods as follows:

City of Salem				
Year Ended June 30	GLI			
2026	\$	(54,921)		
2027		28,913		
2028		15,757		
2029		24,137		
2030		30,024		
	\$	43,910		

School Division				
Year Ended June 30	GLI Non-Professional	GLI Professional	Political Subdivision HIC	Teacher Employee HIC
2026	\$ (2,064)	\$ (62,296)	\$ 5,157	\$ (30,424)
2027	3,434	21,955	(669)	(18,090)
2028	2,430	2,572	(434)	(21,463)
2029	1,818	1,413	(515)	(17,001)
2030	1,271	12,050	-	(21,985)
Thereafter	-	-	-	(14,632)
	\$ 6,889	\$ (24,306)	\$ 3,539	\$ (123,595)

Actuarial Assumptions and Other Inputs

The total VRS OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2023, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2024:

Inflation	2.50%
Salary increases, including inflation	
Locality – General employees	3.50% - 5.35%
Locality – Hazardous duty employees	3.50% - 4.75%
Teachers	3.50% - 5.95%
Investment rate of return, net of expenses, Including inflation	6.75%

Mortality rates used for the various VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans. The mortality rates are discussed in detail in note 12.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

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

Long-Term Expected Rate of Return

The long-term expected rate of return on VRS 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 OPEB 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:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	32.00%	6.70%	2.14%
Fixed Income	16.00%	5.40%	0.86%
Credit Strategies	16.00%	8.10%	1.30%
Real Assets	15.00%	7.20%	1.08%
Private Equity	15.00%	8.70%	1.31%
PIP - Private Investment Partnership	1.00%	8.00%	0.08%
Diversifying Strategies	6.00%	5.80%	0.35%
Cash	2.00%	3.00%	0.06%
Leverage	(3.00%)	3.50%	(0.11%)
Total	100.00%		7.07%
Expected arithmetic nominal return*			7.07%

* The above allocation provides for a one-year expected return of 7.07% (includes 2.50% inflation assumption). However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of 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 7.10%, including expected inflation of 2.50%. On June 15, 2023, the VRS Board elected a long-term rate of 6.75%, which was roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including inflation of 2.50%.

Discount Rate

The discount rate used to measure the GLI and HIC OPEB liabilities was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2024, the rate contributed by the employer for the OPEB liabilities will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 113% of the actuarially determined contribution rate for GLI and 100% of the actuarially determined contribution rate for all other OPEB plans. From July 1, 2024, on, participating employers are assumed 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 liability.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

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

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

The following presents the City's and School Division's net VRS OPEB liabilities, as well as what the City's and School Division's net VRS OPEB liabilities would be if they were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	Net OPEB Liability		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
City of Salem - GLI	\$ 2,019,148	\$ 1,298,379	\$ 716,093
School Division - Non-Professional GLI	123,561	79,454	43,821
School Division - Professional GLI	1,983,914	1,275,722	703,597
School Division - Political Subdivision HIC	122,972	103,489	86,815
School Division - Teacher Employee HIC	3,600,810	3,166,244	2,797,911

OPEB Plan Fiduciary Net Positions

Information about the various VRS OPEB plan fiduciary net positions is available in the separately issued VRS 2024 Annual Comprehensive Financial Report. A copy of the report may be downloaded from the VRS website at <https://www.varetire.org/media/shared/pdf/publications/2024-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the OPEB Plans

At June 30, 2025, the following amounts were payable to VRS for the legally required contributions related to the June 2025 payroll:

	Payable to VRS June 30, 2025
City of Salem - GLI	\$ 32,347
School Division - Non-Professional GLI	1,737
School Division - Professional GLI	35,556
School Division - Political Subdivision HIC	1,675
School Division - Teacher Employee HIC	36,460

17. Summary of Other Postemployment Benefit Elements

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

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units
OPEB Expense				
Retiree Health Plan	\$ 281,535	\$ 75,040	\$ 356,575	\$ (7,566)
VRS GLI	27,131	7,162	34,293	25,643
VRS Political Subdivision HIC	-	-	-	16,888
VRS Teacher Employee HIC	-	-	-	232,554
Total OPEB Expense	<u>\$ 308,666</u>	<u>\$ 82,202</u>	<u>\$ 390,868</u>	<u>\$ 267,519</u>
Net OPEB Asset				
Retiree Health Plan	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 546,393</u>

(Continued)

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

17. Summary of Other Postemployment Benefit Elements (Continued)

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units
Net OPEB Liability				
Retiree Health Plan	\$ 7,581,900	\$ 2,501,629	\$ 10,083,529	\$ -
VRS GLI	1,011,776	286,603	1,298,379	1,355,176
VRS Political Subdivision HIC	-	-	-	103,489
VRS Teacher Employee HIC	-	-	-	3,166,244
Total OPEB Liability	<u>\$ 8,593,676</u>	<u>\$ 2,788,232</u>	<u>\$ 11,381,908</u>	<u>\$ 4,624,909</u>
Deferred Outflows of Resources				
Differences between expected and actual experience				
Retiree Health Plan	\$ 939,777	\$ 250,484	\$ 1,190,261	\$ 228,091
VRS GLI	164,781	43,492	208,273	213,743
VRS Political Subdivision HIC	-	-	-	8,362
Changes in assumptions				
Retiree Health Plan	659,920	175,893	835,813	56,465
VRS GLI	5,955	1,573	7,528	7,725
VRS Political Subdivision HIC	-	-	-	7,953
VRS Teacher Employee HIC	-	-	-	54,545
Changes in proportion				
Retiree Health Plan	49,972	13,189	63,161	-
VRS GLI	-	-	-	44,141
VRS Teacher Employee HIC	-	-	-	97,480
Employer contributions subsequent to the measurement date				
VRS GLI	117,687	31,006	148,693	154,165
VRS Political Subdivision HIC	-	-	-	18,722
VRS Teacher Employee HIC	-	-	-	376,382
Total Deferred Outflows of Resources	<u>\$ 1,938,092</u>	<u>\$ 515,637</u>	<u>\$ 2,453,729</u>	<u>\$ 1,267,774</u>
Deferred Inflows of Resources				
Differences between expected and actual experience				
Retiree Health Plan	\$ 3,061,115	\$ 815,900	\$ 3,877,015	\$ 600,632
VRS GLI	25,521	6,735	32,256	33,103
VRS Political Subdivision HIC	-	-	-	11,112
VRS Teacher Employee HIC	-	-	-	150,009
Net difference between projected and actual earnings on program investments				
Retiree Health Plan	96,467	25,712	122,179	30,900
VRS GLI	88,061	23,241	111,302	114,227
VRS Political Subdivision HIC	-	-	-	1,664
VRS Teacher Employee HIC	-	-	-	11,262
Changes in assumptions				
Retiree Health Plan	27,991	7,461	35,452	48,303
VRS GLI	51,776	13,665	65,441	67,160
Changes in proportion				
VRS GLI	20,612	5,441	26,053	68,536
VRS Teacher Employee HIC	-	-	-	114,349
Total Deferred Inflows of Resources	<u>\$ 3,371,543</u>	<u>\$ 898,155</u>	<u>\$ 4,269,698</u>	<u>\$ 1,251,257</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

18. Commitments and Contingencies

Construction Commitments

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

	Spent To Date	Remaining Contract
Apperson Drive Bridge Replacement	\$ 1,211,263	\$ 5,940,870
Colorado Street Bridge Replacement	5,224,880	686,384
Eddy Avenue Bridge Project	488,499	476,040
Elizabeth Campus Greenway	373,523	196,815
Fire Station 2 Renovation	1,035,877	449,851
Franklin Street Water Tank Replacement	680,155	25,659
Oakey's Pickleball Court Renovation	154,571	126,329
Well Pump Stations 4 & 5	1,530,810	1,239,153
	<u>\$ 10,699,578</u>	<u>\$ 9,141,101</u>

Electrical Service

On July 1, 2006, the City entered into an agreement with American Electric Power Service Corporation to purchase electricity for consumption and resale to City residents. The rates are recalculated annually based on the supplier's cost. As part of the agreement, an annual cost true-up is required based upon American Electric Power's FERC filing. The City's policy is to recognize the true-up as an expense when it is billed. The true-up for December 31, 2024, resulted in an expense of \$1,036,940 in the current fiscal year. The agreement expires May 31, 2026, with two possible five-year period renewals and may be terminated under certain circumstances.

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

Water and Wastewater Treatment Contract

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

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

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

Special Services

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

18. Commitments and Contingencies (Continued)

Participation Agreement

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

Consent Order

On December 8, 2005, the Virginia Department of Environmental Quality issued a State Water Control Board Enforcement Action Special Order by Consent to the City for the purpose of resolving certain alleged violations of the State Water Control Law and the Regulations. The action requires the City to identify sources of inflow and infiltration into the sanitary sewer system that lead to overflows and Wastewater Treatment Plant bypasses and perform actions to improve the system on the approved schedule as defined in the Corrective Action Plan completed on September 28, 2007. The project costs through 2029 are anticipated to be approximately \$35.1 million.

Special Purpose Grants

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

Litigation

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

19. Tax Abatements

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

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

Rebate payments commence upon completion of the rehabilitation, renovation, or replacement, or on January 1 of the year following completion of the rehabilitation, renovation, or replacement and shall run for a period as specified in each performance agreement, typically between five and ten years. In fiscal year 2025, tax abatements for economic development incentives totaled \$383,039.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

20. Jointly Governed Organizations

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

Roanoke Valley Resource Authority

The County of Roanoke, the Cities of Roanoke and Salem, and the Town of Vinton jointly participate in the Roanoke Valley Resource Authority (RVRA), which operates the regional sanitary landfill, waste collection and transfer station, and related treatment facilities. RVRA is governed by a seven-member board, of which one member is appointed by the City. The City has control over the budget and financing for RVRA only to the extent of representation by the board member appointed. The participating localities are each responsible for their pro rata share, based on population, of any year-end operating deficit. For the fiscal year ended June 30, 2025, the City remitted \$933,459 to RVRA for services. Financial statements may be obtained from RVRA at 1020 Hollins Road NE, Roanoke, Virginia 24012.

Blue Ridge Behavioral Healthcare

The Counties of Botetourt, Craig and Roanoke and the Cities of Roanoke and Salem formed Blue Ridge Behavioral Healthcare (BRBH) to provide a system of comprehensive community mental health, intellectual disability and substance abuse services. BRBH is governed by a 16-member board; three members are appointed by the City. Each locality's financial obligation is based on the type and amount of services performed for individuals in the locality. For the year ended June 30, 2025, the City remitted \$209,828 to BRBH for services. Financial statements may be obtained from BRBH at 301 Elm Avenue SW, Roanoke, Virginia, 24016.

Roanoke Valley Detention Commission

The Counties of Botetourt, Franklin and Roanoke and the Cities of Roanoke and Salem formed the Roanoke Valley Detention Commission (Commission) to renovate, expand and operate a detention facility for juveniles. The Commission is governed by a six-member board, of which one member is appointed by the City. Each locality's financial obligation is calculated as its percentage of utilization or average daily population, for the previous three fiscal years. The Commission has the authority to issue debt and such debt is the responsibility of the Commission. For the year ended June 30, 2025, the City remitted \$310,743 to the Commission for per diem charges. Financial statements may be obtained from the Commission at 498 Coyner Springs Road, Roanoke, Virginia 24012.

Roanoke Valley Regional Fire/EMS Training Center

The County of Roanoke, the Cities of Roanoke and Salem and the Town of Vinton jointly operate a fire/EMS training center (Center). The Center is governed by a committee designated by the participating jurisdictions. New fire/EMS recruits are required to take a 17-week training course at the facility before being assigned to a station. After completion of the training, the new recruits are state certified. Each jurisdiction is responsible for a percentage of the annual operating costs of the facility. The City of Salem is responsible for 8% of the annual operating costs. For the year ended June 30, 2025, the City remitted \$9,600 for operating costs of the facility. Financial statements may be obtained from the Center at 1220 Kessler Mill Road, Salem, Virginia 24153.

Western Virginia Regional Jail Authority

The Counties of Franklin, Montgomery and Roanoke and the City of Salem formed the Western Virginia Regional Jail Authority (Jail Authority) to develop and operate a regional jail. The Jail Authority is governed by a 12-member board; three from each participating locality. Each locality's financial obligation, which includes operating expenses and debt, is based on the number of prisoner days used and a share of the capital costs to build the facility. For the year ended June 30, 2025, the City remitted \$1,104,427 for per diem charges and \$320,705 for debt service to the Jail Authority. Financial statements may be obtained from the Jail Authority at 5885 West River Road, Salem, Virginia 24153.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025**

20. Jointly Governed Organizations (Continued)

Roanoke Valley Broadband Authority

The Counties of Botetourt and Roanoke and the Cities of Salem and Roanoke formed the Roanoke Valley Broadband Authority (RVBA) in order to acquire, finance, construct, operate, manage, and maintain a broadband system and related facilities pursuant to the Virginia Wireless Services Authorities Act. RVBA is governed by a five-member board, of which one member is appointed by the City. Based upon participation in the fiber expansion project, the Cities of Salem and Roanoke share equally in the operating and debt service costs of the Authority. For the year ending June 30, 2025, the City remitted \$0 for operating costs and \$326,080 for debt service to the RVBA. Financial statements may be obtained from RVBA at 601 South Jefferson Street SW, Suite 110, Roanoke, Virginia 24011.

Western Virginia Regional Industrial Facility Authority

The Counties of Botetourt, Roanoke and Franklin, the Cities of Roanoke and Salem and the Town of Vinton formed the Western Virginia Regional Industrial Facility Authority (WVRIFA) in order to enhance the economic base of each such locality through the developing, owning and operating of one or more facilities on a cooperative basis in the region. WVRIFA is governed by a twelve-member board, of which two members are appointed by the City. Each locality's financial obligation is based on their percentage of participation in each economic development project. For the year ended June 30, 2025, the City remitted \$8,020 for operating budget member dues and \$97,310 for debt service to WVRIFA. Financial statements may be obtained from WVRIFA at PO Box 2569, Roanoke, Virginia 24010.

Roanoke Valley Governor's School

The Counties of Bedford, Botetourt, Craig, Franklin and Roanoke and the Cities of Roanoke and Salem jointly participate in a regional education program focusing on science, technology, engineering and mathematics operated by Roanoke Valley Governor's School (RVGS). RVGS is governed by a seven member board, with one member from each participating locality. The School Division has control over budget and financing only to the extent of representation by the one board member appointed. Each locality's financial obligation is based on their proportionate share of students attending RVGS. For the year ended June 30, 2025, the School Division remitted \$77,578 for services. Financial statements may be obtained from RVGS at 2104 Grandin Road, Roanoke, Virginia 24015.

Roanoke Regional Airport Commission

The County of Roanoke and the Cities of Roanoke and Salem jointly participate in the Roanoke Regional Airport Commission (Commission), owner and operator of the Roanoke-Blacksburg Regional Airport. The Commission is governed by a seven-member board, of which one member is appointed by the City. Financial obligations of participating localities include any year end operating deficit and the current payment with respect to approved capital expenditures. Each locality's pro rata financial obligation is based on their population. For the year ended June 30, 2025, the City did not have a financial obligation to the Commission. Financial statements may be obtained from the Commission at 5202 Aviation Drive NW, Roanoke, VA 24012.

21. Accounting Change and Restatement

In fiscal year 2025, the City adopted GASB Statement No. 101, *Compensated Absences*. This statement updated guidance for the recognition and measurement of leave not yet used and leave used but not yet paid in cash or settled through non-cash means. The adoption of this statement resulted in adjustments to the City's and School Division's beginning compensated absences liabilities and restatement of beginning net positions.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

21. Accounting Change and Restatement (Continued)

The following is a summary of the restatement of beginning net positions:

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Net position, beginning, as reported previously	\$ 130,900,856	\$ 133,261,947	\$ 264,162,803	\$ 59,898,908
Recognition of compensated absences liabilities in accordance with GASB Statement No.101	(152,174)	(68,480)	(220,654)	(2,292,959)
Net position, beginning, as restated	<u>\$ 130,748,682</u>	<u>\$ 133,193,467</u>	<u>\$ 263,942,149</u>	<u>\$ 57,605,949</u>

Proprietary Funds				
Enterprise Funds				Internal Service Fund
Electric	Water and Sewer	Nonmajor Proprietary Funds	Total	
Net position, beginning, as reported previously	\$ 57,142,354	\$ 75,325,476	\$ 794,117	\$ 133,261,947
Recognition of compensated absences liabilities in accordance with GASB Statement No.101	(27,241)	(19,110)	(22,129)	(68,480)
Net position, beginning, as restated	<u>\$ 57,115,113</u>	<u>\$ 75,306,366</u>	<u>\$ 771,988</u>	<u>\$ 133,193,467</u>

	Component Units		
	School Division	Economic Development Authority	Total
Net position, beginning, as reported previously	\$ 59,210,289	\$ 688,619	\$ 59,898,908
Recognition of compensated absences liabilities in accordance with GASB Statement No.101	(2,292,959)	-	(2,292,959)
Net position, beginning, as restated	<u>\$ 56,917,330</u>	<u>\$ 688,619</u>	<u>\$ 57,605,949</u>

22. New Accounting Standards

The GASB has issued Statement No. 103, *Financial Reporting Model Improvements*, to enhance financial reporting by updating standards for management's discussion and analysis, unusual or infrequent item reporting, presentation of proprietary fund statement reports, major component unit information and budgetary comparison information. The provisions of this statement are effective for fiscal years beginning after June 15, 2025. 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. 104, *Disclosure of Certain Capital Assets*, to enhance financial reporting by disclosing certain capital assets separately by major class. The provisions of this statement are effective for fiscal years beginning after June 15, 2025. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

REQUIRED SUPPLEMENTARY INFORMATION



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

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
YEAR ENDED JUNE 30, 2025

	City of Salem Plan Year									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total pension liability										
Service cost	\$ 3,533,139	\$ 2,993,558	\$ 2,677,959	\$ 2,579,718	\$ 2,591,870	\$ 2,379,695	\$ 2,306,014	\$ 2,482,886	\$ 2,507,103	\$ 2,505,415
Interest	15,116,506	14,793,944	14,410,668	13,532,366	13,245,037	13,021,673	12,687,766	12,477,728	12,159,380	12,004,363
Difference between expected and actual experience	8,563,540	1,101,060	897,327	(1,898,137)	1,086,023	901,477	351,330	(1,567,004)	906,524	(2,262,692)
Changes in assumptions	-	-	-	7,635,262	-	5,416,334	-	279,953	-	-
Benefit payments, including refunds of employee contributions	(14,114,982)	(13,582,507)	(12,998,412)	(12,415,757)	(12,314,513)	(11,777,457)	(11,091,760)	(10,997,027)	(10,244,175)	(9,521,624)
Net change in total pension liability	13,098,203	5,306,055	4,987,542	9,433,452	4,608,417	9,941,722	4,253,350	2,676,536	5,328,832	2,725,462
Total pension liability - beginning	225,457,808	220,151,753	215,164,211	205,730,759	201,122,342	191,180,620	186,927,270	184,250,734	178,921,902	176,196,440
Total pension liability - ending	<u>\$ 238,556,011</u>	<u>\$ 225,457,808</u>	<u>\$ 220,151,753</u>	<u>\$ 215,164,211</u>	<u>\$ 205,730,759</u>	<u>\$ 201,122,342</u>	<u>\$ 191,180,620</u>	<u>\$ 186,927,270</u>	<u>\$ 184,250,734</u>	<u>\$ 178,921,902</u>
Plan fiduciary net position										
Contributions - employer	\$ 5,969,000	\$ 5,232,222	\$ 4,351,329	\$ 4,093,089	\$ 3,730,748	\$ 3,615,284	\$ 3,449,144	\$ 3,496,819	\$ 3,915,838	\$ 3,942,152
Contributions - employee	1,461,014	1,260,072	1,178,545	1,214,809	1,144,061	1,102,819	1,061,292	1,106,906	1,149,948	1,094,070
Net investment income	18,005,127	11,690,238	7,131	41,862,509	3,024,486	10,202,403	11,076,102	16,881,766	2,383,779	6,436,800
Benefit payments, including refunds of employee contributions	(14,114,982)	(13,582,507)	(12,998,412)	(12,415,757)	(12,314,513)	(11,777,457)	(11,091,760)	(10,997,027)	(10,244,175)	(9,521,624)
Administrative expense	(124,386)	(119,677)	(120,750)	(108,142)	(107,374)	(106,073)	(99,013)	(101,645)	(91,609)	(91,265)
Other	3,430	4,677	3,519	3,255	(3,719)	(6,401)	(9,719)	(14,845)	(1,041)	(1,350)
Net change in plan fiduciary net position	11,199,203	4,485,025	(7,578,638)	34,649,763	(4,526,311)	3,030,575	4,386,046	10,371,974	(2,887,260)	1,858,783
Plan fiduciary net position - beginning	186,742,690	182,257,665	189,836,303	155,186,540	159,712,851	156,682,276	152,296,230	141,924,256	144,811,516	142,952,733
Plan fiduciary net position - ending	<u>\$ 197,941,893</u>	<u>\$ 186,742,690</u>	<u>\$ 182,257,665</u>	<u>\$ 189,836,303</u>	<u>\$ 155,186,540</u>	<u>\$ 159,712,851</u>	<u>\$ 156,682,276</u>	<u>\$ 152,296,230</u>	<u>\$ 141,924,256</u>	<u>\$ 144,811,516</u>
Net pension liability - ending	<u>\$ 40,614,118</u>	<u>\$ 38,715,118</u>	<u>\$ 37,894,088</u>	<u>\$ 25,327,908</u>	<u>\$ 50,544,219</u>	<u>\$ 41,409,491</u>	<u>\$ 34,498,344</u>	<u>\$ 34,631,040</u>	<u>\$ 42,326,478</u>	<u>\$ 34,110,386</u>
Plan fiduciary net position as a percentage of the total pension liability	82.98%	82.83%	82.79%	88.23%	75.43%	79.41%	81.96%	81.47%	77.03%	80.94%
Covered payroll	\$ 29,360,551	\$ 25,736,458	\$ 23,869,057	\$ 22,452,490	\$ 22,944,330	\$ 22,234,219	\$ 21,264,760	\$ 21,558,687	\$ 21,598,665	\$ 21,743,806
Net pension liability as a percentage of covered payroll	138.33%	150.43%	158.76%	112.81%	220.29%	186.24%	162.23%	160.64%	195.97%	156.87%

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

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS
YEAR ENDED JUNE 30, 2025

	School Division Plan Year									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total pension liability										
Service cost	\$ 158,192	\$ 126,854	\$ 118,969	\$ 106,418	\$ 119,513	\$ 130,680	\$ 130,240	\$ 120,806	\$ 124,227	\$ 132,051
Interest	391,474	378,463	361,795	344,320	350,152	348,873	350,464	345,744	347,691	337,943
Changes of assumptions	-	-	-	150,153	-	134,293	-	-	-	-
Difference between expected and actual experience	189,347	73,188	132,716	(89,731)	(195,286)	(81,471)	(177,270)	(39,860)	(182,245)	(45,142)
Changes in assumptions	-	-	-	-	-	-	-	(23,501)	-	-
Benefit payments, including refunds of employee contributions	(449,053)	(385,122)	(363,739)	(378,725)	(342,849)	(314,833)	(337,479)	(334,040)	(300,945)	(270,236)
Net change in total pension liability	289,960	193,383	249,741	132,435	(68,470)	217,542	(34,045)	69,149	(11,272)	154,616
Total pension liability - beginning	5,865,954	5,672,571	5,422,830	5,290,395	5,358,865	5,141,323	5,175,368	5,106,219	5,117,491	4,962,875
Total pension liability - ending	\$ 6,155,914	\$ 5,865,954	\$ 5,672,571	\$ 5,422,830	\$ 5,290,395	\$ 5,358,865	\$ 5,141,323	\$ 5,175,368	\$ 5,106,219	\$ 5,117,491
Plan fiduciary net position										
Contributions - employer	\$ 18,737	\$ 17,162	\$ 22,143	\$ 19,987	\$ 39,178	\$ 40,178	\$ 51,406	\$ 51,554	\$ 92,100	\$ 93,028
Contributions - employee	79,846	73,370	65,114	57,197	58,791	57,762	61,121	61,318	58,188	59,073
Net investment income	636,787	415,500	(4,145)	1,516,515	110,040	369,207	399,866	608,458	86,505	228,863
Benefit payments, including refunds of employee contributions	(449,053)	(385,122)	(363,739)	(378,725)	(342,849)	(314,833)	(337,479)	(334,040)	(300,945)	(270,236)
Administrative expense	(4,471)	(4,290)	(4,345)	(3,965)	(3,871)	(3,796)	(3,562)	(3,661)	(3,256)	(3,202)
Other	124	166	155	141	(128)	(231)	(350)	(535)	(37)	(47)
Net change in plan fiduciary net position	281,970	116,786	(284,817)	1,211,150	(138,839)	148,287	171,002	383,094	(67,445)	107,479
Plan fiduciary net position - beginning	6,698,954	6,582,168	6,866,985	5,655,835	5,794,674	5,646,387	5,475,385	5,092,291	5,159,736	5,052,257
Plan fiduciary net position - ending	\$ 6,980,924	\$ 6,698,954	\$ 6,582,168	\$ 6,866,985	\$ 5,655,835	\$ 5,794,674	\$ 5,646,387	\$ 5,475,385	\$ 5,092,291	\$ 5,159,736
Net pension liability (asset) - ending	\$ (825,010)	\$ (833,000)	\$ (909,597)	\$ (1,444,155)	\$ (365,440)	\$ (435,809)	\$ (505,064)	\$ (300,017)	\$ 13,928	\$ (42,245)
Plan fiduciary net position as a percentage of the total pension liability	113.40%	114.20%	116.04%	126.63%	106.91%	108.13%	109.82%	105.80%	99.73%	100.83%
Covered payroll	\$ 975,885	\$ 893,854	\$ 962,739	\$ 869,000	\$ 1,061,734	\$ 1,088,835	\$ 1,187,206	\$ 1,190,624	\$ 1,173,248	\$ 1,185,071
Net pension liability (asset) as a percentage of covered payroll	(84.54%)	(93.19%)	(94.48%)	(166.19%)	(34.42%)	(40.03%)	(42.54%)	(25.20%)	1.19%	(3.56%)

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

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
YEAR ENDED JUNE 30, 2025**

Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
	(a)	(b)	(a-b)	(c)	(b/c)
City of Salem					
2025	\$ 6,242,476	\$ 6,242,476	\$ -	\$ 31,479,960	19.83%
2024	5,969,000	5,969,000	-	29,360,551	20.33%
2023	5,232,222	5,232,222	-	25,736,458	20.33%
2022	4,351,329	4,351,329	-	23,869,057	18.23%
2021	4,093,089	4,093,089	-	22,452,490	18.23%
2020	3,730,748	3,730,748	-	22,944,330	16.26%
2019	3,615,284	3,615,284	-	22,234,219	16.26%
2018	3,449,144	3,449,144	-	21,264,760	16.22%
2017	3,496,819	3,496,819	-	21,558,687	16.22%
2016	3,915,838	3,915,838	-	21,598,665	18.13%
School Division (Non-Professional Staff)					
2025	\$ 61,222	\$ 61,222	\$ -	\$ 1,710,112	3.58%
2024*	18,737	18,737	-	975,885	1.92%
2023	17,162	17,162	-	893,854	1.92%
2022	22,143	22,143	-	962,739	2.30%
2021	19,987	19,987	-	869,000	2.30%
2020	39,178	39,178	-	1,061,734	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%

* Revised to reflect actual 2024 amounts as shown in the VRS actuarial report rather than estimated amounts used in the prior year ACFR.

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

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
VRS TEACHER RETIREMENT PLAN
YEAR ENDED JUNE 30, 2025**

Plan Year Ended June 30	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Covered Payroll	Employer's Share of the Net Pension Liability as a % of Covered Payroll	Plan Fiduciary Net Position as a % of the Total Pension Liability
		(a)	(b)	(a/b)	
2024	0.27681%	\$ 25,983,974	\$ 28,091,468	92.50%	84.52%
2023	0.28247%	28,549,821	26,828,965	106.41%	82.45%
2022	0.28368%	27,008,034	25,356,474	106.51%	82.61%
2021	0.27131%	21,062,060	23,117,413	91.11%	85.46%
2020	0.27321%	39,759,230	23,135,236	171.86%	71.47%
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%

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

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
VRS TEACHER RETIREMENT PLAN
YEAR ENDED JUNE 30, 2025**

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)
2025	\$ 4,420,905	\$ 4,420,905	\$ -	\$ 31,111,224	14.21%
2024*	4,668,802	4,668,802	-	28,091,468	16.62%
2023	4,458,974	4,458,974	-	26,828,965	16.62%
2022	4,214,246	4,214,246	-	25,356,474	16.62%
2021	3,842,114	3,842,114	-	23,117,413	16.62%
2020	3,627,605	3,627,605	-	23,135,236	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%

* Revised to reflect actual 2024 amounts as shown in the VRS actuarial report rather than estimated amounts used in the prior year ACFR.

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

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
RETIREE HEALTH PLAN
YEAR ENDED JUNE 30, 2025

	City of Salem								
	2025	2024	2023	2022	2021	2020	2019	2018	2017
Total OPEB liability									
Service cost	\$ 245,804	\$ 304,221	\$ 343,023	\$ 296,489	\$ 270,595	\$ 298,111	\$ 319,409	\$ 376,793	\$ 352,143
Interest	1,701,208	1,683,163	1,460,383	1,451,615	1,375,786	1,377,095	1,612,928	1,723,845	1,688,424
Effect of plan changes	-	-	-	-	114,679	-	-	-	-
Effect of economic/demographic gains or losses	(4,458,005)	-	2,135,795	-	(113,226)	-	(2,149,293)	-	-
Effect of assumption changes	63,719	-	735,297	-	1,232,616	(77,972)	(2,370,696)	-	-
Benefit payments	(1,576,566)	(1,783,163)	(1,700,541)	(1,653,421)	(1,677,090)	(1,496,341)	(1,461,997)	(1,589,537)	(1,533,462)
Net change in total OPEB liability	(4,023,840)	204,221	2,973,957	94,683	1,203,360	100,893	(4,049,649)	511,101	507,105
Total OPEB liability - beginning	26,069,467	25,865,246	22,891,289	22,796,606	21,593,246	21,492,353	25,542,002	25,030,901	24,523,796
Total OPEB liability - ending	\$ 22,045,627	\$ 26,069,467	\$ 25,865,246	\$ 22,891,289	\$ 22,796,606	\$ 21,593,246	\$ 21,492,353	\$ 25,542,002	\$ 25,030,901
Plan fiduciary net position									
Contributions - employer	\$ 1,811,496	\$ 1,987,753	\$ 1,935,471	\$ 1,888,352	\$ 1,912,020	\$ 1,731,271	\$ 1,698,429	\$ 1,824,467	\$ 1,772,562
Net investment income	999,229	676,924	687,322	(912,887)	2,186,418	223,747	289,012	527,316	601,076
Benefit payments	(1,576,566)	(1,783,163)	(1,700,541)	(1,653,421)	(1,677,090)	(1,496,341)	(1,461,997)	(1,589,537)	(1,533,462)
Administrative expense	(11,784)	(10,617)	(9,665)	(10,804)	(8,677)	(8,014)	(7,245)	(6,596)	(5,982)
Net change in plan fiduciary net position	1,222,375	870,897	912,587	(688,760)	2,412,671	450,663	518,199	755,650	834,194
Plan fiduciary net position - beginning	10,739,723	9,868,826	8,956,239	9,644,999	7,232,328	6,781,665	6,263,466	5,507,816	4,673,622
Plan fiduciary net position - ending	\$ 11,962,098	\$ 10,739,723	\$ 9,868,826	\$ 8,956,239	\$ 9,644,999	\$ 7,232,328	\$ 6,781,665	\$ 6,263,466	\$ 5,507,816
Net OPEB liability - ending	\$ 10,083,529	\$ 15,329,744	\$ 15,996,420	\$ 13,935,050	\$ 13,151,607	\$ 14,360,918	\$ 14,710,688	\$ 19,278,536	\$ 19,523,085
Plan fiduciary net position as a percentage of the total OPEB liability	54.26%	41.20%	38.15%	39.13%	42.31%	33.49%	31.55%	24.52%	22.00%
Covered-employee payroll	\$ 33,054,035	\$ 27,280,579	\$ 27,280,579	\$ 23,727,114	\$ 23,727,114	\$ 23,606,599	\$ 23,606,599	\$ 22,779,070	\$ 22,779,070
Net OPEB liability as a percentage of covered-employee payroll	30.51%	56.19%	58.64%	58.73%	55.43%	60.83%	62.32%	84.63%	85.71%
Annual money-weighted rate of return, net of investment expense	8.84%	9.48%	7.63%	(9.32%)	30.04%	3.05%	4.59%	9.55%	12.83%

Schedule is intended to show information for 10 years. Since 2025 is the ninth year for this presentation, only eight additional years of data are available. However, additional years will be included as they become available.

2025 data reflects totals for the City and excludes \$44,588 and \$41,088 of contributions and benefit payments, respectively, of custodial entities.

Notes to Schedule:

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

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY (ASSET) AND RELATED RATIOS
RETIREE HEALTH PLAN
YEAR ENDED JUNE 30, 2025

	School Division								
	2025	2024	2023	2022	2021	2020	2019	2018	2017
Total OPEB liability									
Service cost	\$ 71,294	\$ 89,300	\$ 99,076	\$ 78,070	\$ 72,888	\$ 74,370	\$ 73,179	\$ 71,941	\$ 67,235
Interest	192,343	185,715	152,908	146,183	139,914	136,316	158,451	151,536	145,477
Effect of economic/demographic gains or losses	(676,415)	-	381,935	-	(51,503)	-	17,662	-	-
Effect of assumption changes	11,109	-	31,900	-	69,553	(16,279)	(255,288)	-	-
Benefit payments	(150,673)	(159,252)	(143,627)	(140,032)	(139,150)	(136,057)	(151,400)	(136,054)	(125,858)
Net change in total OPEB liability	(552,342)	115,763	522,192	84,221	91,702	58,350	(157,396)	87,423	86,854
Total OPEB liability - beginning	2,961,987	2,846,224	2,324,032	2,239,811	2,148,109	2,089,759	2,247,155	2,159,732	2,072,878
Total OPEB liability - ending	\$ 2,409,645	\$ 2,961,987	\$ 2,846,224	\$ 2,324,032	\$ 2,239,811	\$ 2,148,109	\$ 2,089,759	\$ 2,247,155	\$ 2,159,732
Plan fiduciary net position									
Contributions - employer	\$ 247,808	\$ 256,387	\$ 240,762	\$ 237,167	\$ 236,285	\$ 233,192	\$ 248,535	\$ 233,189	\$ 211,531
Net investment income	232,737	219,854	157,543	(205,312)	480,434	44,595	59,924	105,580	116,176
Benefit payments	(150,673)	(159,252)	(143,627)	(140,032)	(139,150)	(136,057)	(151,400)	(136,054)	(125,858)
Administrative expense	(2,928)	(2,796)	(2,632)	(2,813)	(2,294)	(2,100)	(1,894)	(1,717)	(1,579)
Net change in plan fiduciary net position	326,944	314,193	252,046	(110,990)	575,275	139,630	155,165	200,998	200,270
Plan fiduciary net position - beginning	2,629,094	2,314,901	2,062,855	2,173,845	1,598,570	1,458,940	1,303,775	1,102,777	902,507
Plan fiduciary net position - ending	\$ 2,956,038	\$ 2,629,094	\$ 2,314,901	\$ 2,062,855	\$ 2,173,845	\$ 1,598,570	\$ 1,458,940	\$ 1,303,775	\$ 1,102,777
Net OPEB liability (asset) - ending	\$ (546,393)	\$ 332,893	\$ 531,323	\$ 261,177	\$ 65,966	\$ 549,539	\$ 630,819	\$ 943,380	\$ 1,056,955
Plan fiduciary net position as a percentage of the total OPEB liability	122.68%	88.76%	81.33%	88.76%	97.05%	74.42%	69.81%	58.02%	51.06%
Covered-employee payroll	\$ 32,687,837	\$ 29,388,566	\$ 29,388,566	\$ 24,787,563	\$ 24,787,563	\$ 23,962,730	\$ 23,962,730	\$ 23,076,891	\$ 23,076,891
Net OPEB liability (asset) as a percentage of covered-employee payroll	(1.67%)	1.13%	1.81%	1.05%	0.27%	2.29%	2.63%	4.09%	4.58%
Annual money-weighted rate of return, net of investment expense	8.85%	9.49%	7.63%	(9.39%)	30.01%	3.05%	4.59%	9.52%	12.79%

Schedule is intended to show information for 10 years. Since 2025 is the ninth year for this presentation, only eight 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, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS
RETIREE HEALTH PLAN
YEAR ENDED JUNE 30, 2025**

Year Ended June 30	Actuarially Determined Contribution*	Contributions in Relation to Actuarially Determined Contribution*	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
	(a)	(b)	(a-b)	(c)	(b/c)
City of Salem					
2025	\$ 953,625	\$ 1,811,496	\$ (857,871)	\$ 33,054,035	5.48%
2024	1,338,270	1,987,753	(649,483)	27,280,579	7.29%
2023	1,273,132	1,935,471	(662,339)	27,280,579	7.09%
2022	1,110,672	1,888,352	(777,680)	23,727,114	7.96%
2021	1,081,831	1,912,020	(830,189)	23,727,114	8.06%
2020	1,159,709	1,731,271	(571,562)	23,606,599	7.33%
2019	1,111,485	1,698,429	(586,944)	23,606,599	7.19%
2018	1,516,523	1,824,467	(307,944)	22,779,070	8.01%
2017	1,475,809	1,772,562	(296,753)	22,779,070	7.78%
School Division					
2025	\$ 55,818	\$ 247,808	\$ (191,990)	\$ 32,687,837	0.76%
2024	132,024	256,387	(124,363)	29,388,566	0.87%
2023	128,179	240,762	(112,583)	29,388,566	0.82%
2022	94,871	237,167	(142,296)	24,787,563	0.96%
2021	92,108	236,285	(144,177)	24,787,563	0.95%
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 2025 is the ninth year for this presentation, only eight additional years of data are available. However, additional years will be included as they become available.

* Contribution amounts for the City of Salem do not include contributions for custodial entities.

Notes to Schedule:

There have been no significant changes to the benefit provisions since the prior actuarial valuation. Methods and assumptions used to determine contribution rates:

Valuation date	June 30, 2025
Measurement date	June 30, 2025
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll
Amortization period	Closed over 22 years
Asset valuation method	Fair value
Investment rate of return	6.50%
Projected long-term salary increases	2.50%

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM
YEAR ENDED JUNE 30, 2025

	School Division							
	Plan Year							
	2024	2023	2022	2021	2020	2019	2018	2017
Total HIC OPEB liability								
Service cost	\$ 2,737	\$ 2,533	\$ 3,280	\$ 4,085	\$ 4,133	\$ 3,643	\$ 2,543	\$ 2,412
Interest	13,649	11,843	8,186	8,118	8,927	9,771	11,059	10,832
Changes of benefit terms	-	-	62,508	-	955	-	-	-
Changes in assumptions	-	-	26,248	2,663	-	2,818	-	370
Differences between expected and actual experience	(3,776)	27,368	(28,738)	(750)	(10,631)	(9,720)	(20,255)	-
Benefit payments	(14,918)	(15,475)	(17,649)	(15,100)	(15,662)	(12,020)	(11,482)	(9,254)
Net change in total HIC OPEB liability	(2,308)	26,269	53,835	(984)	(12,278)	(5,508)	(18,135)	4,360
Total HIC OPEB liability - beginning	206,928	180,659	126,824	127,808	140,086	145,594	163,729	159,369
Total HIC OPEB liability - ending	\$ 204,620	\$ 206,928	\$ 180,659	\$ 126,824	\$ 127,808	\$ 140,086	\$ 145,594	\$ 163,729
Plan fiduciary net position								
Contributions - employer	\$ 20,302	\$ 18,538	\$ 16,389	\$ 8,589	\$ 7,533	\$ 7,318	\$ 8,875	\$ 8,704
Net investment income	8,644	4,445	(12)	15,149	1,341	4,257	4,693	6,952
Benefit payments	(14,918)	(15,475)	(17,649)	(15,100)	(15,662)	(12,020)	(11,482)	(9,254)
Administrative expense	(119)	(89)	(130)	(164)	(116)	(90)	(108)	(109)
Other	-	550	10,296	-	(1)	(5)	(359)	359
Net change in plan fiduciary net position	13,909	7,969	8,894	8,474	(6,905)	(540)	1,619	6,652
Plan fiduciary net position - beginning	87,222	79,253	70,359	61,885	68,790	69,330	67,711	61,059
Plan fiduciary net position - ending	\$ 101,131	\$ 87,222	\$ 79,253	\$ 70,359	\$ 61,885	\$ 68,790	\$ 69,330	\$ 67,711
Net OPEB liability - ending	\$ 103,489	\$ 119,706	\$ 101,406	\$ 56,465	\$ 65,923	\$ 71,296	\$ 76,264	\$ 96,018
Plan fiduciary net position as a percentage of the total OPEB liability	49.42%	42.15%	43.87%	55.48%	48.42%	49.11%	47.62%	41.36%
Covered payroll	\$ 1,829,009	\$ 1,670,090	\$ 1,450,354	\$ 1,263,088	\$ 1,276,780	\$ 1,240,339	\$ 1,286,232	\$ 1,261,449
Net OPEB liability as a percentage of covered payroll	5.66%	7.17%	6.99%	4.47%	5.16%	5.75%	5.93%	7.61%

Schedule is intended to show information for 10 years. Since fiscal year 2025 (plan year 2024) is the eighth year for this presentation, only seven additional years of data are available. However, additional years will be included as they become available.

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

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS
POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM
YEAR ENDED JUNE 30, 2025**

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 (Non-Professional Staff)					
2025	\$ 18,722	\$ 18,722	\$ -	\$ 1,686,667	1.11%
2024*	20,302	20,302	-	1,829,009	1.11%
2023	18,538	18,538	-	1,670,090	1.11%
2022**	16,389	16,389	-	1,450,354	1.13%
2021	8,589	8,589	-	1,263,088	0.68%
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 2025 is the eighth year for this presentation, only seven additional years of data are available. However, additional years will be included as they become available.

* Revised to reflect actual 2024 amounts as shown in the VRS actuarial report rather than estimated amounts used in the prior year ACFR.

** Beginning in fiscal year 2022, the School Division elected to provide the enhanced health insurance credit.

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

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
GLI AND TEACHER EMPLOYEE HIC PROGRAMS
YEAR ENDED JUNE 30, 2025

Plan Year Ended June 30	Employer's Proportion of the Net OPEB Liability	Employer's Proportionate Share of the Net OPEB Liability (a)	Covered Payroll (b)	Employer's Share of the Net OPEB Liability as a % of Covered Payroll (a/b)	Plan Fiduciary Net Position as a % of the Total OPEB Liability
City of Salem - Group Life Insurance Program					
2024	0.12251%	\$ 1,298,379	\$ 30,473,148	4.26%	73.41%
2023	0.11707%	1,334,355	26,627,407	5.01%	69.30%
2022	0.11778%	1,347,971	24,634,259	5.47%	67.21%
2021	0.11657%	1,290,302	23,241,296	5.55%	67.45%
2020	0.11949%	1,902,916	23,655,385	8.04%	52.64%
2019	0.12131%	1,883,072	22,818,462	8.25%	52.00%
2018	0.11921%	1,726,760	21,687,115	7.96%	51.22%
2017	0.12390%	1,778,837	22,853,532	7.78%	48.86%
School Division - Group Life Insurance Program (Non-Professional Staff)					
2024	0.00712%	\$ 79,454	\$ 1,828,889	4.34%	73.41%
2023	0.00710%	85,151	1,672,037	5.09%	69.30%
2022	0.00667%	80,313	1,450,741	5.54%	67.21%
2021	0.00614%	71,486	1,271,111	5.62%	67.45%
2020	0.00623%	103,968	1,285,000	8.09%	52.64%
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)					
2024	0.11432%	\$ 1,275,722	\$ 29,353,333	4.35%	73.41%
2023	0.11861%	1,422,506	27,937,963	5.09%	69.30%
2022	0.12043%	1,450,093	26,196,111	5.54%	67.21%
2021	0.11525%	1,341,822	23,860,556	5.62%	67.45%
2020	0.11525%	1,923,334	23,770,577	8.09%	52.64%
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					
2024	0.27398%	\$ 3,166,244	\$ 29,353,471	10.79%	21.82%
2023	0.28008%	3,392,938	27,926,860	12.15%	17.90%
2022	0.28107%	3,510,695	26,196,281	13.40%	15.08%
2021	0.26840%	3,445,100	23,772,562	14.49%	9.95%
2020	0.27051%	3,528,848	23,716,667	14.88%	9.95%
2019	0.27380%	3,584,308	22,965,750	15.61%	8.97%
2018	0.27878%	3,540,000	22,545,854	15.70%	8.08%
2017	0.27639%	3,506,000	21,812,560	16.07%	7.04%

Schedule is intended to show information for 10 years. Since fiscal year 2025 (plan year 2024) is the eighth year for this presentation, only seven additional years of data are available. However, additional years will be included as they become available.

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

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS
GLI AND TEACHER EMPLOYEE HIC PROGRAMS
YEAR ENDED JUNE 30, 2025**

Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
	(a)	(b)	(a-b)	(c)	(b/c)
City of Salem - Group Life Insurance Program					
2025	\$ 148,693	\$ 148,693	\$ -	\$ 31,636,809	0.47%
2024	164,555	164,555	-	30,473,148	0.54%
2023	143,788	143,788	-	26,627,407	0.54%
2022	133,025	133,025	-	24,634,259	0.54%
2021	125,503	125,503	-	23,241,296	0.54%
2020	123,008	123,008	-	23,655,385	0.52%
2019	118,656	118,656	-	22,818,462	0.52%
2018	112,773	112,773	-	21,687,115	0.52%
School Division - Group Life Insurance Program (Non-Professional Staff)					
2025	\$ 7,945	\$ 7,945	\$ -	\$ 1,690,426	0.47%
2024*	9,876	9,876	-	1,828,889	0.54%
2023	9,029	9,029	-	1,672,037	0.54%
2022	7,834	7,834	-	1,450,741	0.54%
2021	6,864	6,864	-	1,271,111	0.54%
2020	6,682	6,682	-	1,285,000	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)					
2025	\$ 146,220	\$ 146,220	\$ -	\$ 31,110,638	0.47%
2024*	158,508	158,508	-	29,353,333	0.54%
2023	150,865	150,865	-	27,937,963	0.54%
2022	141,459	141,459	-	26,196,111	0.54%
2021	128,847	128,847	-	23,860,556	0.54%
2020	123,607	123,607	-	23,770,577	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					
2025	\$ 376,382	\$ 376,382	\$ -	\$ 31,105,950	1.21%
2024*	355,177	355,177	-	29,353,471	1.21%
2023	337,915	337,915	-	27,926,860	1.21%
2022	316,975	316,975	-	26,196,281	1.21%
2021	287,648	287,648	-	23,772,562	1.21%
2020	284,600	284,600	-	23,716,667	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 2025 is the eighth year for this presentation, only seven additional years of data are available. However, additional years will be included as they become available.

* Revised to reflect actual 2024 amounts as shown in the VRS actuarial report rather than estimated amounts used in the prior year ACFR.

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

CITY OF SALEM, VIRGINIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2025

1. Changes of Benefit Terms

Pension

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

Other Postemployment Benefits (OPEB)

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

2. Changes of Assumptions

The actuarial assumptions used in the June 30, 2023, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Non-Hazardous Duty:

- Update mortality table to PUB2010 public sector mortality tables; for future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
- Adjusted retirement rates to better fit experience for Plan 1; set separate rates based on experience for Plan2/Hybrid; changed final retirement age from 75 to 80 for all
- Adjusted withdrawal rates to better fit experience at each year age and service through 9 years of service
- No change to disability rates
- No change to salary scale
- No change to line of duty rates
- No change to discount rate

Largest 10 – Hazardous Duty/Public Safety Employees:

- Update mortality table to PUB2010 public sector mortality tables; increased disability life expectancy; for future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
- Adjusted retirement rates to better fit experience and changed final retirement age from 65 to 70
- Decreased withdrawal rates
- No change to disability rates
- No change to salary scale
- No change to line of duty rates
- No change to discount rate

All Others (Non-10 Largest) – Hazardous Duty/Public Safety Employees:

- Update mortality table to PUB2010 public sector mortality tables; increased disability life expectancy; for future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
- Adjusted retirement rates to better fit experience and changed final retirement age from 65 to 70
- Decreased withdrawal rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Largest 10 Hazardous Duty
- No change to disability rates
- No change to salary scale
- No change to line of duty rates
- No change to discount rate

**CITY OF SALEM, VIRGINIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2025**

2. Changes of Assumptions (Continued)

Teacher Cost-Sharing Pool:

- Update mortality table to PUB2010 public sector mortality tables; for future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
- Adjusted retirement rates to better fit experience for Plan 1; set separate rates based on experience for Plan2/Hybrid; changed final retirement age from 75 to 80 for all
- Adjusted withdrawal rates to better fit experience at each year age and service through 9 years of service
- No change to disability rates
- No changes to salary scale
- No change to discount rate

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OTHER SUPPLEMENTARY INFORMATION



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

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2025

	Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
ASSETS			
<i>Current assets:</i>			
Cash and cash equivalents	\$ 1,897,235	\$ 20,239	\$ 1,917,474
Receivables, net	39,410	58,291	97,701
Inventories	-	56,478	56,478
Prepaid items	229,712	2,440	232,152
Total current assets	2,166,357	137,448	2,303,805
<i>Noncurrent assets:</i>			
Capital assets:			
Nondepreciable and nonamortizable	357,453	-	357,453
Depreciable and amortizable, net	3,215,167	22,252	3,237,419
Total capital assets	3,572,620	22,252	3,594,872
Total noncurrent assets	3,572,620	22,252	3,594,872
Total assets	5,738,977	159,700	5,898,677
DEFERRED OUTFLOWS OF RESOURCES			
	446,403	98,965	545,368
LIABILITIES			
<i>Current liabilities:</i>			
Accounts payable and accrued liabilities	510,997	42,027	553,024
Accrued payroll and related liabilities	86,622	21,848	108,470
Due to other funds	-	200,000	200,000
Unearned revenues	1,690,676	400	1,691,076
Lease liability	3,026	-	3,026
Compensated absences	129,554	23,253	152,807
Total current liabilities	2,420,875	287,528	2,708,403
<i>Noncurrent liabilities:</i>			
Lease liability	3,095	-	3,095
Compensated absences	22,790	10,234	33,024
Net pension liability	1,370,358	392,547	1,762,905
Net OPEB liability	355,652	76,702	432,354
Total noncurrent liabilities	1,751,895	479,483	2,231,378
Total liabilities	4,172,770	767,011	4,939,781
DEFERRED INFLOWS OF RESOURCES			
	322,033	66,174	388,207
NET POSITION			
Net investment in capital assets	3,566,499	22,252	3,588,751
Unrestricted (deficit)	(1,875,922)	(596,772)	(2,472,694)
Total net position	\$ 1,690,577	\$ (574,520)	\$ 1,116,057

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2025

	Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
OPERATING REVENUES			
Charges for services	\$ 2,926,194	\$ 1,004,676	\$ 3,930,870
Commissions	14,924	-	14,924
Other	29,515	16,015	45,530
Total operating revenues	<u>2,970,633</u>	<u>1,020,691</u>	<u>3,991,324</u>
OPERATING EXPENSES			
Salaries	1,393,444	461,140	1,854,584
Fringe benefits	452,408	121,509	573,917
Show expenses	2,242,103	-	2,242,103
Maintenance	266,431	4,172	270,603
Professional services	23,664	52,362	76,026
Insurance	30,570	1,522	32,092
Administration	145,003	30,039	175,042
Travel and training	16,084	-	16,084
Materials and supplies	28,230	353,182	381,412
Expendable equipment and small tools	17,145	1,208	18,353
Utilities	391,718	193	391,911
Miscellaneous	7,719	28	7,747
Depreciation	329,874	3,568	333,442
Amortization	3,027	-	3,027
Total operating expenses	<u>5,347,420</u>	<u>1,028,923</u>	<u>6,376,343</u>
Operating loss	<u>(2,376,787)</u>	<u>(8,232)</u>	<u>(2,385,019)</u>
NONOPERATING REVENUES (EXPENSES)			
Investment income	2,534	-	2,534
Interest expense	(210)	-	(210)
Loss on disposal of capital assets	(15,064)	-	(15,064)
Miscellaneous	11,528	-	11,528
Net nonoperating expenses	<u>(1,212)</u>	<u>-</u>	<u>(1,212)</u>
Loss before transfers	<u>(2,377,999)</u>	<u>(8,232)</u>	<u>(2,386,231)</u>
Capital contributions	168,515	-	168,515
Transfers in	2,552,785	9,000	2,561,785
Change in net position	<u>343,301</u>	<u>768</u>	<u>344,069</u>
Net position, beginning*	1,347,276	(575,288)	771,988
Net position, ending	<u>\$ 1,690,577</u>	<u>\$ (574,520)</u>	<u>\$ 1,116,057</u>

* Restated, due to implementation of the guidance in GASB Statement 101, *Compensated Absences*

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2025

	Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
OPERATING ACTIVITIES			
Receipts from customers	\$ 4,416,045	\$ 995,124	\$ 5,411,169
Payments to suppliers	(2,866,352)	(447,497)	(3,313,849)
Payments to employees	(1,880,976)	(584,541)	(2,465,517)
Other receipts	29,515	16,015	45,530
Nonoperating revenue	11,528	-	11,528
Net cash used in operating activities	(290,240)	(20,899)	(311,139)
NONCAPITAL FINANCING ACTIVITIES			
Interfund loan	-	25,000	25,000
Transfers in	2,552,785	9,000	2,561,785
Net cash provided by noncapital financing activities	2,552,785	34,000	2,586,785
CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(511,329)	-	(511,329)
Principal paid on capital debt	(2,957)	-	(2,957)
Interest paid on capital debt	(210)	-	(210)
Net cash used in capital and related financing activities	(514,496)	-	(514,496)
INVESTING ACTIVITIES			
Interest received	2,534	-	2,534
Net cash provided by investing activities	2,534	-	2,534
Net increase in cash and cash equivalents	1,750,583	13,101	1,763,684
Cash and cash equivalents, beginning	146,652	7,138	153,790
Cash and cash equivalents, ending	<u>\$ 1,897,235</u>	<u>\$ 20,239</u>	<u>\$ 1,917,474</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES			
Operating loss	\$ (2,376,787)	\$ (8,232)	\$ (2,385,019)
<i>Adjustments to reconcile operating loss to net cash used in operating activities</i>			
Depreciation and amortization	332,901	3,568	336,469
Nonoperating revenue (expense)	11,528	-	11,528
Pension expense, net of employer contributions	(6,285)	745	(5,540)
OPEB expense, net of employer contributions	(50,711)	(8,204)	(58,915)
<i>Decrease (increase) in assets:</i>			
Receivables, net	64,004	(2,163)	61,841
Inventories	-	(17,738)	(17,738)
Prepaid items	(137,024)	(2,440)	(139,464)
<i>Increase (decrease) in liabilities:</i>			
Accounts payable and accrued liabilities	439,339	15,387	454,726
Accrued payroll and related liabilities	12,275	859	13,134
Unearned revenues	1,410,923	(7,389)	1,403,534
Compensated absences	9,597	4,708	14,305
Net cash used in operating activities	<u>\$ (290,240)</u>	<u>\$ (20,899)</u>	<u>\$ (311,139)</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF FIDUCIARY NET POSITION
CUSTODIAL FUNDS
JUNE 30, 2025

	Cardinal Criminal Justice Academy	Court- Community Corrections Program	Total Custodial Funds
ASSETS			
Cash and cash equivalents	\$ 647,605	\$ 1,694,089	\$ 2,341,694
Receivables, net	167	429	596
Due from Commonwealth of Virginia	-	37,133	37,133
Total assets	<u>647,772</u>	<u>1,731,651</u>	<u>2,379,423</u>
LIABILITIES			
Accounts payable and accrued liabilities	18,556	198,009	216,565
Accrued payroll and related liabilities	11,560	24,986	36,546
Due to City of Salem	5,731	10,024	15,755
Unearned revenues	22,313	-	22,313
Total liabilities	<u>58,160</u>	<u>233,019</u>	<u>291,179</u>
NET POSITION			
Restricted for:			
Individuals, organizations, and other governments	589,612	1,498,632	2,088,244
Total net position	<u>\$ 589,612</u>	<u>\$ 1,498,632</u>	<u>\$ 2,088,244</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
CUSTODIAL FUNDS
YEAR ENDED JUNE 30, 2025

	Cardinal Criminal Justice Academy	Court- Community Corrections Program	Total Custodial Funds
ADDITIONS			
Funds received for benefit of other organizations	\$ 1,066,078	\$ 1,619,147	\$ 2,685,225
Total additions	<u>1,066,078</u>	<u>1,619,147</u>	<u>2,685,225</u>
DEDUCTIONS			
Funds disbursed for benefit of other organizations	1,024,155	1,759,800	2,783,955
Total deductions	<u>1,024,155</u>	<u>1,759,800</u>	<u>2,783,955</u>
Change in fiduciary net position	<u>41,923</u>	<u>(140,653)</u>	<u>(98,730)</u>
Net position, beginning	547,689	1,639,285	2,186,974
Net position, ending	<u><u>\$ 589,612</u></u>	<u><u>\$ 1,498,632</u></u>	<u><u>\$ 2,088,244</u></u>

**CITY OF SALEM, VIRGINIA
BALANCE SHEET
ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF SALEM
GOVERNMENTAL FUND
JUNE 30, 2025**

ASSETS

Cash and cash equivalents	\$ 947,887
Receivables, net	14,632,799
Total assets	<u>\$ 15,580,686</u>

LIABILITIES

Accounts payable and accrued liabilities	\$ 340,486
Unearned revenue	40,302
Due to primary government	8,060,478
Total liabilities	<u>8,441,266</u>

FUND BALANCE

Assigned	<u>7,139,420</u>
Total fund balance	<u>7,139,420</u>
Total liabilities and fund balance	<u>\$ 15,580,686</u>

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance of governmental fund \$ 7,139,420

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 fund.

Bonds payable	(6,342,618)
Accrued interest	(40,302)
Net position of governmental activities	<u>\$ 756,500</u>

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF SALEM
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2025

REVENUES

Revenue from use of money and property	\$ 616,387
Charges for services	37,175
Intergovernmental	393,339
Total revenues	<u>1,046,901</u>

EXPENDITURES

Community development	461,694
<i>Debt service:</i>	
Principal retirement	472,000
Interest	554,326
Total expenditures	<u>1,488,020</u>
Net change in fund balance	<u>(441,119)</u>
Fund balance, beginning	<u>7,580,539</u>
Fund balance, ending	<u><u>\$ 7,139,420</u></u>

RECONCILIATION TO THE STATEMENT OF ACTIVITIES

Net change in fund balance of governmental fund	\$ (441,119)
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Repayment of bond principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Position.

Principal Payments	472,000
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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 fund.

Change in accrued interest payable	37,000
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Change in net position of governmental activities	<u><u>\$ 67,881</u></u>
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STATISTICAL SECTION



The Statistical Section of the City of Salem, Virginia's Annual Comprehensive Financial Report presents additional detail, context, and historical information to assist in understanding the information in the financial statements, note disclosures and required supplementary information.

Contents	Page
Financial Trends.....	132
<i>These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</i>	
Revenue Capacity.....	137
<i>These schedules contain information to help the reader assess the City's most significant local revenue sources, property tax and sale of electricity.</i>	
Debt Capacity.....	140
<i>These schedules present information to help the reader assess the affordability of the City's current level of outstanding debt and the government's ability to issue additional debt in the future.</i>	
Demographic and Economic Information.....	143
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.</i>	
Operating Information.....	145
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the government provides and the activities it performs.</i>	

TABLE 1
UNAUDITED

CITY OF SALEM, VIRGINIA
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
	(1)					(2)		(3)		(4), (5)
Governmental Activities										
Net investment in capital assets	\$ 113,797,282	\$ 100,364,933	\$ 83,584,944	\$ 84,385,804	\$ 83,813,635	\$ 74,013,712	\$ 75,906,865	\$ 75,637,028	\$ 76,704,584	\$ 80,613,041
Restricted	5,947,117	7,592,013	5,873,930	3,242,954	2,264,159	7,407,955	5,868,862	4,211,042	4,247,628	1,962,017
Unrestricted	31,574,626	22,943,910	15,662,342	(15,996,431)	(25,162,020)	(18,144,742)	(21,585,631)	(30,860,648)	(24,252,734)	(33,750,410)
Total governmental activities net position	<u>\$ 151,319,025</u>	<u>\$ 130,900,856</u>	<u>\$ 105,121,216</u>	<u>\$ 71,632,327</u>	<u>\$ 60,915,774</u>	<u>\$ 63,276,925</u>	<u>\$ 60,190,096</u>	<u>\$ 48,987,422</u>	<u>\$ 56,699,478</u>	<u>\$ 48,824,648</u>
Business-type activities										
Net investment in capital assets	\$ 81,028,131	\$ 75,144,888	\$ 72,671,638	\$ 67,400,911	\$ 60,959,490	\$ 55,215,300	\$ 52,850,038	\$ 49,386,338	\$ 46,775,751	\$ 44,477,804
Unrestricted	58,928,410	58,117,059	53,821,439	48,777,084	47,208,736	47,252,971	42,561,767	37,549,539	34,837,935	29,574,731
Total business-type activities net position	<u>\$ 139,956,541</u>	<u>\$ 133,261,947</u>	<u>\$ 126,493,077</u>	<u>\$ 116,177,995</u>	<u>\$ 108,168,226</u>	<u>\$ 102,468,271</u>	<u>\$ 95,411,805</u>	<u>\$ 86,935,877</u>	<u>\$ 81,613,686</u>	<u>\$ 74,052,535</u>
Primary Government										
Net investment in capital assets	\$ 194,825,413	\$ 175,509,821	\$ 156,256,582	\$ 151,786,715	\$ 144,773,125	\$ 129,229,012	\$ 128,756,903	\$ 125,023,367	\$ 123,480,335	\$ 125,090,845
Restricted	5,947,117	7,592,013	5,873,930	3,242,954	2,264,159	7,407,955	5,868,862	4,211,042	4,247,628	1,962,017
Unrestricted	90,503,036	81,060,969	69,483,781	32,780,653	22,046,716	29,108,229	20,976,136	6,688,890	10,585,201	(4,175,679)
Total primary government net position	<u>\$ 291,275,566</u>	<u>\$ 264,162,803</u>	<u>\$ 231,614,293</u>	<u>\$ 187,810,322</u>	<u>\$ 169,084,000</u>	<u>\$ 165,745,196</u>	<u>\$ 155,601,901</u>	<u>\$ 135,923,299</u>	<u>\$ 138,313,164</u>	<u>\$ 122,877,183</u>

Notes:

Source: City of Salem Finance Department

(1) In 2025, the City implemented GASB Statement No. 101 updating the recognition and measurement of compensated absences.

(2) There were reclassifications within the net position of governmental activities and the net position of the primary government for comparative purposes to conform with the presentation in other fiscal years.

(3) In 2018, the City implemented GASB Statement No. 75 requiring recognition of the net OPEB liability.

(4) Net investment in capital assets of governmental activities and business-type activities were restated to record deferred loss on refunding of debt from the 2015 refunding bonds.

(5) Net investment in capital assets of governmental activities was restated to record deferred loss on refunding of debt from the 2011 refunding bonds.

TABLE 2
UNAUDITED

CITY OF SALEM, VIRGINIA
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(accrual basis of accounting)

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
		(1)	(2)	(3)	(4)	(5)				(6), (7)
Expenses										
<i>Governmental activities:</i>										
General government	\$ 11,817,347	\$ 10,307,404	\$ 8,115,304	\$ 6,946,772	\$ 7,398,186	\$ 7,732,057	\$ 5,999,310	\$ 6,388,884	\$ 6,864,181	\$ 5,943,899
Judicial administration	3,015,798	2,813,795	2,601,089	2,460,730	2,685,074	2,427,038	2,019,802	2,009,007	2,072,538	1,934,263
Public safety	23,960,886	22,011,293	20,216,655	18,560,637	19,746,567	19,710,088	15,953,011	15,776,102	17,011,463	15,753,795
Public works	15,791,472	12,381,212	11,351,657	10,777,374	16,605,367	10,268,769	9,434,930	11,617,750	12,228,329	16,652,913
Health and welfare	7,699,952	6,720,651	5,838,663	5,441,656	5,707,730	4,969,943	4,014,354	3,318,498	3,026,330	2,974,663
Education	23,781,130	24,053,049	25,147,133	26,611,308	34,606,636	25,341,148	21,032,249	20,170,298	19,760,242	19,739,512
Parks, recreation and cultural	9,905,247	7,827,132	8,020,313	6,835,914	6,871,297	6,286,470	6,300,706	6,129,809	5,937,858	5,335,902
Community development	4,274,139	3,235,907	3,248,148	2,748,883	3,046,081	3,392,520	3,173,232	3,429,290	3,296,760	2,107,808
Interest and other fiscal changes	1,523,071	1,764,519	1,803,089	1,567,370	1,598,185	1,312,981	1,008,095	950,247	988,059	1,011,115
Total governmental activities	<u>101,769,042</u>	<u>91,114,962</u>	<u>86,342,051</u>	<u>81,950,644</u>	<u>98,265,123</u>	<u>81,441,014</u>	<u>68,935,689</u>	<u>69,789,885</u>	<u>71,185,760</u>	<u>71,453,870</u>
<i>Business-type activities:</i>										
Electric	46,231,865	44,470,881	40,754,144	35,521,249	32,791,502	32,282,516	33,022,574	31,361,242	31,628,232	30,200,956
Water and sewer	12,329,606	11,310,175	10,479,500	9,902,890	10,491,167	10,141,238	9,538,640	9,206,719	9,776,628	10,000,056
Civic Center	5,362,694	5,846,055	5,107,817	4,085,173	2,693,683	4,382,316	4,291,121	4,708,634	4,046,125	4,103,577
Catering and concessions	1,028,923	918,668	918,177	738,240	457,944	875,293	937,758	981,396	933,894	980,147
Total business-type activities	<u>64,953,088</u>	<u>62,545,779</u>	<u>57,259,638</u>	<u>50,247,552</u>	<u>46,434,296</u>	<u>47,681,363</u>	<u>47,790,093</u>	<u>46,257,991</u>	<u>46,384,879</u>	<u>45,284,736</u>
Total Primary Government	<u>\$ 166,722,130</u>	<u>\$ 153,660,741</u>	<u>\$ 143,601,689</u>	<u>\$ 132,198,196</u>	<u>\$ 144,699,419</u>	<u>\$ 129,122,377</u>	<u>\$ 116,725,782</u>	<u>\$ 116,047,876</u>	<u>\$ 117,570,639</u>	<u>\$ 116,738,606</u>
Program revenues										
<i>Governmental activities:</i>										
Charges for services										
Public safety	\$ 1,930,505	\$ 2,448,408	\$ 2,411,593	\$ 1,516,411	\$ 1,406,150	\$ 1,378,117	\$ 1,487,180	\$ 1,358,612	\$ 1,237,985	\$ 1,281,509
Public works	1,922,468	1,924,909	1,938,610	1,964,802	1,888,588	1,859,310	1,488,934	1,528,945	2,563,620	4,706,219
Other activities	1,290,412	1,290,811	1,116,519	975,700	724,797	777,397	981,634	1,162,193	1,254,639	779,384
Operating grants and contributions	12,906,230	12,123,594	10,842,557	9,863,682	9,856,578	9,458,112	8,466,964	8,207,848	8,318,690	7,623,373
Capital grants and contributions	7,650,691	4,607,372	1,490,232	1,950,019	8,608,472	1,344,324	566,366	1,403,327	202,451	80,406
Total governmental activities	<u>25,700,306</u>	<u>22,395,094</u>	<u>17,799,511</u>	<u>16,270,614</u>	<u>22,484,585</u>	<u>14,817,260</u>	<u>12,991,078</u>	<u>13,660,925</u>	<u>13,577,385</u>	<u>14,470,891</u>
<i>Business-type activities:</i>										
Charges for services										
Electric	51,854,469	46,176,847	40,266,130	40,294,957	38,045,804	38,441,256	39,719,859	40,153,923	39,437,330	38,080,149
Water and sewer	16,261,188	15,425,936	14,554,254	14,664,782	14,200,570	14,222,844	14,165,379	14,009,576	13,530,659	13,537,310
Civic Center	2,970,633	3,676,431	3,170,486	2,595,998	522,276	2,282,153	2,745,582	3,106,144	2,475,661	2,313,348
Catering and concessions	1,020,691	1,072,705	874,199	698,317	206,559	674,404	778,605	922,287	819,571	935,973
Operating grants and contributions										
Electric	-	-	-	37,718	-	-	-	-	-	-
Civic Center	-	-	-	1,268,542	-	-	-	-	-	-
Water and sewer	11,780	-	14,465	27,015	-	-	-	-	-	-
Capital grants and contributions										
Electric	-	-	11,308	-	-	78,034	-	124,385	-	-
Civic Center	-	-	-	-	-	-	-	51,133	-	-
Water and sewer	-	-	34,000	162,746	541,915	-	-	-	-	-
Total business-type activities	<u>72,118,761</u>	<u>66,351,919</u>	<u>58,924,842</u>	<u>59,750,075</u>	<u>53,517,124</u>	<u>55,698,691</u>	<u>57,409,425</u>	<u>58,367,448</u>	<u>56,263,221</u>	<u>54,866,780</u>
Total Primary Government	<u>\$ 97,819,067</u>	<u>\$ 88,747,013</u>	<u>\$ 76,724,353</u>	<u>\$ 76,020,689</u>	<u>\$ 76,001,709</u>	<u>\$ 70,515,951</u>	<u>\$ 70,400,503</u>	<u>\$ 72,028,373</u>	<u>\$ 69,840,606</u>	<u>\$ 69,337,671</u>

(Continued)

TABLE 2 (CONTINUED)
UNAUDITEDCITY OF SALEM, VIRGINIA
CHANGES IN NET POSITION (CONTINUED)
LAST TEN FISCAL YEARS
(accrual basis of accounting)

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Net (expense) revenue										
Total governmental activities	\$ (76,068,736)	\$ (68,719,868)	\$ (68,542,540)	\$ (65,680,030)	\$ (75,780,538)	\$ (66,623,754)	\$ (55,944,611)	\$ (56,128,960)	\$ (57,608,375)	\$ (56,982,979)
Total business-type activities	7,165,673	3,806,140	1,665,204	9,502,523	7,082,828	8,017,328	9,619,332	12,109,457	9,878,342	9,582,044
Total primary government	<u>\$ (68,903,063)</u>	<u>\$ (64,913,728)</u>	<u>\$ (66,877,336)</u>	<u>\$ (56,177,507)</u>	<u>\$ (68,697,710)</u>	<u>\$ (58,606,426)</u>	<u>\$ (46,325,279)</u>	<u>\$ (44,019,503)</u>	<u>\$ (47,730,033)</u>	<u>\$ (47,400,935)</u>
General Revenues and Other Changes in Net Position										
<i>Governmental activities:</i>										
Taxes										
Property taxes	\$ 53,589,523	\$ 48,976,596	\$ 45,224,724	\$ 43,037,351	\$ 40,367,128	\$ 38,374,597	\$ 36,825,133	\$ 35,688,231	\$ 35,631,665	\$ 34,610,154
Local sales and use taxes	9,779,960	9,688,961	9,493,549	9,071,908	7,837,554	7,661,772	7,296,272	7,015,296	7,174,034	6,638,448
Business license taxes	8,041,846	7,165,291	6,848,042	6,176,361	5,546,287	5,572,638	5,615,337	5,333,382	5,320,865	5,391,215
Meals taxes	6,763,479	6,769,573	6,434,438	5,835,238	4,973,630	4,747,513	5,085,168	4,802,780	4,718,631	4,715,137
Utility taxes	1,233,253	1,232,597	1,222,533	1,220,636	1,179,676	1,190,153	1,203,020	1,208,943	1,182,963	1,169,894
Lodging taxes	1,930,051	1,913,896	1,813,117	1,674,212	990,879	1,122,580	1,328,739	1,232,470	1,201,759	1,170,289
Other taxes	2,796,728	2,826,777	2,707,856	2,755,457	2,589,185	2,337,148	2,713,735	2,765,227	2,706,305	2,699,122
Intergovernmental revenue not restricted	3,607,269	9,237,446	29,633,059	3,728,399	7,160,161	5,003,579	3,951,338	3,952,121	3,941,937	3,989,413
Unrestricted investment earnings	7,280,654	8,323,505	5,704,295	420,399	248,514	1,707,740	994,037	752,672	554,437	269,350
Gain on disposal of capital assets	40,766	137,213	81,145	105,486	93,131	40,778	44,471	35,647	20,985	100,081
Gain on lease modification	-	-	1,394	-	-	-	-	-	-	-
Other	995,275	907,058	1,379,633	743,542	744,086	641,479	757,329	626,372	676,502	986,182
Transfers	580,275	(2,679,405)	(8,522,956)	1,627,594	1,689,156	1,310,606	1,332,706	2,008,304	2,353,122	2,133,023
Total governmental activities	<u>96,639,079</u>	<u>94,499,508</u>	<u>102,020,829</u>	<u>76,396,583</u>	<u>73,419,387</u>	<u>69,710,583</u>	<u>67,147,285</u>	<u>65,421,445</u>	<u>65,483,205</u>	<u>63,872,308</u>
<i>Business-type activities:</i>										
Unrestricted investment earnings	155,969	83,941	93,159	94,733	85,199	166,317	189,302	78,511	35,931	93
Gain on disposal of capital assets	-	26,034	7,800	40,107	-	-	-	8,483	-	1,435
Other	21,707	173,350	25,963	-	221,084	183,427	-	-	-	-
Transfers	(580,275)	2,679,405	8,522,956	(1,627,594)	(1,689,156)	(1,310,606)	(1,332,706)	(2,008,304)	(2,353,122)	(2,133,023)
Total business-type activities	<u>(402,599)</u>	<u>2,962,730</u>	<u>8,649,878</u>	<u>(1,492,754)</u>	<u>(1,382,873)</u>	<u>(960,862)</u>	<u>(1,143,404)</u>	<u>(1,921,310)</u>	<u>(2,317,191)</u>	<u>(2,131,495)</u>
Total Primary Government	<u>\$ 96,236,480</u>	<u>\$ 97,462,238</u>	<u>\$ 110,670,707</u>	<u>\$ 74,903,829</u>	<u>\$ 72,036,514</u>	<u>\$ 68,749,721</u>	<u>\$ 66,003,881</u>	<u>\$ 63,500,135</u>	<u>\$ 63,166,014</u>	<u>\$ 61,740,813</u>
Changes in Net Position										
Total governmental activities	\$ 20,570,343	\$ 25,779,640	\$ 33,478,289	\$ 10,716,553	\$ (2,361,151)	\$ 3,086,829	\$ 11,202,674	\$ 9,292,485	\$ 7,874,830	\$ 6,889,329
Total business-type activities	6,763,074	6,768,870	10,315,082	8,009,769	5,699,955	7,056,466	8,475,928	10,188,147	7,561,151	7,450,549
Total Primary Government	<u>\$ 27,333,417</u>	<u>\$ 32,548,510</u>	<u>\$ 43,793,371</u>	<u>\$ 18,726,322</u>	<u>\$ 3,338,804</u>	<u>\$ 10,143,295</u>	<u>\$ 19,678,602</u>	<u>\$ 19,480,632</u>	<u>\$ 15,435,981</u>	<u>\$ 14,339,878</u>

Notes:

- (1) Education expenses of governmental activities include \$801,131 of bond funds transferred to the School Division to fund capital projects.
- (2) Education expenses of governmental activities include \$3,091,222 of bond funds transferred to the School Division to fund capital projects.
- (3) Education expenses of governmental activities include \$5,277,634 of bond funds transferred to the School Division to fund capital projects.
- (4) Education expenses of governmental activities include \$14,384,051 of bond funds transferred to the School Division to fund capital projects.
- (5) Education expenses of governmental activities include \$3,445,962 of bond funds transferred to the School Division to fund capital projects.
- (6) Interest and other fiscal charges of governmental activities and Electric expenses of business-type activities were restated to record amortization of the deferred loss on refunding of debt from the 2015 refunding bonds.
- (7) Interest and other fiscal charges of governmental activities was restated to record amortization of the deferred loss on refunding on debt from the 2011 refunding bonds.

TABLE 3
UNAUDITED

CITY OF SALEM, VIRGINIA
FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
General Fund										
Nonspendable	\$ 1,171,904	\$ 965,372	\$ 1,063,868	\$ 1,074,923	\$ 788,399	\$ 1,009,261	\$ 862,437	\$ 694,658	\$ 588,204	\$ 567,605
Restricted	4,840,767	6,382,834	5,180,884	3,242,954	2,264,159	7,407,955	5,868,862	4,071,765	4,245,248	1,959,638
Committed	202,757	169,432	132,023	129,601	97,692	120,291	110,092	94,789	89,261	76,219
Assigned	2,349,089	1,906,015	1,462,671	816,915	875,274	857,041	697,043	741,677	672,251	743,727
Unassigned	59,993,132	55,805,979	67,758,976	55,175,870	45,953,252	37,456,968	32,652,599	28,803,322	22,212,433	15,701,124
Total General Fund	<u>\$ 68,557,649</u>	<u>\$ 65,229,632</u>	<u>\$ 75,598,422</u>	<u>\$ 60,440,263</u>	<u>\$ 49,978,776</u>	<u>\$ 46,851,516</u>	<u>\$ 40,191,033</u>	<u>\$ 34,406,211</u>	<u>\$ 27,807,397</u>	<u>\$ 19,048,313</u>
All Other Governmental Funds										
Restricted	\$ -	\$ -	\$ 4,996,422	\$ 19,276,969	\$ 10,729,118	\$ 27,358,827	\$ 1,983,825	\$ 935,933	\$ 2,894,061	\$ 4,193,169
Committed	-	-	-	-	-	-	-	-	54,458	81,754
Assigned	33,788,739	30,516,440	16,424,188	2,984,364	2,008,162	1,320,266	736,959	551,356	342,149	63,848
Total all other governmental funds	<u>\$ 33,788,739</u>	<u>\$ 30,516,440</u>	<u>\$ 21,420,610</u>	<u>\$ 22,261,333</u>	<u>\$ 12,737,280</u>	<u>\$ 28,679,093</u>	<u>\$ 2,720,784</u>	<u>\$ 1,487,289</u>	<u>\$ 3,290,668</u>	<u>\$ 4,338,771</u>

Notes:

Source: City of Salem Finance Department

**TABLE 4
UNAUDITED**

**CITY OF SALEM, VIRGINIA
CHANGES IN FUND BALANCE, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS**

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Revenues										
Taxes	\$ 84,396,673	\$ 78,907,278	\$ 74,319,139	\$ 69,975,513	\$ 63,943,565	\$ 61,066,795	\$ 60,404,459	\$ 58,583,459	\$ 58,668,891	\$ 57,116,158
Permits, fees and licenses	545,820	356,407	404,802	411,600	340,649	349,081	343,811	313,860	277,582	394,968
Fines and forfeitures	109,894	128,427	140,085	123,352	62,489	64,460	109,705	137,911	145,820	116,417
Revenue from use of money and property	7,474,225	8,532,059	5,946,070	750,535	568,607	1,992,301	1,293,449	1,049,368	842,624	531,379
Charges for services	3,969,716	3,819,647	3,632,128	3,561,617	3,217,818	3,576,056	3,212,585	3,118,065	4,192,436	6,075,639
Other	672,236	823,234	1,125,713	382,382	354,698	277,828	250,381	496,510	409,131	357,115
Intergovernmental	24,154,514	26,036,853	42,098,063	14,553,949	18,781,397	15,762,773	13,165,857	13,360,836	12,652,827	11,603,416
Total revenues	121,323,078	118,603,905	127,666,000	89,758,948	87,269,223	83,089,294	78,780,247	77,060,009	77,189,311	76,195,092
Expenditures										
General government	11,964,412	11,778,545	8,455,102	6,844,143	6,679,583	6,703,274	6,152,838	5,679,004	6,410,086	5,918,110
Judicial administration	3,081,753	3,063,652	2,562,166	2,458,099	2,368,502	2,180,401	2,092,625	2,033,068	2,018,898	2,026,255
Public safety	24,980,954	23,473,802	19,271,847	17,737,298	17,615,998	17,368,101	16,112,960	15,741,300	16,403,627	15,824,899
Public works	14,129,162	11,474,380	9,346,515	9,044,426	15,144,607	8,507,779	8,289,463	9,796,765	8,452,569	14,672,498
Health and welfare	7,699,952	6,720,651	5,655,241	5,253,983	5,523,827	4,779,853	3,877,830	3,202,498	2,909,343	2,827,459
Education	23,781,130	24,053,049	25,147,133	26,611,308	34,606,636	25,341,148	21,026,377	20,170,298	19,760,242	19,739,512
Parks, recreation and cultural	8,797,570	7,557,174	6,679,800	5,967,259	5,471,944	5,134,939	5,225,517	5,106,766	5,071,566	4,482,414
Community development	3,943,657	3,322,389	3,973,627	2,780,253	2,864,732	3,255,301	4,582,992	3,340,911	3,178,844	1,087,606
Risk management	-	-	2,178,901	2,168,819	2,187,212	2,210,715	2,018,406	1,978,778	2,085,343	3,240,075
Capital projects	12,634,947	20,186,760	15,777,799	2,919,667	4,256,021	2,768,847	4,886,835	3,302,614	1,674,861	2,187,595
Debt service:										
Principal retirement	4,762,399	4,269,847	3,972,272	3,230,483	3,285,371	3,017,446	3,056,511	3,055,319	3,082,999	2,988,314
Interest	1,849,119	2,084,011	2,013,016	1,680,772	1,649,830	928,405	831,282	908,720	960,419	941,386
Bond issuance cost	-	-	-	79,400	61,160	350,394	73,849	-	-	32,987
Total expenditures	117,625,055	117,984,260	105,033,419	86,775,910	101,715,423	82,546,603	78,227,485	74,316,041	72,008,797	75,969,110
Excess (deficiency) of revenues over (under) expenditures	3,698,023	619,645	22,632,581	2,983,038	(14,446,200)	542,691	552,762	2,743,968	5,180,514	225,982
Other Financing Sources (Uses)										
Issuance of long-term debt	302,674	-	-	15,080,000	-	26,555,000	5,025,000	-	-	5,281,400
Issuance of refunding bonds	-	-	-	-	1,555,000	5,799,023	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	(1,493,089)	(7,074,459)	-	-	-	-
Premium on sale of bonds	-	-	-	-	-	5,262,352	-	-	-	-
Proceeds from sale of capital assets	27,809	140,408	72,614	155,902	92,605	40,778	41,167	34,084	177,345	211,254
Issuance of financed purchase obligation	-	-	-	-	-	72,648	-	-	-	375,000
Inception of leases	74,697	8,200	26,335	63,096	-	-	-	-	-	-
Inception of subscriptions	1,640,647	677,759	28,159	-	-	-	-	-	-	-
Insurance recoveries	107,676	40,433	116,372	75,910	21,835	72,653	66,682	9,079	-	-
Transfers in	18,152,013	39,830,257	50,766,544	9,837,192	9,229,573	7,880,961	7,552,251	7,383,186	7,676,999	7,930,241
Transfers out	(17,403,223)	(42,589,662)	(59,325,169)	(8,209,598)	(7,774,277)	(6,532,855)	(6,219,545)	(5,374,882)	(5,323,877)	(5,797,218)
Total other financing sources, net	2,902,293	(1,892,605)	(8,315,145)	17,002,502	1,631,647	32,076,101	6,465,555	2,051,467	2,530,467	8,000,677
Net change in fund balances	\$ 6,600,316	\$ (1,272,960)	\$ 14,317,436	\$ 19,985,540	\$ (12,814,553)	\$ 32,618,792	\$ 7,018,317	\$ 4,795,435	\$ 7,710,981	\$ 8,226,659
Debt service as a percentage of noncapital expenditures	6.68%	6.88%	6.99%	6.03%	5.29%	5.09%	5.53%	5.62%	5.87%	5.44%

Notes:

Source: City of Salem Finance Department

TABLE 5
UNAUDITED

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

Fiscal Year	Real Estate		Personal Property		Machinery and Tools		Public Service Corporation		Mobile Homes		Total Taxable 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		
2025	\$ 3,069,895,904	\$1.20	\$ 443,012,076	\$3.40	\$ 113,708,064	\$3.20	\$ 95,722,790	\$1.20	\$ 648,276	\$1.20	\$ 3,722,987,110	\$1.52
2024	2,790,455,995	1.20	419,542,318	3.40	108,078,260	3.20	66,002,253	1.20	690,909	1.20	3,384,769,735	1.53
2023	2,531,447,388	1.20	409,058,153	3.40	98,620,864	3.20	62,248,749	1.20	732,557	1.20	3,102,107,711	1.55
2022	2,384,635,100	1.20	417,131,385	3.40	102,879,430	3.20	65,235,010	1.20	741,052	1.20	2,970,621,977	1.54
2021	2,296,615,563	1.20	346,874,881	3.40	99,551,587	3.20	64,324,330	1.20	827,954	1.20	2,808,194,315	1.54
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

Note:

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

**TABLE 6
UNAUDITED**

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

Calendar Year Ended December 31,	Taxes Levied for the Calendar Year	Collected within the 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
2025	\$ 53,794,443	\$ 50,966,204	94.74%	\$ -	\$ -	\$ 50,966,204	94.74%
2024	49,017,765	46,765,355	95.40%	101,289	1,533,499	48,298,854	98.33%
2023	45,280,224	43,064,907	95.11%	1,364	1,697,537	44,762,444	98.85%
2022	43,896,135	41,921,818	95.50%	35,344	1,608,101	43,529,919	99.09%
2021	40,322,441	38,719,642	96.03%	(7,635)	1,274,319	39,993,961	99.20%
2020	38,547,607	35,634,651	92.44%	29,391	2,648,125	38,282,776	99.24%
2019	36,274,839	35,191,478	97.01%	170,855	1,212,388	36,403,866	99.89%
2018	35,837,963	34,375,408	95.92%	(350,519)	1,077,603	35,453,011	99.90%
2017	35,253,119	34,012,836	96.48%	(71,996)	1,140,036	35,152,872	99.92%
2016	33,896,364	32,608,317	96.20%	(19,524)	1,223,086	33,831,403	99.87%

Notes:

Source: City of Salem Finance Department

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

**TABLE 7
UNAUDITED**

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

Taxpayer	2025			2016		
	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)	\$ 74,578,700	1	2.26%	\$ 39,425,000	1	1.92%
Carter Machinery/Carthy Corp/Mount Sinai	21,009,200	2	0.64%	7,586,000	10	0.37%
Lowes/NS Retail Holdings LLC (2)	18,373,400	3	0.56%	12,462,800	4	0.61%
Valleydale Catalyst LLC	17,212,100	4	0.52%			
Yokohama Industries	16,393,000	5	0.50%	13,946,300	3	0.68%
Woodrock Riverwalk LLC	15,289,900	6	0.46%			
Spartan Square/EGAP SALEM I LLC (5)	14,724,100	7	0.45%	10,758,000	5	0.52%
Phoenix Salem Industrial	13,488,100	8	0.41%			
US Foods/USF PROPCO I LLC (3)	13,068,000	9	0.40%	10,708,600	6	0.52%
Chateau Riviera Apts/CSW Associates	12,500,100	10	0.38%	9,694,200	7	0.47%
Friendship Salem Terrace LLC (4)				8,361,700	9	0.41%
Lewis-Gale Clinic/HRT				22,324,900	2	1.09%
General Electric				9,635,900	8	0.47%

Notes:

Source: City of Salem Real Estate Valuation Department

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

(2) In 2020, Lowes transferred from VALO LLC to NS Retail Holdings LLC

(3) Formerly U.S Food Service Inc.

(4) Formerly Salem Terrace/White Whale in 2015

(5) Formerly Spartan Square Inc.

**TABLE 8
UNAUDITED**

**CITY OF SALEM, VIRGINIA
PRINCIPAL ELECTRIC CUSTOMERS
CURRENT YEAR AND NINE YEARS AGO**

Customer	2025			2016		
	Services Billed	Rank	Percentage of Total Services Billed	Services Billed	Rank	Percentage of Total Services Billed
Lewis Gale Hospital HCA	\$ 3,299,535	1	6.33%	\$ 2,314,623	1	6.15%
Roanoke College	2,152,355	2	4.13%	1,100,873	2	2.92%
Lake Region Medical (Formerly Accellent)	1,491,636	3	2.86%			
Graham White	1,128,150	4	2.16%	936,100	3	2.49%
U.S. Food Service, Inc.	941,368	5	1.81%	761,374	5	2.02%
Carter Machinery Co.	790,305	6	1.52%	493,743	9	1.31%
Rowe Furniture/Salem Frame	790,211	7	1.52%	781,541	4	2.08%
Sewell Products	756,572	8	1.45%	564,446	8	1.50%
Kroger	685,990	9	1.32%	596,422	7	1.58%
Novozymes	580,639	10	1.11%			
Accellent Nobel-Met				666,039	6	1.77%
Walmart				357,403	10	0.95%

Note:

Source: City of Salem Finance Department

TABLE 9
UNAUDITED

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

Fiscal Year	Governmental Activities	Business-Type Activities	Total Primary Government
	General Obligation Bonds	General Obligation Bonds	
	(1)		
2025	\$ 56,349,429	\$ 24,503,105	\$ 80,852,534
2024	60,402,408	25,237,394	85,639,802
2023	64,619,132	29,177,914	93,797,046
2022	68,803,018	32,714,325	101,517,343
2021	57,250,371	35,559,482	92,809,853
2020	60,686,620	39,296,513	99,983,133
2019	32,910,038	40,780,877	73,690,915
2018	30,897,265	41,669,640	72,566,905
2017	33,916,905	45,723,894	79,640,799
2016	36,971,375	49,665,950	86,637,325

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)	
2025	\$ 3,722,987,110	2.17%	25,346	\$ 3,190	\$ 63,792	5.00%
2024	3,384,769,735	2.53%	25,600	3,345	59,109	6.00%
2023	3,102,107,711	3.02%	25,523	3,675	57,434	6.00%
2022	2,970,621,977	3.42%	25,373	4,001	54,977	7.00%
2021	2,808,194,315	3.30%	25,346	3,662	53,489	7.00%
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%

Notes:

Source: City of Salem Finance Department

Details regarding the City's outstanding debt can be found in the notes to the financial statements.

The City is independent from any county, town, or other political subdivision of the Commonwealth of Virginia. There is no overlapping general obligation debt or taxing power.

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

(2) See Table 5 for assessed value of taxable property.

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

TABLE 10
UNAUDITED

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

Fiscal Year	Governmental Activities				Business-Type Activities			Primary Government Outstanding Debt	Primary Government Outstanding Debt as a Percentage of Personal Income	Primary Government Outstanding Debt Per Capita
	General Obligation Bonds	Financed Purchase Obligation	Lease Liability	Subscription Liability	General Obligation Bonds	Lease Liability	Subscription Liability			
	(1)		(2)	(3)			(3)		(4)	(4)
2025	\$ 56,349,429	\$ 239,257	\$ 91,670	\$ 1,098,361	\$ 24,503,105	\$ 12,575	\$ 9,476	\$ 82,303,873	1.05%	\$ 3,247
2024	60,402,408	-	44,281	413,933	25,237,394	13,107	-	86,111,123	1.19%	3,364
2023	64,619,132	14,529	63,284	86,014	29,177,914	20,258	-	93,981,131	1.34%	3,682
2022	68,803,018	29,059	117,998	-	32,714,325	5,637	-	101,670,037	1.54%	4,007
2021	57,250,371	43,589	-	-	35,559,482	-	-	92,853,442	1.45%	3,663
2020	60,686,620	99,520	-	-	39,296,513	-	-	100,082,653	1.60%	3,956
2019	32,910,038	121,467	-	-	40,780,877	-	-	73,812,382	1.24%	2,878
2018	30,897,265	198,016	-	-	41,669,640	-	-	72,764,921	1.26%	2,814
2017	33,916,905	271,203	-	-	45,723,894	-	-	79,912,002	1.39%	3,128
2016	36,971,375	341,175	-	-	49,665,950	-	-	86,978,500	1.60%	3,420

Notes:

Source: City of Salem Finance Department

Details regarding the City's outstanding debt can be found in the notes to the financial statements.

The City is independent from any county, town, or other political subdivision of the Commonwealth of Virginia. There is no overlapping general obligation debt or taxing power.

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

(2) In 2022, the City implemented GASB Statement No. 87 requiring recognition of certain lease assets and liabilities for lessees that were classified previously as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contracts. Comparative prior year information has not been restated because the necessary information is not available.

(3) In 2023, the City implemented GASB Statement No. 96 requiring recognition of certain subscription-based information technology arrangements as subscription assets and corresponding subscription liabilities. Comparative prior year information has not been restated because the necessary information is not available.

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

TABLE 11
UNAUDITED

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

Fiscal Year	Assessed Value of Real Property	Debt Limit 10% of Assessed Value	Amount of Debt Applicable to Limit						Net Debt Applicable to Limit as a Percent of Debt Limit
			Total General Obligation Bonds	Financed Purchase Obligation	Enterprise Bonds	RVRA Supported Debt	Net Debt Applicable to Limit	Legal Debt Margin	
	(1)				(2)		(3)		
2025	\$ 3,165,618,694	\$ 316,561,869	\$ 80,852,534	\$ 239,257	\$ (24,503,105)	\$ -	\$ 56,588,686	\$ 259,973,183	17.88%
2024	2,856,458,248	285,645,825	85,639,802	-	(25,237,394)	-	60,402,408	225,243,417	21.15%
2023	2,593,696,137	259,369,614	93,797,046	14,529	(29,177,914)	(189,981)	64,443,680	194,925,934	24.85%
2022	2,449,870,110	244,987,011	101,517,343	29,059	(32,714,325)	(385,416)	68,446,661	176,540,350	27.94%
2021	2,360,939,893	236,093,989	92,809,853	43,589	(35,559,482)	(585,396)	56,708,564	179,385,425	24.02%
2020	2,283,843,346	228,384,335	99,983,133	99,520	(39,296,513)	(789,921)	59,996,219	168,388,116	26.27%
2019	2,197,986,008	219,798,601	73,690,915	121,467	(40,780,877)	(998,082)	32,033,423	187,765,178	14.57%
2018	2,144,111,245	214,411,125	72,566,905	198,016	(41,669,640)	(1,209,879)	29,885,402	184,525,723	13.94%
2017	2,098,953,697	209,895,370	79,640,799	271,203	(45,723,894)	(1,425,312)	32,762,796	177,132,574	15.61%
2016	2,064,259,382	206,425,938	86,637,325	341,175	(49,665,950)	-	37,312,550	169,113,388	18.08%

Notes:

Source: City of Salem Finance Department

(1) Includes real estate and public service corporation assessments from Table 5.

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

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

TABLE 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)
2025	25,346	\$ 7,822,610	\$ 63,792	3,925	3.8%
2024	25,600	7,237,160	59,109	4,273	3.2%
2023	25,523	7,004,787	57,434	3,650	3.0%
2022	25,373	6,588,916	54,977	3,701	3.0%
2021	25,346	6,391,212	53,489	3,756	4.0%
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%

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.
- (2) Population is based on intercensal estimates of the resident population for counties of Virginia: U.S Census Bureau, Population Division. Population 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. In fiscal year 2025, the School Division offered an online option with 342 students enrolled. In-school enrollment was 3,583. Total enrollment for the School Division was 3,925.
- (5) Virginia Employment Commission

TABLE 13
UNAUDITED

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

Employer	2025			2016		
	Rank	Ownership	Number of Employees	Rank	Ownership	Number of Employees
			(1)			(1)
Veterans Administration Medical Center	1	Fed Govt.	1,500-1,800	1	Fed Govt.	1,800-2,000
Lewis-Gale Hospital HCA	2	Private	1,100-1,300	2	Private	1,300-1,500
Virginia Department of Transportation	3	State Govt.	600-700			
Yokohama Industries	4	Private	600-700	3	Private	800-1,000
Lewis Gale Physicians	5	Private	500-600	5	Private	500-700
City of Salem Schools	6	Local Govt.	500-600	6	Local Govt.	500-600
Integer	7	Private	475-575			
Roanoke College	8	Private	400-500	8	Private	400-500
City of Salem	9	Local Govt.	400-500	7	Local Govt.	400-500
Carter Machinery	10	Private	300-500			
U.S. Foodservice, Inc.				10	Private	400-500
General Electric				4	Private	600-800
Kroger				9	Private	400-500

Notes:

Source: City of Salem Economic Development

(1) The percentage of total employment each employer represents is unavailable.

TABLE 14
UNAUDITED

CITY OF SALEM, VIRGINIA
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS

Function	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
General government	68	70	74	74	71	77	71	76	70	69
Judicial administration	22	24	23	22	22	22	21	19	20	18
Public safety	161	166	159	158	163	166	167	153	152	157
Public works	82	84	86	79	80	84	84	82	79	89
Parks, recreation and cultural	34	34	33	34	33	34	33	32	30	32
Community development	6	4	3	3	2	3	3	3	3	2
Electric	25	23	23	27	23	28	29	28	27	27
Water and sewer	47	51	46	46	49	48	49	48	47	48
Civic Center	17	16	17	16	17	19	18	15	15	16
Catering and concessions	3	4	3	2	3	3	4	4	4	4
Total	465	476	467	461	463	484	479	460	447	462

Note:

Source: City of Salem Finance Department

TABLE 15
UNAUDITED

CITY OF SALEM, VIRGINIA
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS

Function	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
General government										
<i>Finance</i>										
Accounts payable checks issued	11,010	10,307	22,768	10,600	11,518	10,983	10,817	9,926	10,942	9,238
<i>Human resources</i>										
Positions filled (full-time and temporary)	158	267	183	223	126	138	156	164	158	154
<i>Registrar</i>										
Number of registered voters	17,909	17,909	17,727	17,756	17,542	17,158	16,785	16,887	16,704	16,584
<i>Fleet</i>										
Pieces of equipment maintained	537	525	560	584	593	573	576	568	575	567
Judicial administration										
<i>Sheriff</i>										
Inmates housed	1,823	1,777	1,622	1,867	1,987	2,373	2,790	2,961	3,132	2,681
Inmate transports	830	750	779	427	354	1,039	1,479	1,489	1,333	1,222
Courts worked	437	414	433	536	589	500	462	525	680	595
Public safety										
<i>Police</i>										
Calls for service	42,753	39,674	41,345	44,501	40,504	35,830	30,790	32,905	31,651	27,017
Accidents	614	937	1,052	911	830	917	1,079	1,026	1,015	1,108
DUI Arrests	80	125	53	58	60	66	109	137	91	92
<i>Fire</i>										
Calls for service	6,000	5,690	5,721	5,875	5,272	5,123	5,264	5,135	4,872	4,274
Emergency Responses - Fire	88	96	83	80	79	95	82	111	93	95
Emergency Responses - EMS	4,946	4,710	4,664	4,855	4,278	4,122	4,321	4,169	4,048	3,446
<i>Building inspections</i>										
Residential construction permits	144	168	163	187	183	177	181	188	175	158
Commercial construction permits	90	74	93	93	104	98	126	133	120	133
Public works										
<i>Refuse collection</i>										
Refuse collected (tons per year)*	15,248	15,021	15,000	15,351	16,040	17,424	16,409	16,261	18,208	88,565
Tons recycled	2,592	2,382	2,836	1,599	3,195	4,350	7,419	9,139	9,152	5,060
<i>Other public works</i>										
Tons of asphalt used in resurfacing	11,614	5,659	2,650	-	27,480	-	-	13,263	-	15,453
Square yards of milling completed	222,591	91,164	44,254	-	546,965	1,208	-	219,862	-	302,937
Tons of salt used	1,615	420	15	729	650	85	915	1,330	315	848
Leaves collected (loads)	338	205	331	285	246	335	302	350	113	295
Parks, recreation and cultural										
<i>Parks and recreation</i>										
Tournaments hosted	28	25	19	35	41	23	58	52	48	52
Special events held	26	24	25	27	22	29	35	28	26	25
Youth sports teams	116	125	133	127	51	130	135	148	151	151
Adult sports teams	17	21	23	20	17	34	30	27	28	29
<i>Library</i>										
Circulation	177,446	163,539	166,179	148,771	86,953	147,646	194,000	212,350	227,443	230,454
Children's program attendance	5,101	3,705	4,292	1,862	2,149	5,077	9,516	10,901	7,226	8,972
Patron visits to the library	73,043	71,993	74,425	71,798	27,034	102,485	152,091	167,389	170,879	172,012
New patrons	772	1,366	1,382	830	188	773	769	904	879	968
Internet sessions	25,313	33,630	29,386	26,022	26,332	41,008	55,932	39,884	28,554	25,944
Electric										
Number of customer accounts	13,267	13,104	13,710	13,333	13,227	13,217	13,129	13,084	12,838	12,880
Water										
Number of customer accounts	9,680	9,703	9,711	9,739	9,720	9,665	9,636	9,482	9,567	9,486
Million gallons sold to customers	920	862	831	871	862	859	910	861	850	932
Sewer										
Number of customer accounts	9,088	9,127	9,123	9,181	9,160	9,108	9,072	9,041	9,018	8,952
Waste/water treated (million gallons/day)	5.5	5.3	5.6	5.8	7.9	7.3	8.7	6.0	7.2	9.1
Civic Center										
Concerts	10	12	10	13	5	13	13	15	13	11
Meetings	576	602	613	609	522	475	614	599	660	852
Tickets sold	104,933	118,691	91,255	81,276	16,531	66,954	78,745	93,510	88,662	93,373
Arena utilization days	164	175	173	156	86	108	155	162	202	215

Notes:

Source: Various City of Salem Departments

*In FY2017, Roanoke Valley Resource Authority (RVRA) started managing waste disposal services instead of the City Transfer Station.

TABLE 16
UNAUDITED

CITY OF SALEM, VIRGINIA
CAPITAL ASSET STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS

Function	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Public safety										
Police station	1	1	1	1	1	1	1	1	1	1
Law enforcement vehicles	64	50	52	60	57	52	53	48	47	47
Fire stations	3	3	3	3	3	3	3	3	3	3
Fire trucks	6	6	6	6	5	5	6	7	7	7
Ambulances	5	5	5	5	4	4	4	4	4	4
Public works										
Primary streets (lane miles)	80	80	80	80	80	80	80	80	80	80
Secondary streets (lane miles)	272	272	272	272	272	272	272	272	272	272
Alleys (lane miles)	12	12	12	12	12	12	12	12	12	12
Garbage trucks	21	18	18	18	19	17	17	16	16	16
Parks, recreation and cultural										
Community center/senior center	1	1	1	1	1	1	1	1	1	1
Parks/athletic fields	15	15	15	15	15	15	15	15	15	15
Acres of parks maintained	495	495	495	495	495	495	495	495	495	495
Library	1	1	1	1	1	1	1	1	1	1
Golf course	1	1	1	1	1	1	1	1	1	1
Dog park	1	1	1	1	1	1	1	1	1	1
Electric										
Substations	11	11	11	11	11	11	11	11	11	11
Overhead distribution lines (miles)	160	160	160	161	161	161	163	163	166	165
Underground distribution lines (miles)	44	43	43	41	41	41	42	42	40	42
Transmission lines (miles)	17	17	17	17	17	17	17	17	17	17
Water and sewer										
Water treatment plant	1	1	1	1	1	1	1	1	1	1
Water distribution lines (miles)	179	179	178	177	176	176	176	176	176	176
Sanitary sewer lines (miles)	198	198	198	171	171	171	170	170	170	170

Notes:

Source: City of Salem Finance Department

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COMPLIANCE SECTION



The Compliance Section of the City of Salem, Virginia's Annual Comprehensive Financial Report includes reports from the independent auditors.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Salem, Virginia (the "City"), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 24, 2025.

Report on Internal Control over Financial Reporting

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

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

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



Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 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.



CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 24, 2025

City of Salem, Virginia
Summary of Compliance Matters
June 30, 2025

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

State Compliance Matters

Code of Virginia:

Budget and Appropriation Laws
Cash and Investment Laws
Conflicts of Interest Act
Debt Provisions
Local Retirement Systems
Procurement Laws
Uniform Disposition of Unclaimed Property Act
Sheriff Internal Controls
Comprehensive Services Act

State Agency Requirements:

Education
Urban Highway Maintenance
Fire Programs Aid to Localities
Opioid Abatement Program

**Department of Finance
City of Salem, Virginia**

Rosemarie B. Jordan, CPA

Director of Finance

Accounting/Accounts Payable/Purchasing

Patricia L. Bidanset
Ellen T. Bowen, CPA
Shawn M. Crockett, CPA
Jordan M. Doyle
Charles T. Kline
Dawn M. Layne
Amy R. Morris, CPA
Tammy H. Todd, CPA, CPFO
Vacant

Senior Accountant
Financial Services Supervisor
Senior Accountant
Senior Accountant
Accountant
Accounting Supervisor
Special Projects Accountant
Assistant Director of Finance
Purchasing Manager

Administrative

Alyson R. Chaisson

Finance Administrative Secretary/
Accounting Technician

Payroll

Tara N. Pugh
Carrington R. Sumner

Payroll Technician
Payroll Manager

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