

CITY OF SALEM, VIRGINIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT YEAR ENDED JUNE 30, 2013

DEPARTMENT OF FINANCE

**CITY OF SALEM, VIRGINIA
TABLE OF CONTENTS
JUNE 30, 2013**

	Page
INTRODUCTORY SECTION	
Letter of Transmittal	4
Directory of Principal Officials	13
Organizational Chart	14
Certificate of Achievement for Excellence in Financial Reporting	15
FINANCIAL SECTION	
Independent Auditor's Report	17
Management's Discussion and Analysis	20
<i>Basic Financial Statements</i>	
Government-Wide Financial Statements	
Exhibit 1 Statement of Net Position	35
Exhibit 2 Statement of Activities	36
Governmental Funds Financial Statements	
Exhibit 3 Balance Sheet	37
Exhibit 4 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	38
Exhibit 5 Statement of Revenues, Expenditures and Changes in Fund Balances	39
Exhibit 6 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	40
Exhibit 7 Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual – General Fund	41
Proprietary Funds Financial Statements	
Exhibit 8 Statement of Net Position	42
Exhibit 9 Statement of Revenues, Expenses and Changes in Net Position	43
Exhibit 10 Statement of Cash Flows	44
Fiduciary Funds Financial Statements	
Exhibit 11 Statement of Fiduciary Net Position	45
Exhibit 12 Statement of Changes in Fiduciary Net Position	45
Notes to Financial Statements	46
<i>Required Supplementary Information</i>	
Exhibit 13 Analysis of Funding Progress for Defined Benefit Pension Plan	75
Exhibit 14 Analysis of Funding Progress for Other Postemployment Benefits	76
Exhibit 15 Employer Contributions for Other Postemployment Benefits	77
<i>Other Supplementary Information</i>	
Nonmajor Proprietary Funds Combining Schedules	
Exhibit 16 Combining Statement of Net Position	79
Exhibit 17 Combining Statement of Revenues, Expenses, and Changes in Net Position	80
Exhibit 18 Combining Statement of Cash Flows	81
Agency Funds Combining Schedules	
Exhibit 19 Combining Statement of Fiduciary Assets and Liabilities	82
Exhibit 20 Combining Statement of Changes in Fiduciary Assets and Liabilities	83

**CITY OF SALEM, VIRGINIA
TABLE OF CONTENTS
JUNE 30, 2013**

Page

STATISTICAL SECTION

Table 1	Net Position by Component	86
Table 2	Changes in Net Position	87
Table 3	Fund Balances, Governmental Funds	89
Table 4	Changes in Fund Balance, Governmental Funds	90
Table 5	Assessed Value and Actual Value of Taxable Property	91
Table 6	Property Tax Levies and Collections	92
Table 7	Principal Real Estate Property Taxpayers	93
Table 8	Principal Electric Customers	93
Table 9	Ratios of General Bonded Debt Outstanding	94
Table 10	Legal Debt Margin Information	95
Table 11	Demographic Statistics	96
Table 12	Principal Employers	97
Table 13	Full-Time Equivalent City Government Employees by Function	98
Table 14	Operating Indicators by Function	99
Table 15	Capital Asset Statistics by Function	100

COMPLIANCE SECTION

Schedule of Expenditures of Federal Awards	103
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 <i>Government Auditing Standards</i>	104
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by <i>OMB Circular A-133</i>	106
Summary of Compliance Matters	108
Schedule of Findings and Questioned Costs	109

THIS PAGE INTENTIONALLY BLANK

INTRODUCTORY SECTION



The introductory section of the City of Salem, Virginia's Comprehensive Annual Financial Report contains the Letter of Transmittal, which presents an overview of the profile of the City of Salem government, the local economic condition and outlook, major initiatives and accomplishments, and financial policies and financial planning. Also included in this section are an organizational chart and the Certificate of Achievement for Excellence in Financial Reporting awarded by the Government Financial Officers Association of the United States and Canada (GFOA) for the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012. It is the highest form of recognition in governmental financial reporting.

THIS PAGE INTENTIONALLY BLANK

November 20, 2013

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

In accordance with Section 8.9 of the Salem City Charter, we are pleased to present the City of Salem (the City) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013. The charter requires the City to issue an annual report on its financial position and activities and that the report be audited by an independent firm of certified public accountants. This report was prepared by the Department of Finance in conformity with generally accepted accounting principles (GAAP) as promulgated by the Government Accounting Standards Board (GASB).

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

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

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

Profile of the Government

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

Chartered by the Commonwealth of Virginia as a town in 1806 and as a city in 1968, Salem encompasses a land area of 14.4 square miles. The City's 2013 estimated population, 25,267, 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. The primary government provides a full range of services including general government administration, judicial administration, public safety, public works, health and welfare, parks and recreation, community development activities and support for education. The City also owns and operates an electric distribution system, water and sewage facilities and a civic center.

The financial reporting entity reflected in the CAFR, which is more fully described in Note 1 to the basic financial statements, conforms to the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39 and GASB Statement No. 61. The accounting and reporting principles of the GASB are based on the fundamental concept that publicly elected officials are accountable to their constituents, and the financial statements should emphasize the primary government and permit financial statement users to distinguish between the primary government and its component units. There are several commissions and authorities where the City's accountability is limited to appointments to, or seats on, the respective boards. The City does not exercise financial or administrative control over these entities, so they are excluded from this report.

The City's reporting entity includes one discretely presented component unit, the City of Salem School Division. A component unit is a legally separate entity, which meets one of three conditions: the governing board is appointed by the primary government, the entity is fiscally dependent on the primary government, or excluding the entity could potentially result in misleading financial reporting. A five-member School Board appointed by City Council supervises operations of the School Division. The School Division receives significant financial support from the City. Given these conditions, the School Division is presented in a separate column in the government-wide financial statements to emphasize that it is legally separate from the primary government and to differentiate its financial position and results of operations from that of the primary government.

Local Economic Condition and Outlook

Despite continuing financial challenges, Salem is proud to provide an atmosphere and quality of life conducive to families and businesses. Over the years, Salem has been able to maintain stable property tax rates. A strong educational system providing a well-educated and skilled workforce along with generally lower operating costs are reasons why employers have chosen to relocate in Salem and the rest of the Valley. The City's effort to retain existing business and industry is an integral part of its economic development efforts.

Salem is fortunate to have a diversified economy comprised of health care, manufacturing, higher education and retail trade. Based on 4th quarter 2012 data from US Census Bureau, Salem experienced the largest number of new hires in accommodation and food services, health care and retail trade. Included in the manufacturing process are hi-tech electronics, medical equipment, tires, furniture, steel, tool and die and railroad equipment, just to name a few. According to Virginia Employment Commission, Quarterly Census of Employment and Wages, twenty-three new start-up firms opened in Salem between July 1, 2012 and March 31, 2013. Salem's unemployment rate of 6.6% increased slightly from the prior year rate of 6.5%. Salem's unemployment was lower than the national unemployment rate of 7.8%, but slightly higher than the state unemployment rate of 5.9%.

Growth in other local taxes was encouraging in fiscal year 2013. Sales tax increased \$191,000 or 3.2%. Business license tax, which is based on gross receipts, increased \$356,000 or 7.5%. Utility, recordation and bank stock taxes were all up from the previous year. These revenue streams were reflective of economic conditions, indicating that slow recovery from the recession is underway. Lodging and meals tax revenues were also higher in fiscal year 2013 but rate increases were effective January 1, 2013 and February 1, 2012, respectively, contributing to higher revenues.

Real estate trends showed improvement in fiscal year 2013. Twenty-three new homes and townhouses with an assessed value of \$4.6 million were constructed during fiscal year 2013. Construction continued in several different subdivisions in the City. The number of residential home sales for the first six months of calendar year 2013 were trending approximately 30% higher than the previous year. Foreclosures were also down slightly from the previous year.

Maintaining the high service levels to which our citizens are accustomed continued to be a challenge in fiscal year 2013. While it appears the economy is starting to improve and some revenue growth was experienced, the City continued to closely monitor spending, with limited hiring and purchases of capital equipment.

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.

The new South Salem Elementary School opened in September 2013, in time for the start of the 2013-2014 school year. The new school replaced the South Salem School that was built in the early 1960s. Construction was completed in an amazing 14 month period, despite record rainfall. The new school, at approximately 88,000 square feet, was constructed with many special features. The attention to detail is evident in everything from the amount of natural light pouring into the classrooms to the wide hallways and strategically placed bathroom sinks. Every effort was made to recycle and reuse as much material as possible from the old school.

South Salem Elementary is more than just an institution for learning. The oversized gym and the new playing field in front of the building will be a great benefit for Parks and Recreation. There is ample parking for sporting events. The back of the school features a walking trail that can be used by citizens. Because this project was undertaken during the recession, significant savings were achieved. Construction costs per square foot were \$16 less than in 2006, resulting in savings of \$1.3 million. Interest savings of \$1.5 million were realized because of lower borrowing rates. Paying for furnishings, fixtures, equipment and technology up front, resulted in an additional \$772,000 in savings. An increase in meals tax was implemented in February 2012 to help pay debt service.

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 and the Southern Association of Colleges and Schools (SACS). In 2013, the Salem City School Division and all schools met all Federal Annual Measurable Objectives (AMO). East Salem Elementary was again recognized as a "Distinguished Title I School" for the ninth consecutive year for exceeding Elementary and Secondary Education Act achievement objectives.

In August 2013, the School Division was awarded \$850,000 in Strategic Compensation Grant funds to provide performance and incentive payments for teachers who meet goals related to student achievement, professional growth and leadership. Salem was one of only thirteen school divisions to receive these funds and received the largest single award. The Strategic Compensation Grant Program was developed to encourage school divisions to collaborate with teachers to create compensation models that reward classroom educators whose efforts enable schools to meet strategic goals. The Salem School Division began researching an innovative teacher-designed incentive program in 2011.

In June 2013, the City of Salem was awarded the number four spot on NerdWallet's Top 10 list of best cities for young families in the Commonwealth of Virginia. The group looked at Salem's financial

stability, prosperity, and affordable cost of living. One big factor in determining Salem's ranking was Salem's high achieving and highly respected public school division. NerdWallet is a consumer group dedicated to saving people money.

Salem continues to be active in tourism development as a means of economic development. The City participates with the Roanoke Valley Convention and Visitors Bureau (RVCVB) to promote conventions and events in the region. On November 5, 2013, City of Salem Mayor Randy Foley, along with the City of Roanoke Mayor and the County of Roanoke Vice-Chair, accepted the 2013 Southeast Tourism Society's (STS) Government Tourism Leadership Award in Jacksonville, FL. This award honors an elected official (city, county, state or federal) whose support or influence greatly enhances the tourism industry. This is the first time a joint jurisdictional nomination has been recognized. All three governments banded together in support of the RVCVB by signing off on a regional tourism agreement investing three percentage points of the local lodging tax to the RVCVB, adding over one million dollars dedicated to marketing Virginia's Blue Ridge.

The annual Salem Fair held at the Salem Civic Center is the largest fair in the state. Attendance at the Fair held in July 2012 had the first drop in attendance in many years due to the derecho wind storm just prior to opening and above average heat for multiple days. Due to weather conditions, the event was forced to open late on the first Sunday. The Salem Red Sox played their fifth season at Salem Memorial Stadium with approximately 195,000 fans in attendance. Attendance at Red Sox games was also lower due to extreme weather conditions. Events such as Stagg Bowl, Roanoke Valley Horse Show, Olde Salem Days, NCAA Championships and many other events bring hundreds of thousands of participants, spectators and tourists to Salem and the surrounding area.

The NCAA awarded Salem and the Old Dominion Athletic Conference approval to serve as co-hosts for the Amos Alonzo Stagg Bowl and the Men's Division III Basketball championship through 2013/2014. Besides football and basketball, the City was awarded women's softball through 2014. Division II softball came back to town in 2013 and will again in 2014. In addition, the City was awarded the NCAA Division II Women's Lacrosse Championship for 2014 with the games to be played at Kerr Stadium at Roanoke College. In 2013, nearly 12,600 people traveled to Salem to attend NCAA events held in the City, which included the Stagg Bowl, Division III Men's Basketball Championship and Division II Softball.

The James I. Moyer Complex hosted over 1,700 softball and baseball teams this year in tournaments, filling over 15,000 hotel rooms. The biggest event that came to the valley this year was the ASA/USA Girls' Class "A" 18U national championship. Over 7,000 hotel rooms were filled for this event alone. Eighty-nine teams from all over the country competed for this national championship. Other major events were the ISF Senior World Cup, NCAA Division II Softball National Championship and the Chance

Crawford Benefit Adult Slow Pitch Tournament. The Chance Crawford tournament hosted the most teams, with 129 participating.

The City continued work on the very popular greenway trails. Construction of Phase IIIA of the Roanoke River Greenway was completed in fiscal year 2013. Phase IIIA extended the greenway approximately 1.3 miles from Eddy Avenue to Mill Lane. Funds from the American Recovery and Reinvestment Act (ARRA) were awarded to the City to pay for a portion of construction costs. Work continued on the Mason's Creek section of the greenway, which is a one mile trail extending from Roanoke Boulevard to Salem Turnpike along the creek. Funding from the Federal Transportation Enhancement Program covered the majority of construction costs.

In fiscal year 2013, the City and School Division continued the implementation process for three new software projects to replace legacy financials, human resources, payroll, timekeeping, cashiering and billing systems. The need to streamline processes and provide timely information has been the driving force for implementing new software.

New World Systems was selected for financials. They have provided solutions, including application, software, hardware, training and support for Local Government and Public Safety agencies since 1981 and service more than 1,000 public sector organizations nationwide. The first phase went live October 1, 2012 and included general ledger, purchase orders and accounts payable. Additional modules will be implemented in fiscal year 2014.

Kronos, Inc. was selected for human resources, payroll and timekeeping. The company has provided workforce management solutions since 1977 and is widely recognized by industry analysts as a global leader in the workforce management market, servicing more than 30 million people around the world. City and School human resources and City timekeeping went live in February 2013. City payroll went live in July 2013. Implementation is in process for timekeeping and payroll for the School Division and should be completed in fiscal year 2014.

PCI, LLC was selected for cashiering, billing and collection of real estate, personal property taxes and business taxes. The company has provided governmental cash receipting and revenue collection software since 1992. The City has utilized the company's cashiering software since August of 2000. An upgrade of the software to their full suite was completed and cashiering went live in July 2012. Real estate bills were processed in October 2012 utilizing the new system with personal property taxes and business taxes scheduled for January 2014.

Financial Policies and Financial Planning

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

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

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

Independent Audit

Virginia law and the Charter of the City of Salem require that the financial statements of the City be audited by a certified public accountant selected by City Council. Brown, Edwards & Company, L.L.P., has performed an annual audit of the Comprehensive Annual Financial Report. Their audit was conducted in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. The auditor's report, which includes their opinion on the financial statements of the 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 of Salem, Virginia, for its Comprehensive Annual Financial Report for 2012. This represents the twenty-fifth 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 Comprehensive Annual 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,

A handwritten signature in black ink, appearing to read 'KS Boggess', followed by a long horizontal line extending to the right.

Kevin S. Boggess
City Manager

A handwritten signature in black ink that reads 'Rosemarie B. Jordan' in a cursive script.

Rosemarie B. Jordan
Director of Finance

THIS PAGE INTENTIONALLY BLANK

**CITY OF SALEM, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
JUNE 30, 2013**

MEMBERS OF CITY COUNCIL

Byron R. Foley	Mayor
John C. Givens.....	Vice-Mayor
Lisa D. Garst	Member
Jane W. Johnson	Member
William D. Jones	Member

ELECTED OFFICERS

Bonnie C. McCormack	Treasurer
Linda M. Carroll	Commissioner of the Revenue
Thomas E. Bowers	Commonwealth's Attorney
Gary Chance Crawford	Clerk of Circuit Court
Eric A. Atkins.....	City Sheriff

GENERAL CITY GOVERNMENT

Kevin S. Boggess	City Manager
James E. Taliaferro, II	Assistant City Manager and Clerk of Council
Rosemarie B. Jordan	Director of Finance
Stephen M. Yost.....	City Attorney
Beth M. Austin	Director of Human Resources
Mark R. Waldron	Director of Management Information Systems
Angela A. Sellers.....	Director of Technology Systems
Jeff A. Dudley.....	Police Chief
Chester G. Counts	Fire Chief
Charles E. Van Allman, Jr.	City Engineer
Norman M. Tyler, Jr.	Director of Streets and General Maintenance
John P. Shaner	Director of Parks and Recreation
Janis C. Augustine	Library Director
Dana M. Oliver	Registrar
A. K. Briele, III	Director of Electric Department
Caleb M. Taylor	Director of Water and Sewer Department
S. Thomas Lander.....	Real Estate Assessor
Todd W. Sutphin	Building Official and Zoning Administrator
James M. Fender, Jr.	Director of Solid Waste Disposal and Transfer Station
Melinda J. Payne.....	Director of Planning and Economic Development
R. Carey Harveycutter, Jr.....	Director of Civic Facilities
Mike Stevens.....	Director of Communications

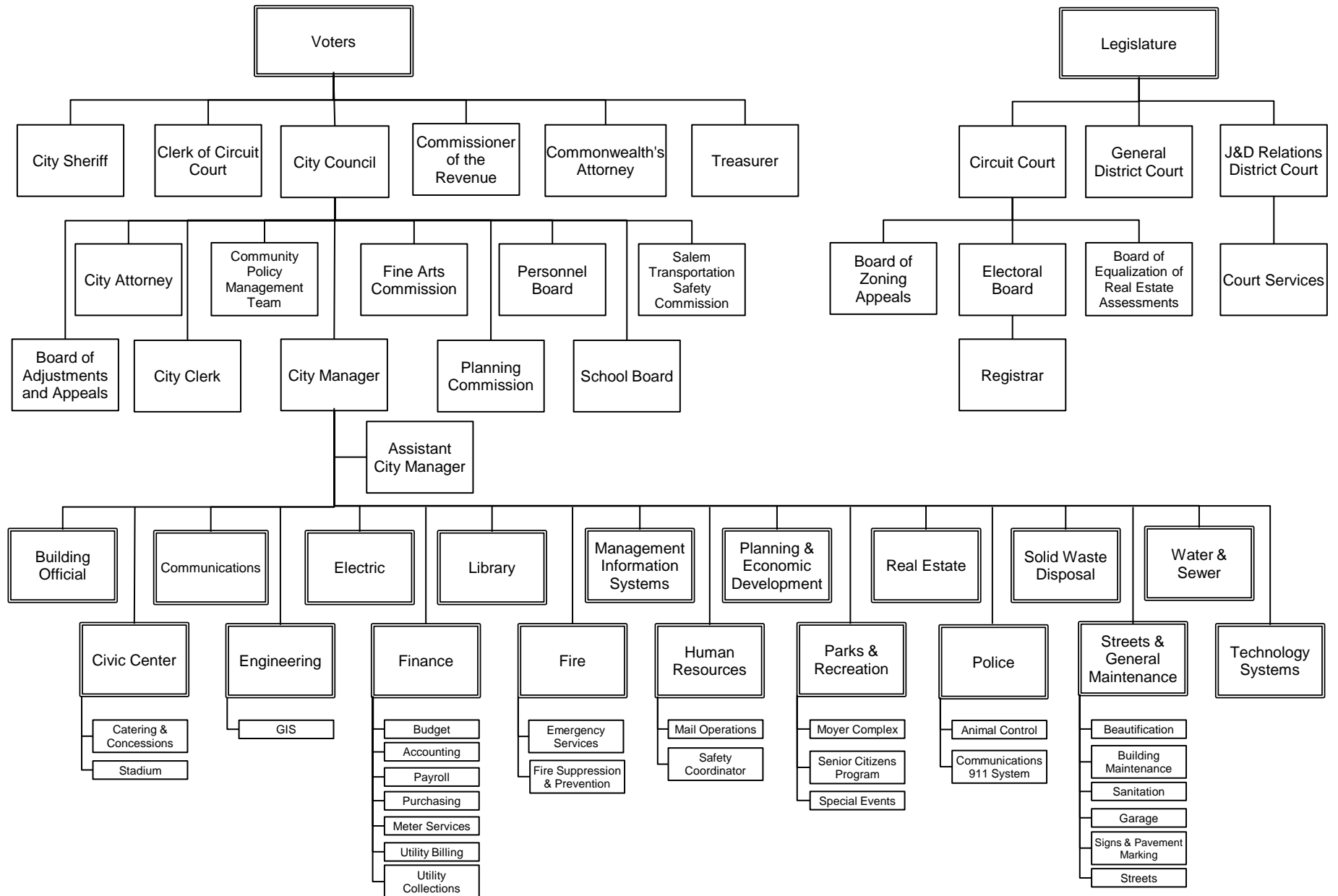
MEMBERS OF SCHOOL BOARD

Sarah W. Southard.....	Chairman
David H. Preston	Vice Chairman
Dr. Michael A. Chiglinsky	Member
Artice M. Ledbetter	Member
Dr. Nancy A. Bradley.....	Member

SCHOOL ADMINISTRATION

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

**CITY OF SALEM, VIRGINIA
ORGANIZATIONAL CHART
JUNE 30, 2013**





Government Finance Officers Association

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

Presented to

**City of Salem
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

FINANCIAL SECTION



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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Salem, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Analysis of Funding Progress for Defined Benefit Pension Plan, and the Analysis of Funding Progress for Other Postemployment Benefits be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2013 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 20, 2013

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

The following discussion and analysis of the City of Salem, Virginia's (the City's) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2013. It should be read in conjunction with the transmittal letter and the City's basic financial statements.

FINANCIAL HIGHLIGHTS

- As of June 30, 2013, the City of Salem's primary government had \$136.3 million in total net position, a decrease of \$4.2 million from prior year. Unrestricted net position available to fund future expenses was \$4.1 million or 3.0% of total net position and decreased \$3.7 million.
- As of June 30, 2013, the governmental activities had \$68.6 million in total net position, which decreased \$9.2 million from prior year. Unrestricted net position available to fund future expenses was \$(20.2) million or (29.3%) of total net position and decreased by \$9.6 million from prior year.
- As of June 30, 2013, the business-type activities had \$67.7 million in total net position, an increase of \$5 million from prior year. Unrestricted net position available to fund future expenses was \$24.3 million or 35.9% of total net position and increased \$5.9 million from prior year.
- As of June 30, 2013, the general fund had \$6.8 million in total fund balance, which decreased by \$184,661 from prior year. Unassigned fund balance was \$3.5 million or 51.7% 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 a broader overview, enhances the basis for comparisons and better reflects the City's accountability.

Government-Wide Financial Statements

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

One of the main goals of these two statements is to report the City's net position and changes that affected net position during the fiscal year. The change in the City's net position, which is the difference between assets and liabilities, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

Component unit – The City includes a discretely presented component unit in this report, the City of Salem School Division (School Division). The City of Salem is financially accountable for the School Division, although it is a legally separate entity.

Fund Financial Statements

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

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

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

The City's enterprise funds, one type of proprietary fund, are accounted for in the same manner as the government-wide business-type activities; however, the fund financial statements provide more detail and additional information, such as cash flows. The City's enterprise funds include the electric fund, water and sewage fund, Civic Center and catering and concessions.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

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

Summary of 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 Unit	
	2013	2012	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 11.3	\$11.9	\$27.3	\$23.7	\$ 38.6	\$ 35.6	\$ 8.9	\$ 8.4
Capital assets, net	96.3	97.5	95.0	98.9	191.3	196.4	49.2	37.8
Total assets	107.6	109.4	122.3	122.6	229.9	232.0	58.1	46.2
Current and other liabilities	3.9	3.5	3.1	5.4	7.0	8.9	7.2	4.7
Long-term liabilities	35.1	28.1	51.5	54.5	86.6	82.6	0.9	0.9
Total liabilities	39.0	31.6	54.6	59.9	93.6	91.5	8.1	5.6
Net investment in capital assets	86.9	87.1	43.4	44.3	130.3	131.4	49.2	37.8
Restricted	1.9	1.3	-	-	1.9	1.3	-	-
Unrestricted	(20.2)	(10.6)	24.3	18.4	4.1	7.8	0.8	2.8
Total net position	\$ 68.6	\$77.8	\$67.7	\$62.7	\$136.3	\$140.5	\$50.0	\$40.6

The primary government net position decreased from \$140.5 million to \$136.3 million. Net position of governmental activities decreased \$9.2 million offset by an increase of \$5 million in business-type activities. A detailed description of the changes in revenues and expenses that create the differences in net position is discussed in the next section.

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

The primary government's unrestricted net position, the portion of net position that can be used to finance the daily operations of the City was \$4.1 million, a decrease of \$3.7 million from prior year. Debt totaling \$4 million issued for Civic Center improvements is being repaid by governmental activities while the related asset is recorded in business-type activities. The City also assumed \$19.4 million of debt issued for school improvements while the School Division recorded the related asset. As such, \$23.4 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 \$1.9 million as of June 30, 2013 for governmental activities. Approximately \$1.5 million in state funding was received, but not yet spent, for highway maintenance. Approximately \$370,000 in federal and state public safety grant funding was received, but not yet spent, for fire programs, asset forfeiture and hazardous materials grants.

As of June 30, 2013, the component unit had \$50 million in total net position, which increased \$9.4 million from prior year. Unrestricted net position available to fund future expenses was \$758,035 or 1.5% of total net position and decreased by \$2 million from prior year. Net investment in capital assets was \$49.2 million and increased \$11.4 million from prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Summary of Changes in Net Position

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

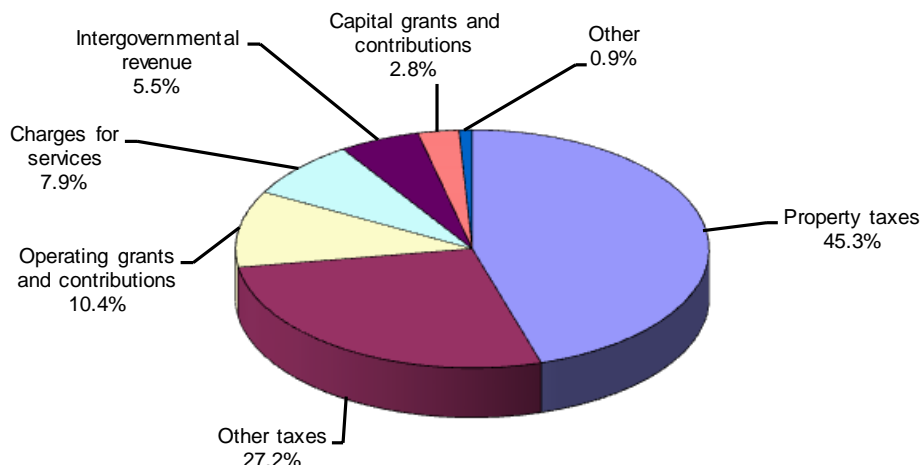
Summary of Changes in Net Position
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2013	2012	2013	2012	2013	2012	2013	2012
Revenues								
<i>Program Revenues:</i>								
Charges for services	\$ 5.6	\$ 5.6	\$53.6	\$49.7	\$ 59.2	\$ 55.3	\$ 1.5	\$ 1.6
Operating grants and contributions	7.4	7.1	-	-	7.4	7.1	8.1	7.8
Capital grants and contributions	2.0	0.6	-	-	2.0	0.6	-	-
<i>General Revenues:</i>								
Property taxes	32.3	32.5	-	-	32.3	32.5	-	-
Local sales and use tax	6.1	5.9	-	-	6.1	5.9	-	-
Business license tax	5.1	4.8	-	-	5.1	4.8	-	-
Meals tax	4.1	3.2	-	-	4.1	3.2	-	-
Utility taxes	1.2	1.1	-	-	1.2	1.1	-	-
Other taxes	2.9	2.6	-	-	2.9	2.6	-	-
Intergovernmental revenue	3.9	3.7	-	-	3.9	3.7	-	-
Investment earnings	0.1	0.1	-	-	0.1	0.1	-	-
Payments from City of Salem	-	-	-	-	-	-	30.3	18.5
State aid	-	-	-	-	-	-	13.1	13.2
Other	0.6	0.4	-	-	0.6	0.4	0.8	0.7
Total revenues	71.3	67.6	53.6	49.7	124.9	117.3	53.8	41.8
Expenses								
General government	\$ 6.5	\$ 6.5	\$ -	\$ -	\$ 6.5	\$ 6.5	\$ -	\$ -
Judicial administration	1.9	1.9	-	-	1.9	1.9	-	-
Public safety	17.3	16.5	-	-	17.3	16.5	-	-
Public works	13.8	14.4	-	-	13.8	14.4	-	-
Health and welfare	2.7	2.4	-	-	2.7	2.4	-	-
Education	30.3	18.5	-	-	30.3	18.5	44.4	43.1
Parks, recreation and cultural	5.4	5.3	-	-	5.4	5.3	-	-
Community development	2.3	2.1	-	-	2.3	2.1	-	-
Interest on long-term debt	1.4	1.1	-	-	1.4	1.1	-	-
Electric	-	-	33.2	36.0	33.2	36.0	-	-
Water and sewage	-	-	10.7	11.0	10.7	11.0	-	-
Civic center	-	-	2.8	2.5	2.8	2.5	-	-
Catering and concessions	-	-	0.8	0.9	0.8	0.9	-	-
Total expenses	81.6	68.7	47.5	50.4	129.1	119.1	44.4	43.1
Excess (deficiency) before transfers	(10.3)	(1.1)	6.1	(0.7)	(4.2)	(1.8)	9.4	(1.3)
Transfers	1.1	1.7	(1.1)	(1.7)	-	-	-	-
Increase (decrease) in net position	(9.2)	0.6	5.0	(2.4)	(4.2)	(1.8)	9.4	(1.3)
Net position, beginning	77.8	77.2	62.7	65.1	140.5	142.3	40.6	41.9
Net position, ending	\$ 68.6	\$77.8	\$67.7	\$62.7	\$136.3	\$140.5	\$50.0	\$40.6

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Governmental Activities – Revenues

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



Property taxes, which were 45.3% 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 declined slightly from the previous year. Declining equipment values and closure of several businesses resulted in a decrease in machinery and tools tax. Personal property assessments also declined slightly due to lower lease values.

Sales and use tax increased \$191,000 or 3.2%, which is encouraging. A higher amount of business and professional occupational license taxes were collected by June 30, 2013 compared to June 30, 2012 resulting in an increase of \$356,000 in revenue. The meals tax rate was raised from 4% to 6% effective February 1, 2012. As the higher rate was in place for the entire fiscal year, 2013 revenue was higher. The additional 2% is committed to school capital needs.

Other taxes which included bank stock tax, motor vehicle tax, recordation tax, admissions tax, lodging tax, cigarette tax and other miscellaneous tax increased \$320,000 or 12.3%. The lodging tax rate was increased from 7% to 8% effective January 1, 2013, with the additional revenue dedicated to Roanoke Valley Convention and Visitor's Bureau (RVCVB). Cigarette taxes generated \$120,000 in additional revenue as vendors rushed to purchase cigarette stamps prior to the July 1, 2013 tax increase.

Operating grants and contributions, which were 10.4% of total governmental activities revenues, increased \$311,000 or 4.4% from the prior year. This category includes social service programs, street maintenance funds, reimbursement for constitutional officers, funding received under House Bill 599 for law enforcement and other grants and contributions. Public safety operating grants were up \$204,000. In fiscal year 2013, the Fire Department was awarded funds to purchase handheld radios and defibrillators. In addition, the City received \$88,000 from FEMA to cover storm cleanup costs. In the health and welfare function, revenue received under the Comprehensive Services Act for At Risk Youth and Families was higher due to more children requiring services and increased costs.

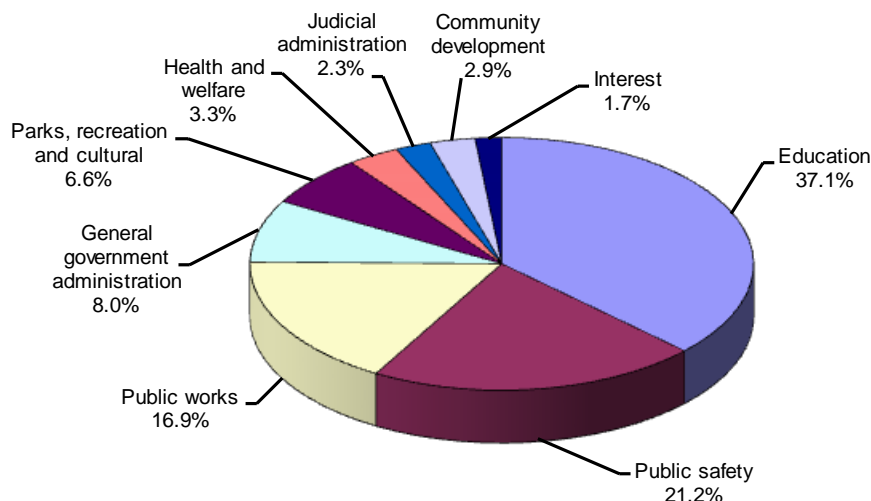
Charges for services, which were 7.9% of total governmental activities revenues, include fines, court fees, inspection fees, garbage collection fees, recreation fees and other program-based fees. These revenues increased \$71,000 from prior year. Fees charged for ambulance transports under the revenue recovery program were higher due to fee increases. Recycling proceeds declined, partially offsetting increases.

Capital grants and contributions, which were 2.8% of total governmental activities revenue, include grants received from federal and state agencies to fund capital purchases. These revenues increased \$1,407,000 from the previous year due to a larger amount of funding received for continuing construction on the Roanoke River Greenway. In addition, donations were received to purchase new scoreboards at Moyer Park.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Governmental Activities – Expenses

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



Education expenses totaling \$30.3 million or 37.1% of governmental activities, represents the largest allocation of resources. Funding of \$18.9 million was allocated to the School Division to cover operating costs, while \$9.5 million in bond proceeds were provided to fund a portion of South Salem Elementary School construction costs. Meals tax revenue dedicated to school capital projects totaled \$1.9 million and was transferred to the School Division in fiscal year 2013.

In 2012, the General Assembly passed mandates that shifted 5% of retirement contributions to employees beginning July 1, 2012. To offset the 5% contribution and the additional tax burden for employees, a 6% pay increase was given to full-time City employees. The City's required contribution to the Virginia Retirement System (VRS) also increased from 11.78% to 16.27%, so salary and fringe benefit costs for most departments were higher in fiscal year 2013 than the previous year.

Public safety expenses, which were 21.2% of total governmental activities expenses, include operations of the labor-intensive police and fire departments, along with expense of emergency medical services, communications (E-911 call center) and the cost of juvenile justice programs. Public safety expenses were \$787,000 higher than prior year largely due to salary and fringe benefit costs as discussed in the previous paragraph. In addition, storm cleanup costs were incurred due to the derecho storm. A portion of these costs will be reimbursed by FEMA.

Public works expenses were 16.9% of total governmental activities expenses and included engineering, solid waste management, building maintenance, street paving, traffic engineering and street maintenance. Expenses were down \$612,000 or 4.3% due to decreased highway maintenance spending. Higher salary and fringe benefit costs partially offset the decrease.

Health and welfare expenses, which were 3.3% of total governmental activities, increased \$279,000 or 11.5%. Comprehensive Services Act expenditures were higher than the previous year as more children required assistance and the types of services needed resulted in higher costs.

Business-type Activities

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Component Unit – School Division Activities

General revenues of the School Division increased \$11.8 million or 36.4%. Payments from the City increased \$11.8 largely due to the transfer of funding for construction of a new school. Support totaled \$30.3 million and included \$18.9 to cover operating costs and \$9.5 million in bond proceeds to fund a portion of South Salem Elementary School construction costs. Meals tax revenue dedicated to school capital projects totaled \$1.9 million and was transferred from the City in fiscal year 2013. Operating grants and contributions increased \$312,000 or 4%. VRS pension and life insurance reimbursements were up to cover the state share of higher rates. Funding from the state for special education, K-3 class size reduction and textbooks increased from the previous year. A decrease in federal Jobs Bill Funding, which ended in fiscal year 2012, partially offset these increases.

The School Division incurred expenses of \$44.4 million for the year ended June 30, 2013 an increase of \$1.3 million or 3.0% from prior year largely due to higher salary and fringe benefit costs. As previously discussed, employees received a 6% salary increase to offset the required 5% contribution to VRS and the associated tax consequences. The employer rate for VRS teacher pension contributions increased from 11.93% to 12.77% and VRS group life insurance rates went from .28% to 1.19%. Federal grants program expenditures declined due to the end of Jobs Bill Funding, which partially offset increases.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

As of June 30, 2013, the governmental funds had \$6.5 million in total fund balance, a decrease of \$556,429 from prior year. Unassigned fund balances available to fund future expenditures were \$3.1 million or 48% of total fund balance. Unassigned fund balance, which includes all amounts not included in other classifications, is available to pay for future years' capital projects expenditures and provide for unforeseen circumstances. Restricted fund balance includes amounts that can be spent only for specific purposes stipulated by grantors and totaled \$1.9 million. Assigned fund balance totaled \$941,626 and represents amounts set aside to cover health insurance costs and liquidate encumbrances. Committed fund balance totaled \$115,000 and was dedicated to the purchase of new CAMA software.

General Fund

The general fund is the chief operating fund of the City. As of June 30, 2013, the general fund had \$6.8 million in total fund balance, which decreased \$184,661 from prior year. The appropriation of prior year fund balance and subsequent expenditure of funds during fiscal year 2013, including the transfer of \$520,000 in meals tax that was committed as of June 30, 2012, contributed to the decrease in total fund balance. Unassigned fund balances available to fund future expenditures were \$3.5 million or 51.7% of total fund balance and increased \$48,000 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. While the amount of unassigned fund balance increased, total fund balance to total fund expenditures decreased from 10.9% to 10.1%. Unassigned fund balance to total fund expenditures was 5.2%.

City Council has stated its intent to increase the unassigned general fund balance to a level more reflective of the best practices recommended by the Government Financial Officers Association of the United States and Canada (GFOA). The slow recovery from the recession has adversely affected progress towards this goal. Unassigned fund balance to total fund revenues is 5.1%, short of City Council's goal. As the economy improves, the City should be better positioned to meet the objective. In addition, City Council voted to increase the cigarette tax rate from \$0.15 per pack to \$0.45 per pack effective July 1, 2013. Additional cigarette tax revenue generated will be used to replenish general fund reserves that have declined during the past few years of recession.

Property taxes, which were 47.3% of total general fund revenue, increased \$220,000 or 1% from the prior year. Real estate assessments increased 1% resulting in \$252,000 in additional revenue. Public service corporation taxes and penalties and interest generated an additional \$80,000 in revenue. Declining value of equipment and the closure of several business resulted in lower machinery and tools tax revenue, partially offsetting the increases.

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

Other local taxes, which comprised 27.9% of total general fund revenue, increased \$1,772,000 or 10.1% from the prior year. This category of revenue was reflective of local economic conditions with modest growth indicating recovery from the recession is underway. Sales tax revenue rose \$191,000 or 3.2% from the prior year. Collection of business license taxes as of June 30th was ahead of the prior year, resulting in \$356,000 more revenue. A 2% increase in the meals tax rate was effective February 2012 with the additional revenue generated dedicated to school capital projects. The higher rate was in effect for the entire fiscal year, resulting in greater revenue in 2013. The lodging tax rate was increased from 7% to 8% effective January 1, 2013 generating additional revenue in fiscal year 2013, which was dedicated to Roanoke Valley Convention and Visitors Bureau. City Council increased cigarette taxes effective July 1, 2013, resulting in higher cigarette tax revenue as vendors rushed to purchase cigarette stamps prior to the rate increase.

Intergovernmental revenue, which was 15.8% of total general fund revenue, increased \$375,000 or 3.5% from the prior year. Additional highway maintenance funding of \$67,000 was received from the State for road maintenance. Funding received under Comprehensive Services Act also increased due to a higher number of children requiring care and increased costs. In addition, the Fire Department was awarded more grant funding in fiscal year 2013.

Charges for services, which were 7.1% of total general fund revenue, increased \$225,000 or 4.8%. Fees charged for ambulance transports under the revenue recovery program increased due to an increase in rates. Fines and forfeitures, mechanical permits and property rental revenue increased slightly, partially offset by declines in recycling revenue.

Education expenditures increased \$2.3 million from prior year and represented 30.9% of General Fund expenditures. Of the \$20.8 million in expenditures, \$18.9 million represented local operating support provided to the School Division and \$1.9 was the transfer of meals tax collected by the City and dedicated to school capital projects.

As previously discussed, the General Assembly passed mandates that shifted 5% of retirement contributions to employees beginning July 1, 2012. To offset the 5% contribution and the additional tax burden for employees, a 6% pay increase was given to full-time City employees. The City's required contribution rate to the Virginia Retirement System (VRS) also increased from 11.78% to 16.27%. These changes resulted in higher salary and fringe benefit costs for most departments in fiscal year 2013.

Public safety expenditures, which comprised 24.3% of total general fund expenditures, increased by \$1,018,000 or 6.6% from the prior year largely due to increased salary and fringe benefit costs. In fiscal year 2013, the Fire Department was awarded grant funding of \$147,146 for the Assistance to Firefighters Grant, which was used to purchase radios and computers in fiscal year 2013. They were also awarded \$54,840 from the Rescue Squad Assistance Fund to purchase cardiac monitors.

Public works expenditures, which were 17.1% of total general fund expenditures, decreased \$486,000 or 4.1% from the prior year. The amount of highway maintenance funds expended was lower in fiscal year 2013. Costs incurred for renovations of City Hall and increases in salary and fringe benefit costs partially offset these increases.

Health and welfare expenditures were 11.7% or \$281,000 higher than the previous year. Comprehensive Services Act expenditures were up due to an increase in the number of children requiring services and the type of services needed resulted in higher costs.

Parks, recreation and cultural expenses were 6.7% of total governmental activities expenses and increased \$105,000 from the prior year. Maintenance of city parks and greenways, library costs and expenses for citywide recreational and athletic programs and events were included in this category. In fiscal year 2013, approximately \$50,000 in donations were received and used to purchase new scoreboards at Moyer Park. In the previous year, Farmer's Market expenditures were reported in the public works category. With the implementation of the new financial system in fiscal year 2013, it was

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

determined that these costs were more appropriately reported in the parks and recreation category which contributed to the increase in the parks and recreation category.

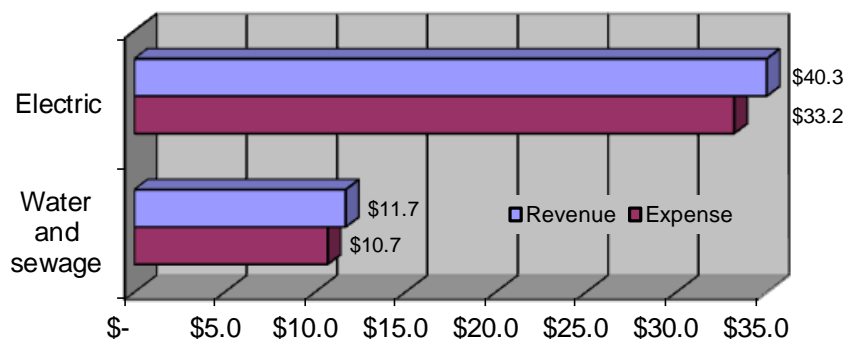
Non-departmental expenditures, which were 4.3% of total general fund expenditures, increased \$209,000 or 7.9%. The City and School Division participate in a self-insurance program to provide health insurance coverage for employees. Health insurance claims expense, net of premiums collected, was \$123,000 higher than the previous year. The contribution to RVCVB was \$123,000 more than the previous year because additional lodging tax generated from the rate increase was dedicated to RVCVB. Moderate increases in costs for Valley Metro, vacation buyback and liability insurance were partially offset by a decline in workers' compensation insurance expense.

Capital Projects Fund

During fiscal year 2013, the capital projects fund total fund balance decreased by \$371,768. Expenditures of approximately \$630,000 were incurred for the various ERP projects underway for the City and School Division. Funds totaling \$400,000 will be provided from the bond sale in fiscal year 2014 to cover a portion of the ERP costs. Legacy systems including financials, human resources, and timekeeping were replaced and the cashiering and billing systems upgraded. The legacy payroll system for the City and School Division will be upgraded in fiscal year 2014. Construction continued on the Roanoke River Greenway projects, incurring expenditures of \$1.7 million. The City has been awarded grants that cover the majority of construction costs. Proceeds of \$9.5 million from the bond sale in December 2012 were transferred to the School Division to cover a portion of South Salem Elementary School construction costs.

Proprietary Funds

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



Electric Fund

As of June 30, 2013, the electric fund had \$35.6 million in total net position, which increased by \$5 million from prior year. Net investment in capital assets was \$13.9 million or 39% of total net position and decreased \$441,531 from prior year. Unrestricted net position available to fund future expenses were \$21.7 million or 61% of total net position and increased by \$5.4 million from prior year.

For fiscal year 2013, operating revenue was \$40.3 million and increased \$3.5 million from the prior year primarily due to a rate increase. Operating expenses were \$32.3 million and were approximately \$2.8 million less than prior year due to lower purchased power costs. The City of Salem purchases power for resale through American Electric Power (AEP). Rates are recalculated annually based on the supplier's cost. In accordance with the contract, AEP is allowed to charge back to the City environmental and other costs as approved by the Federal Energy Regulatory Commission (FERC). These costs relate to AEP's overall transmission and power production costs and are allocated to the City. They are not a direct result of activities in Salem. The true up of charges is done annually and the settle up recorded in fiscal year 2013 was significantly lower than previous years, resulting in lower than anticipated purchased power costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Water and Sewage Fund

As of June 30, 2013, the water and sewage fund had \$27.3 million in total net position, an increase of \$1.1 million from prior year. Net investment in capital assets was \$24 million or 87.8% of total net position and increased \$74,505 from prior year. Unrestricted net position available to fund future expenses was \$3.3 million or 12.2% of total net position and increased \$985,268 from prior year.

For fiscal year 2013, operating revenue was \$11.7 million, an increase of \$615,514 from the previous year. The City's water and sewer rates were restructured effective July 1, 2010 to include a monthly base service fee and also a volume charge based on metered water usage. A rate increase was then instituted on January 1, 2011, 2012 and 2013. Operating expenses were \$9.4 million, approximately \$220,000 lower than prior year. As part of the City's normal process of reviewing planned capital improvements, the City determined that certain projects would not proceed due to costs and other factors. As such, costs incurred for these projects totaling \$302,525 were included in maintenance expense in fiscal year 2012. Several categories of expenses were up in fiscal year 2013 which offset the decrease in maintenance expense. Depreciation expense was higher due to the sewer rehabilitation project that was completed in the prior fiscal year. Treatment of sewage costs also increased slightly.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

Budgetary Highlights for 2013 (In Millions)

	Original Budget	Budget As Amended	Actual
Revenues	\$ 67.3	\$ 68.7	\$ 69.5
Expenditures	(64.1)	(67.7)	(67.3)
Transfers in	2.2	2.2	2.2
Transfers out	(5.8)	(4.6)	(4.6)
Use of fund balance	<u>\$ (0.4)</u>	<u>\$ (1.4)</u>	<u>\$ (0.2)</u>

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

- To re-appropriate monies for encumbrances established prior to June 30, 2012.
- To re-appropriate grants, donations and other revenues authorized in fiscal year 2012 or earlier, but not expended or encumbered as of June 30, 2012.
- To appropriate grants, donations and other revenues accepted or adjusted in fiscal year 2013 when official notice of approval was received.
- To appropriate the undesignated general fund balance to capital projects.
- To appropriate funds as authorized by City Council during the mid-year review process.

CAPITAL ASSETS

The City's total primary government capital assets, net of accumulated depreciation, decreased 2.6% from \$196.4 million to \$191.3 million. This investment includes land, construction in progress, machinery and equipment, buildings and improvements, public domain infrastructure, distribution and transmission, utility plant and sewage treatment contract. The following table presents a summary of capital asset balances at the end of the year. The changes in each category of capital assets, along with other important information regarding capital assets, are presented in Note 6 of the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Capital Assets, Net of Depreciation
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2013	2012	2013	2012	2013	2012	2013	2012
Land	\$ 5.9	\$ 5.8	\$ 1.5	\$ 1.4	\$ 7.4	\$ 7.2	\$ 1.1	\$ 1.1
Construction in progress	2.0	1.4	1.7	1.4	3.7	2.8	14.0	1.4
Machinery and equipment	4.7	4.5	1.3	1.3	6.0	5.8	2.5	2.4
Buildings and improvements	25.9	26.8	20.3	21.2	46.2	48.0	31.6	32.9
Public domain infrastructure	57.8	59.0	-	-	57.8	59.0	-	-
Distribution and transmission	-	-	15.9	16.5	15.9	16.5	-	-
Utility plant	-	-	32.1	34.1	32.1	34.1	-	-
Sewage treatment contract	-	-	22.2	23.0	22.2	23.0	-	-
Total	<u>\$ 96.3</u>	<u>\$ 97.5</u>	<u>\$ 95.0</u>	<u>\$ 98.9</u>	<u>\$191.3</u>	<u>\$196.4</u>	<u>\$ 49.2</u>	<u>\$ 37.8</u>

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

- In fiscal year 2013, the City and School Division continued implementation of three new software projects to replace legacy financials, human resources, payroll, timekeeping, cashiering and billing systems with \$596,727 spent on these projects. The cashiering and real estate modules of the cashiering and billing system went live in July 2012 with personal property tax and business taxes scheduled to go live in January 2014. The financial system went live in October 2012 with additional modules scheduled to go live in fiscal year 2014. The City human resources, payroll, and timekeeping modules as well as the School human resources module went live in fiscal year 2013. The School timekeeper and payroll modules are scheduled to go live in fiscal year 2014.
- Construction was completed on Phase IIIA of the Roanoke River Greenway with \$382,919 expended in fiscal year 2013. An additional \$773,423 was expended on a pedestrian bridge to connect Phase IIIA with the existing portion of the Roanoke River Greenway. This phase will extend the trail 1.3 miles from Eddy Avenue to Mill Lane and is partially funded with monies received under the American Recovery and Reinvestment Act as well as the Federal Transportation Enhancement Program.
- Construction continued on Mason Creek Greenway with \$540,769 expended in fiscal year 2013. This one mile trail will extend from Roanoke Boulevard to Salem Turnpike and is partially funded with monies received from the Federal Transportation Enhancement Program.
- New roofs were completed for Fire Station 3 and the Senior Citizen's Center during fiscal year 2013 at a total cost of \$71,540.
- Scoreboards at Moyer Sports Complex fields 1, 2, 3, and 4 were replaced totaling \$56,206. The majority of the funding for the new scoreboards was provided by donations from Salem businesses.
- Traffic signal replacement and improvements totaled \$301,160 in fiscal year 2013.

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

- Upgrades were performed on 3 backup diesel generators at the Water Plant, the Street Department, and the Electric Department at a total cost of \$118,372. Upgrades were required due to stricter EPA regulations on emissions controls and monitoring. At the current electric rates, the generators can save the City as much as \$50,000-\$60,000 per month.
- The Electric Department replaced six 12 kV circuit breakers located at the Indiana Street substation at a total cost of \$154,465. The new circuit breakers contain a newer technology that is safer and more reliable than the outdated circuit breakers that were replaced and will help reduce future power outages.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

- A new Geographic Information System (GIS) was implemented in fiscal year 2013 at a total cost of \$51,204. The GIS system allows the City to visualize, explore, query, edit, and analyze geographic information including City parcels, electric lines, water lines, and sewer lines. This data helps improve communication and decision-making to better serve the public.
- Catering purchased \$26,437 in new kitchen equipment during fiscal year 2013, including two 36" ranges and a convection double-decker gas oven.
- A new water pump station was constructed in Beverly Heights at a total cost of \$55,806 to replace an older water pump station.
- \$464,551 was spent on improvements to Electric distribution and transmission infrastructure, including the circuit breaker replacements.

LONG-TERM DEBT

At June 30, 2013, the City's long-term liabilities, excluding compensated absences, other postemployment benefit liabilities, bond premiums, bond discounts, deferred amounts on refunding, and bond issuance costs, totaled \$83.8 million. This amount was comprised of \$32.9 million related to governmental activities (including \$19.5 million for debt held on behalf of the School Division) and \$50.9 million related to business-type activities. The City made \$11.0 million in principal payments (including the current refunding of a general obligation note for \$5.0 million) and amortized \$452,563 in bond issuance costs, discounts, premiums, and deferred amounts on refunding.

Total debt increased \$4,173,825 during the fiscal year. On October 10, 2012, the City issued a general obligation note in the amount of \$5,010,000 as interim financing to fund the construction of South Salem Elementary School. On December 17, 2012, the City issued \$9,545,000 in general obligation bonds to refund the general obligation note and to provide additional financing for the construction of South Salem Elementary School. Detailed information regarding these changes in long-term debt is disclosed in Note 8 to the financial statements.

With its most recent rating, the City maintained a rating of Aa3 from Moody's Investor Service.

The Charter of the City of Salem and the *Code of Virginia* limits the City's net debt to 10% of the assessed valuation of real estate within the City limits. This limit applies to governmental fund tax supported debt and certain long-term liabilities of proprietary funds. The City considers long-term debt of its electric, water and sewage funds to be self-supporting. The City's tax-supported debt of \$32.9 million is below the legal debt limit of \$204.0 million. Table 10 of the statistical section provides additional information related to the legal debt margin.

The School Division relies upon the City to provide full faith and credit for any debt obligations incurred. Therefore, the City reports School Division long-term liabilities, other than compensated absences and other postemployment benefits liabilities, as its own. In addition to bonded debt, the City's long-term obligations include compensated absences and other postemployment liabilities. Additional information concerning the City's long-term liabilities is presented in Note 8 of the financial statements and Table 9 of the statistical section.

Interest charges for fiscal year 2013 were \$1.4 million or 1.7% of total governmental activities expenses.

FACTORS INFLUENCING FUTURE BUDGETS

The current economic conditions do not show a great deal of improvement over the previous year. Reduced state support and slow revenue growth put pressure on local government budgets and require tough choices. Our state continues to face uncertainty from actions taken at the federal level to reduce the budget deficit. The City's fiscal year 2014 General Fund budget includes moderate increases in some local tax revenues and charges for services, but declines in other categories. The budget includes capital purchases for the first time in several years, including funds for a new ambulance and four new police vehicles.

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

City Council approved an increase in cigarette tax from \$0.15 per pack to \$0.45 per pack effective July 1, 2013. Additional cigarette tax revenue generated will be used to replenish general fund reserves that have declined during the past few years of recession.

The City is in the eighth year of a twenty-year contract to purchase electricity. The rate the City pays for wholesale electricity varies based on the supplier's actual costs, which are affected by fuel and environmental costs. In fiscal year 2013, the cost to purchase electricity was lower than anticipated due to the lower than normal true up with AEP. Moderate increases are expected in fiscal year 2014.

Effective July 1, 2010, the City instituted a new rate structure and several new fees for water and sewer services. The monthly bills now include a monthly base service fee and also a volume charge based on metered water usage. Rate increases necessary to produce sufficient revenue to sustain long-term water and sewer systems will be phased incrementally over a four-year period. Rate increases were effective January 1 of 2011, 2012 and 2013. Water and sewer rates will increase approximately 10% and 12% respectively on January 1, 2014.

The City and Salem School Division continue to face increasing health insurance costs and the uncertainty that health care reform brings to the market. Interpretations and guidance on health care reform indicate that costs for employers will ultimately increase. The Affordable Care Act is already impacting the City and School Division budgets. In fiscal year 2014, the City and School Division, as self-funded employers, will have to pay a reinsurance fee of \$1 multiplied by the average number of covered lives. In addition, the requirements of the Affordable Care Act have forced the City and School Division to examine how part-time labor is utilized. Health care costs will rise if insurance must be offered to additional employees.

Employees hired after January 1, 2014 will be required to participate in the VRS hybrid retirement plan, which combines the features of a defined benefit plan and a defined contribution plan. Public safety employees are not required to participate in this plan. Both the employee and the employer make contributions to fund the defined benefit component of the hybrid retirement plan. Employees contribute 4 percent of their creditable compensation. The total employer contribution amount is actuarially determined. The actual amount contributed by the employer to the defined benefit component of the plan will be the actuarially determined amount, less any employer contributions to the defined contribution component of the plan. VRS has partnered with ICMA-RC, a non-profit independent financial services corporation, to provide record-keeping services for the defined contribution component of the plan. A number of investment options are available for hybrid retirement plan participants. The employee and employer are required to make a 1 percent contribution to the defined contribution component of the plan. The employee may voluntarily contribute up to an additional 4 percent in 0.5 percent increments. An employer must match the first 1 percent of the voluntary contribution with a corresponding contribution of 1 percent of the employee's creditable compensation. Each of the employee's additional 0.5 percent increases will be matched by the employer with a 0.25 percent contribution. With the mandatory and voluntary components of the defined contributions, an employee can contribute a maximum of 5 percent with a 3.5 percent match from the employer.

For school divisions across the state, VRS is making a compelling argument for significant VRS increases over the next 2 to 3 years to align rates with previous actuarial recommendations. Rates were established with the biennial budget so they were not changed for fiscal year 2014, but have increased from 11.66% to 14.5% in the next biennial budget. VRS rates will be a significant budget pressure for the foreseeable future.

The fiscal year 2014 School Division budget was based on lower Average Daily Membership projections, resulting in lower state revenues. Three teaching positions and two instructional positions were eliminated through attrition, instructional supplies and other line items were reduced to offset cost increases in the fiscal year 2014 budget.

In August 2013, the School Division was awarded \$850,000 in Strategic Compensation Grant funds to provide performance and incentive payments for teachers who meet goals related to student

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

achievement, professional growth and leadership. Salem was one of only thirteen school divisions to receive these funds and received the largest single award. The Strategic Compensation Grant Program was developed to encourage school divisions to collaborate with teachers to create compensation models that reward classroom educators whose efforts enable schools to meet strategic goals. The Salem School Division began researching an innovative teacher-designed incentive program in 2011.

In June 2012, the Governmental Accounting Standards Board approved GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for governments that provide their employees with pension benefits. Beginning in fiscal year 2015, governments providing defined benefit pensions will be required to recognize their long-term obligation for pension benefits and to comparably measure the annual costs of pension benefits for the first time. While the City will be affected by these new requirements, the biggest impact will be felt by the School Division. In recent years, the State has not adequately funded their share of the pension obligation for teachers. The unfunded actuarial accrued liability for the VRS Teacher's pool will be allocated to Schools, resulting in a liability on government-wide financial statements. Some pension reform efforts were passed by the 2012 General Assembly. The new GASB reporting standard is expected to increase volatility in VRS rates and result in higher unfunded liability calculation for all systems.

REQUESTS FOR INFORMATION

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

Additional information on the Component Unit can be obtained from the Supervisor of Business, Salem Public Schools, 510 South College Avenue, Salem, Virginia 24153.

BASIC FINANCIAL STATEMENTS



The basic financial statements subsection of the City of Salem, Virginia's Comprehensive Annual Financial Report includes the governmental-wide statement of net position and statement of activities. Government-wide statements incorporate governmental and business-type activities of the City of Salem 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, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 3,067,171	\$ 19,055,035	\$ 22,122,206	\$ 7,240,721
Receivables, net	3,633,816	6,095,701	9,729,517	100
Due from other governmental units	4,575,427	-	4,575,427	1,037,838
Internal balances	(400,000)	400,000	-	-
Other postemployment benefits asset	-	-	-	66,146
Inventories	410,949	1,664,865	2,075,814	56,826
Prepaid items	36,148	79,670	115,818	3,326
Restricted assets:				
Cash and cash equivalents	2,500	-	2,500	503,970
Capital assets:				
Nondepreciable	7,819,283	3,205,741	11,025,024	15,144,717
Depreciable, net	88,429,553	91,742,376	180,171,929	34,056,703
Total assets	107,574,847	122,243,388	229,818,235	58,110,347
LIABILITIES				
Accounts payable and accrued liabilities	2,134,468	951,576	3,086,044	2,113,477
Accrued payroll and related liabilities	1,015,737	286,391	1,302,128	4,811,346
Accrued interest	355,214	813,484	1,168,698	-
Self insurance claims liability	291,929	80,468	372,397	300,551
Unearned revenue	70,097	151,351	221,448	20,347
Customer security deposits	-	785,559	785,559	-
Long-term liabilities				
due in less than one year:				
Bonds payable	2,647,514	3,270,580	5,918,094	-
Compensated absences	1,827,937	467,492	2,295,429	372,827
Long-term liabilities				
due in more than one year:				
Bonds payable	29,977,553	47,426,804	77,404,357	-
Compensated absences	132,602	186,791	319,393	532,344
Other postemployment benefits	522,371	135,986	658,357	-
Total liabilities	38,975,422	54,556,482	93,531,904	8,150,892
NET POSITION				
Net investment in capital assets	86,860,275	43,413,519	130,273,794	49,201,420
Restricted for:				
Grant programs	378,883	-	378,883	-
Highway maintenance	1,517,848	-	1,517,848	-
Capital projects	228	-	228	-
Unrestricted (deficit)	(20,157,809)	24,273,387	4,115,578	758,035
Total net position	\$ 68,599,425	\$ 67,686,906	\$ 136,286,331	\$ 49,959,455

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

**CITY OF SALEM, VIRGINIA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

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			Component Unit
					Governmental Activities	Business-type Activities	Total	
Primary Government								
<i>Governmental activities:</i>								
General government	\$ 6,450,069	\$ 383,936	\$ 492,496	\$ 329,578	\$ (5,244,059)		\$ (5,244,059)	
Judicial administration	1,952,657	257,727	988,286	-	(706,644)		(706,644)	
Public safety	17,279,490	1,069,969	1,297,429	6,250	(14,905,842)		(14,905,842)	
Public works	13,809,579	3,523,970	3,614,286	57,754	(6,613,569)		(6,613,569)	
Health and welfare	2,709,561	-	880,708	-	(1,828,853)		(1,828,853)	
Education	30,295,228	-	-	-	(30,295,228)		(30,295,228)	
Parks, recreation and cultural	5,436,335	371,216	162,990	1,609,669	(3,292,460)		(3,292,460)	
Community development	2,327,751	21,250	-	-	(2,306,501)		(2,306,501)	
Interest on long-term debt	1,354,680	-	-	-	(1,354,680)		(1,354,680)	
Total governmental activities	<u>81,615,350</u>	<u>5,628,068</u>	<u>7,436,195</u>	<u>2,003,251</u>	<u>(66,547,836)</u>		<u>(66,547,836)</u>	
<i>Business-type activities:</i>								
Electric	33,171,403	40,280,161	-	-		\$ 7,108,758	7,108,758	
Water and sewage	10,671,798	11,729,755	-	-		1,057,957	1,057,957	
Civic Center	2,838,499	775,437	-	-		(2,063,062)	(2,063,062)	
Catering and concessions	849,306	781,469	-	-		(67,837)	(67,837)	
Total business-type activities	<u>47,531,006</u>	<u>53,566,822</u>	<u>-</u>	<u>-</u>		<u>6,035,816</u>	<u>6,035,816</u>	
Total primary government	<u>\$ 129,146,356</u>	<u>\$ 59,194,890</u>	<u>\$ 7,436,195</u>	<u>\$ 2,003,251</u>	<u>\$ (66,547,836)</u>	<u>\$ 6,035,816</u>	<u>\$ (60,512,020)</u>	
Component Unit	<u>\$ 44,537,034</u>	<u>\$ 1,545,090</u>	<u>\$ 8,122,841</u>	<u>\$ 7,000</u>				<u>\$ (34,862,103)</u>
<i>General revenues:</i>								
Property taxes					32,272,995	-	32,272,995	-
Local sales and use taxes					6,083,030	-	6,083,030	-
Business license tax					5,107,983	-	5,107,983	-
Meals tax					4,118,041	-	4,118,041	-
Utility taxes					1,153,190	-	1,153,190	-
Other taxes					2,924,694	-	2,924,694	-
Intergovernmental revenue not restricted					3,859,380	-	3,859,380	-
Unrestricted investment earnings					134,650	168	134,818	-
Gain on sale of capital assets					1,198	1,638	2,836	-
Payments from City of Salem					-	-	-	30,295,228
State aid					-	-	-	13,133,752
Other					606,657	-	606,657	806,487
Transfers					1,069,822	(1,069,822)	-	-
Total general revenues and transfers					<u>57,331,640</u>	<u>(1,068,016)</u>	<u>56,263,624</u>	<u>44,235,467</u>
Change in net position					<u>(9,216,196)</u>	<u>4,967,800</u>	<u>(4,248,396)</u>	<u>9,373,364</u>
Net position, beginning					<u>77,815,621</u>	<u>62,719,106</u>	<u>140,534,727</u>	<u>40,586,091</u>
Net position, ending					<u>\$ 68,599,425</u>	<u>\$ 67,686,906</u>	<u>\$ 136,286,331</u>	<u>\$ 49,959,455</u>

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

**CITY OF SALEM, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 3,056,679	\$ -	\$ 10,492	\$ 3,067,171
Cash and cash equivalents, restricted	2,500	-	-	2,500
Receivables, net	3,633,816	-	-	3,633,816
Due from other funds	425,000	-	-	425,000
Due from other governmental units	4,291,804	-	283,623	4,575,427
Inventories	410,949	-	-	410,949
Prepaid items	36,148	-	-	36,148
Total assets	<u>\$ 11,856,896</u>	<u>\$ -</u>	<u>\$ 294,115</u>	<u>\$ 12,151,011</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 1,948,265	\$ -	\$ 186,203	\$ 2,134,468
Accrued payroll and related liabilities	1,015,737	-	-	1,015,737
Self insurance claims liability	291,929	-	-	291,929
Due to other funds	400,000	-	425,000	825,000
Deferred revenue	1,397,793	-	-	1,397,793
Total liabilities	<u>5,053,724</u>	<u>-</u>	<u>611,203</u>	<u>5,664,927</u>
FUND BALANCES				
Nonspendable	447,097	-	-	447,097
Restricted	1,896,731	-	228	1,896,959
Committed	-	-	115,000	115,000
Assigned	941,626	-	-	941,626
Unassigned	3,517,718	-	(432,316)	3,085,402
Total fund balances	<u>6,803,172</u>	<u>-</u>	<u>(317,088)</u>	<u>6,486,084</u>
Total liabilities and fund balances	<u>\$ 11,856,896</u>	<u>\$ -</u>	<u>\$ 294,115</u>	<u>\$ 12,151,011</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, 2013

Total fund balance of governmental funds	\$ 6,486,084
Capital assets used in governmental activities are not considered current financial resources and, therefore, are not reported in the governmental funds.	96,248,836
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	1,327,696
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable	(32,884,551)
Bond premiums	(198,848)
Bond discounts	54,331
Deferred amounts on refunding	177,537
Bond issuance costs	226,464
Accrued interest	(355,214)
Compensated absences	(1,960,539)
Other postemployment benefits	(522,371)
Net position of governmental activities	<u>\$ 68,599,425</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, 2013

	General	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Property taxes	\$ 32,889,535	\$ -	\$ -	\$ 32,889,535
Other local taxes	19,386,937	-	-	19,386,937
Permits, fees and licenses	198,742	-	-	198,742
Fines and forfeitures	153,584	-	-	153,584
Revenue from use of money and property	697,140	-	-	697,140
Charges for services	4,925,221	-	-	4,925,221
Other	240,899	-	6,250	247,149
Intergovernmental	10,996,379	250,000	1,882,835	13,129,214
Total revenues	<u>69,488,437</u>	<u>250,000</u>	<u>1,889,085</u>	<u>71,627,522</u>
EXPENDITURES				
<i>Current:</i>				
General government	5,881,344	-	-	5,881,344
Judicial administration	1,866,050	-	-	1,866,050
Public safety	16,371,685	-	-	16,371,685
Public works	11,502,485	-	-	11,502,485
Health and welfare	2,672,631	-	-	2,672,631
Education	20,776,428	-	9,518,800	30,295,228
Parks, recreation and cultural	4,508,319	-	-	4,508,319
Community development	829,081	-	-	829,081
Non-departmental	2,867,807	-	-	2,867,807
Capital projects	-	-	2,377,884	2,377,884
<i>Debt service:</i>				
Principal retirement	-	7,765,685	-	7,765,685
Interest	-	824,824	-	824,824
Bond issuance costs	-	20,841	24,909	45,750
Total expenditures	<u>67,275,830</u>	<u>8,611,350</u>	<u>11,921,593</u>	<u>87,808,773</u>
Excess (deficiency) of revenues over expenditures	<u>2,212,607</u>	<u>(8,361,350)</u>	<u>(10,032,508)</u>	<u>(16,181,251)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt	-	-	9,518,800	9,518,800
Proceeds from sale of refunding bonds	-	5,036,200	-	5,036,200
Transfers in	2,154,619	3,329,769	142,463	5,626,851
Transfers out	(4,551,887)	(4,619)	(523)	(4,557,029)
Total other financing sources (uses)	<u>(2,397,268)</u>	<u>8,361,350</u>	<u>9,660,740</u>	<u>15,624,822</u>
Net change in fund balances	<u>(184,661)</u>	<u>-</u>	<u>(371,768)</u>	<u>(556,429)</u>
Fund balances, beginning	<u>6,987,833</u>	<u>-</u>	<u>54,680</u>	<u>7,042,513</u>
Fund balances, ending	<u>\$ 6,803,172</u>	<u>\$ -</u>	<u>\$ (317,088)</u>	<u>\$ 6,486,084</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, 2013

Net changes in fund balances of governmental funds \$ (556,429)

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate the cost of those assets over the life of the assets.

Capital outlay	3,230,498
Capital donated	90,943
Depreciation expense	(4,438,841)

Governmental funds report proceeds from the sale of a capital asset as an increase in financial resources while governmental activities report the gain or loss on the sale of capital asset.

Proceeds from sale of assets	(37,910)
Loss from sale of assets	(90,092)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as fund revenues. (359,133)

Issuance of debt provides current financial resources to governmental funds, but increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Position. Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Bond Proceeds, net of payment to refunded bond escrow agent	(14,555,000)
Principal payments	7,765,685
Amortization of current year bond premiums	30,623
Amortization of current year bond discounts	(1,779)
Amortization of current year deferred amounts on refunding	(354,696)
Bond issuance costs	45,750
Amortization of current year bond issuance costs	(84,924)

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	(91,412)
Change in compensated absences	83,614
Change in other postemployment benefits	106,907

Changes in net position of governmental activities	\$ (9,216,196)
--	----------------

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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 33,339,059	\$ 33,339,059	\$ 32,889,535	\$ (449,524)
Other local taxes	18,785,000	18,828,231	19,386,937	558,706
Permits, fees and licenses	239,000	239,000	198,742	(40,258)
Fines and forfeitures	164,000	164,000	153,584	(10,416)
Revenue from use of money and property	612,600	612,600	697,140	84,540
Charges for services	4,722,500	4,833,710	4,925,221	91,511
Other	20,500	20,500	240,899	220,399
Intergovernmental	9,405,000	10,657,574	10,996,379	338,805
Total revenues	<u>67,287,659</u>	<u>68,694,674</u>	<u>69,488,437</u>	<u>793,763</u>
EXPENDITURES				
General government	6,314,419	6,332,518	5,881,344	451,174
Judicial administration	1,829,620	1,850,804	1,866,050	(15,246)
Public safety	15,489,818	15,933,226	16,371,685	(438,459)
Public works	12,012,481	12,480,441	11,502,485	977,956
Health and welfare	1,855,420	2,464,464	2,672,631	(208,167)
Education	18,919,494	20,776,428	20,776,428	-
Parks, recreation and cultural	4,308,069	4,487,438	4,508,319	(20,881)
Community development	918,250	915,696	829,081	86,615
Non-departmental	2,460,554	2,452,919	2,867,807	(414,888)
Total expenditures	<u>64,108,125</u>	<u>67,693,934</u>	<u>67,275,830</u>	<u>418,104</u>
Excess of revenues over expenditures	<u>3,179,534</u>	<u>1,000,740</u>	<u>2,212,607</u>	<u>1,211,867</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	2,150,000	2,154,620	2,154,619	(1)
Transfers out	(5,758,034)	(4,552,232)	(4,551,887)	345
Total other financing uses	<u>(3,608,034)</u>	<u>(2,397,612)</u>	<u>(2,397,268)</u>	<u>344</u>
Net change in fund balances	<u>\$ (428,500)</u>	<u>\$ (1,396,872)</u>	<u>\$ (184,661)</u>	<u>\$ 1,212,211</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, 2013

	Business-type Activities - Enterprise Funds			
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total Proprietary Funds
ASSETS				
<i>Current assets:</i>				
Cash and cash equivalents	\$ 16,562,724	\$ 2,449,969	\$ 42,342	\$ 19,055,035
Receivables, net	4,568,666	1,386,278	140,757	6,095,701
Due from other funds	912,000	-	-	912,000
Inventories	1,357,497	289,485	17,883	1,664,865
Prepaid items	-	1,234	78,436	79,670
Total current assets	23,400,887	4,126,966	279,418	27,807,271
<i>Capital assets:</i>				
Nondepreciable	1,230,099	1,798,989	176,653	3,205,741
Depreciable, net	30,988,626	55,348,942	5,404,808	91,742,376
Total capital assets	32,218,725	57,147,931	5,581,461	94,948,117
Total assets	55,619,612	61,274,897	5,860,879	122,755,388
LIABILITIES				
<i>Current liabilities:</i>				
Accounts payable and accrued liabilities	321,800	502,061	127,715	951,576
Accrued payroll and related liabilities	103,014	101,211	82,166	286,391
Accrued interest	204,695	608,789	-	813,484
Self insurance claims liability	20,758	45,249	14,461	80,468
Due to other funds	-	-	512,000	512,000
Unearned revenue	10,000	-	141,351	151,351
Customer security deposits	785,559	-	-	785,559
Bonds payable	690,912	2,579,668	-	3,270,580
Compensated absences	205,282	165,076	97,134	467,492
Total current liabilities	2,342,020	4,002,054	974,827	7,318,901
<i>Long-term liabilities:</i>				
Bonds payable	17,529,070	29,897,734	-	47,426,804
Compensated absences	114,672	8,381	63,738	186,791
Other postemployment benefits	36,126	71,631	28,229	135,986
Total long-term liabilities	17,679,868	29,977,746	91,967	47,749,581
Total liabilities	20,021,888	33,979,800	1,066,794	55,068,482
NET POSITION				
Net investment in capital assets	13,869,783	23,962,275	5,581,461	43,413,519
Unrestricted (deficit)	21,727,941	3,332,822	(787,376)	24,273,387
Total net position	\$ 35,597,724	\$ 27,295,097	\$ 4,794,085	\$ 67,686,906

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, 2013

	Business-type Activities - Enterprise Funds			
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total Proprietary Funds
OPERATING REVENUES				
Charges for services	\$ 39,888,265	\$ 11,469,955	\$ 1,491,904	\$ 52,850,124
Connections and transfers	12,765	60,185	-	72,950
Penalties	94,652	188,980	-	283,632
Pole rentals	130,832	-	-	130,832
Commissions	-	-	15,347	15,347
Other	153,647	10,635	49,655	213,937
Total operating revenues	<u>40,280,161</u>	<u>11,729,755</u>	<u>1,556,906</u>	<u>53,566,822</u>
OPERATING EXPENSES				
Salaries	-	1,614,578	1,428,822	3,043,400
Fringe benefits	-	664,108	473,688	1,137,796
Show expenses	-	-	272,980	272,980
Maintenance	-	461,015	145,630	606,645
Billing and collection	354,740	531,041	-	885,781
Professional services	42,564	169,143	17,184	228,891
Insurance	44,095	56,878	12,499	113,472
Purchased power	26,799,493	-	-	26,799,493
Distribution - operations	717,504	-	-	717,504
Distribution - maintenance	1,620,648	-	-	1,620,648
Administration	719,912	300,215	54,961	1,075,088
Travel and training	8,893	6,947	11,483	27,323
Materials and supplies	-	341,648	284,854	626,502
Expendable equipment and small tools	47,309	39,565	36,000	122,874
Utilities	-	376,656	268,381	645,037
Miscellaneous	206,374	2,023	2,903	211,300
Depreciation	1,747,431	2,961,928	518,430	5,227,789
Amortization	7,266	105,471	-	112,737
Treatment of sewage	-	1,764,350	-	1,764,350
Commissions	-	-	159,990	159,990
Total operating expenses	<u>32,316,229</u>	<u>9,395,566</u>	<u>3,687,805</u>	<u>45,399,600</u>
Operating income (loss)	<u>7,963,932</u>	<u>2,334,189</u>	<u>(2,130,899)</u>	<u>8,167,222</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	89	-	79	168
Interest expense	(835,289)	(1,276,232)	-	(2,111,521)
Gain (loss) on sale of capital assets	(19,885)	1,638	-	(18,247)
Net nonoperating revenues (expenses)	<u>(855,085)</u>	<u>(1,274,594)</u>	<u>79</u>	<u>(2,129,600)</u>
Income (loss) before contributions and transfers	<u>7,108,847</u>	<u>1,059,595</u>	<u>(2,130,820)</u>	<u>6,037,622</u>
Transfers in	-	178	1,080,000	1,080,178
Transfers out	<u>(2,150,000)</u>	-	-	<u>(2,150,000)</u>
Change in net position	<u>4,958,847</u>	<u>1,059,773</u>	<u>(1,050,820)</u>	<u>4,967,800</u>
Net position, beginning	<u>30,638,877</u>	<u>26,235,324</u>	<u>5,844,905</u>	<u>62,719,106</u>
Net position, ending	<u>\$ 35,597,724</u>	<u>\$ 27,295,097</u>	<u>\$ 4,794,085</u>	<u>\$ 67,686,906</u>

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

**CITY OF SALEM, VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013**

	Business-type Activities - Enterprise Funds			
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total Proprietary Funds
OPERATING ACTIVITIES				
Receipts from customers	\$ 39,988,499	\$ 11,738,690	\$ 1,525,959	\$ 53,253,148
Payments to suppliers	(30,891,319)	(3,884,176)	(1,271,813)	(36,047,308)
Payments to employees	(2,200,473)	(2,245,964)	(1,884,064)	(6,330,501)
Other receipts	153,647	10,635	49,655	213,937
Net cash provided by (used in) operating activities	7,050,354	5,619,185	(1,580,263)	11,089,276
NONCAPITAL FINANCING ACTIVITIES				
Interfund loan	(512,000)	-	512,000	-
Transfers in	-	178	1,080,000	1,080,178
Transfers out	(2,150,000)	-	-	(2,150,000)
Net cash provided by (used in) noncapital financing activities	(2,662,000)	178	1,592,000	(1,069,822)
CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of capital assets	(661,766)	(681,829)	(33,561)	(1,377,156)
Proceeds from capital debt	-	210,980	-	210,980
Principal paid on capital debt	(659,507)	(2,556,451)	-	(3,215,958)
Interest paid on capital debt	(846,809)	(1,378,477)	-	(2,225,286)
Funds paid for bond issuance costs	-	(17,325)	-	(17,325)
Net cash used in capital and related financing activities	(2,168,082)	(4,423,102)	(33,561)	(6,624,745)
INVESTING ACTIVITIES				
Interest received	89	-	79	168
Net cash provided by investing activities	89	-	79	168
Net increase (decrease) in cash and cash equivalents	2,220,361	1,196,261	(21,745)	3,394,877
Cash and cash equivalents, beginning	14,342,363	1,253,708	64,087	15,660,158
Cash and cash equivalents, ending	\$ 16,562,724	\$ 2,449,969	\$ 42,342	\$ 19,055,035
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</u>				
Operating income (loss)	\$ 7,963,932	\$ 2,334,189	\$ (2,130,899)	\$ 8,167,222
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i>				
Depreciation and amortization	1,754,697	3,067,399	518,430	5,340,526
<i>Decrease (increase) in assets:</i>				
Receivables, net	(201,418)	19,570	11,912	(169,936)
Inventories	33,617	9,371	204	43,192
Prepaid items	-	(22)	(1,080)	(1,102)
<i>Increase (decrease) in liabilities:</i>				
Accounts payable and accrued liabilities	(2,617,351)	147,120	(2,824)	(2,473,055)
Accrued payroll and related liabilities	54,522	58,201	34,734	147,457
Self insurance claims liability	2,189	8,836	(1,248)	9,777
Unearned revenue	10,000	-	6,796	16,796
Customer security deposits payable	53,403	-	-	53,403
Compensated absences	5,682	(13,746)	(2,971)	(11,035)
Other postemployment benefits	(8,919)	(11,733)	(13,317)	(33,969)
Net cash provided by (used in) operating activities	\$ 7,050,354	\$ 5,619,185	\$ (1,580,263)	\$ 11,089,276
<i>Noncash investing, capital, and financing activities</i>				
Capital assets financed with accounts payable	\$ -	\$ 24,015	\$ -	\$ 24,015

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, 2013**

	Agency Funds	OPEB Trust Fund
ASSETS		
Cash and cash equivalents	\$ 1,546,960	\$ -
Investments held by trustee, fair value for other pooled funds	-	3,430,040
Receivables, net	3,100	-
Due from Commonwealth of Virginia	77,988	-
Total assets	<u>1,628,048</u>	<u>3,430,040</u>
LIABILITIES		
Accounts payable	47,455	-
Liability to agency	<u>1,580,593</u>	-
Total liabilities	<u>1,628,048</u>	<u>-</u>
NET POSITION		
Held in trust for other postemployment benefits	<u>\$ -</u>	<u>\$ 3,430,040</u>

**CITY OF SALEM, VIRGINIA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2013**

	OPEB Trust Fund
ADDITIONS	
Employer contributions	\$ 335,000
<i>Investment Income</i>	
Increase in fair value of investments	291,851
Less investment expenses	<u>(3,254)</u>
Total additions	<u>623,597</u>
Net increase in plan net position	<u>623,597</u>
Net position held in trust for other postemployment benefits, beginning	<u>2,806,443</u>
Net position held in trust for other postemployment benefits, ending	<u><u>\$ 3,430,040</u></u>

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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 consists of a mayor and four other council members elected at large. The City is not part of a county and has taxing powers subject to statewide restrictions and tax limits. The City of Salem is the primary government of the reporting entity.

The City provides a full range of municipal services including police and fire, courts, sanitation, health and social services, public improvements, planning and zoning, general administration, education, parks and recreation, library, electric, civic center, water and sewage services.

Discretely Presented Component Unit

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

During the current year, the City provided \$18,919,494 of operating support to the School Division and made debt service payments of \$1,592,063 on behalf of the School Division.

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 unit* 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.

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 enterprise funds. The operation of each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances/net position, revenues and expenditures/expenses, as appropriate.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

1. Summary of Significant Accounting Policies (Continued)

Fund Financial Statements (Continued)

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

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

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

Proprietary Funds account for operations that are financed and operated in a manner similar to private business enterprises. The City reports the following major enterprise funds:

- The *electric fund* accounts for the activities of the electric distribution operations.
- The *water and sewage fund* accounts for the activities of the water and sewage operations.

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

- The *OPEB trust fund* accounts for the receipt and disbursement of assets held in trust for the other postemployment benefit (OPEB) plan of the City.
- The *agency funds* account for monies held in a custodial capacity on behalf of the Cardinal Criminal Justice Academy and Court-Community Corrections Program.

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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

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 government. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service, compensated absences, other postemployment benefit expenditures, as well as expenditures related to claims and judgments are recorded only when payment is due.

As a result of the different measurement focus and basis of accounting used in preparing the government-wide statements versus the governmental fund financial statements, a reconciliation between the government-wide and fund financial statements is necessary. The reconciliations are presented following the governmental fund financial statements. As part of the reconciliation process, non-departmental indirect expenditures are allocated to functional expenses based on a percent of functional expenditures.

Proprietary fund financial statements are reported using the *economic financial resources measurement focus* and the *accrual basis of accounting*. These statements distinguish *operating* from *nonoperating* revenues and expenses. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's principal ongoing operations. Operating revenues include charges to customers 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*, with the exception of agency funds which have no measurement focus but employ the *accrual basis of accounting* for purposes of asset and liability recognition.

Budgets and Budgetary Accounting

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

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

1. Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (Continued)

Amendment – The City Manager is authorized to transfer amounts within and between departments and categories. In addition, City Council must approve budget amendments between funds and any budget amendments increasing or decreasing appropriations. During the year, City Council approved \$2,380,007 of additional appropriations primarily for grants, capital outlay, unforeseen operating expenditures and the reappropriation of fund balances for encumbrances.

Integration – Formal budgetary integration is employed as a management control device for the general fund. Formal budgetary integration is not employed for the debt service fund because effective budgetary control is alternatively achieved through budgeted transfers from the general fund to the debt service fund for debt payments.

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded in order to reserve the applicable appropriation, is employed as an extension of formal budgetary integration in the general and capital project funds. Encumbrances outstanding at year-end are reported as part of the 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, 2013 total \$382,093 in the general fund and \$216,825 in the capital projects fund.

Deposits and Investments

The City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be 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 2013 was \$1.18 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 2013 was \$3.20 per \$100 of assessed value.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

1. Summary of Significant Accounting Policies (Continued)

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 unit are reported as due to/from component unit or due to/from primary government.

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 are recorded as an expenditure at the time inventory is withdrawn for use.

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

Prepaid Items

Governmental fund prepaid items consist primarily of software maintenance fees incurred for consumption in a subsequent fiscal year. Prepaid items are amortized using the consumption method. The fees are recorded as an expenditure in the fiscal year related to the maintenance contract service period.

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

Capital Assets

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

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

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

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

The City capitalizes net interest costs on funds borrowed to finance the construction of proprietary capital assets. Capital asset additions included \$628 of net capitalized interest for the current year.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

1. Summary of Significant Accounting Policies (Continued)

Surety Bond Payable

Deposits may be received in lieu of bond insurance or letter 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 and Deferred Revenue

In the statement of net position, unearned revenue arises when assets are received before revenue recognition criteria is satisfied and primarily consists of retiree health insurance premiums billed in advance, advertising, event deposits, rentals and property taxes collected that are not yet due.

In the governmental funds balance sheet, deferred revenue arises when assets are recognized but are not available to finance expenditures of the current fiscal period or when assets are received before revenue recognition criteria is satisfied. Deferred revenue primarily consists of property taxes and grants not collected within the availability period, retiree health insurance premiums billed in advance, advertising, event deposits, rentals and property taxes collected that are not yet due.

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 fund statement of net position. Bonds payable are reported net of the applicable bond premiums, discounts, issuance costs, or deferred amounts on refunding. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Issuance costs are reported as deferred charges and amortized over the term of the related debt. 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.

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

Compensated Absences

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

Other Postemployment Benefits

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

1. Summary of Significant Accounting Policies (Continued)

Net Position

Net investment in capital assets for governmental activities excludes \$19,416,326 of School Division debt and \$4,046,644 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 \$321,745 is also excluded in the water and sewage fund.

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 or resolution. This is typically done through adoption and amendment of the budget. Assigned fund balance is established by City Council or its designee as amounts intended for a specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

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 General Fund reserve target is 15% of the Fund's current year budgeted appropriations. For the purpose of determining if the target has been met, the unassigned fund balance of the general fund is compared with the annual appropriations budget.

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

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. Summary of Significant Accounting Policies (Continued)

Estimates

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

2. Deposits 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.

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

	Primary Government	Component Unit
Cash and cash equivalents	\$ 22,122,206	\$ 7,240,721
Cash and cash equivalents, restricted	2,500	503,970
	<u>\$ 22,124,706</u>	<u>\$ 7,744,691</u>

Restricted cash and cash equivalents consist of a general fund surety bond payable and the capital projects fund cash balances.

Deposits

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

Investments

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

As of June 30, 2013, the City had no investments.

Credit Risk

Although the City does not have a formal policy addressing credit risk, the City adheres to the State guidelines. As required by the *Code of Virginia*, obligations of the Commonwealth of Virginia and its political subdivisions must have a debt rating of at least AA by Standard & Poor's (S&P) or Aa by Moody's Investors Service (Moody's). Repurchase agreements are collateralized by Treasury or Agency obligations of which the market value is at least 102% of the purchase price of the agreement. Commercial paper must be issued by an entity incorporated in the U.S. and rated at least A-1 by S&P or P-1 by Moody's. Corporate notes and bonds have a rating of at least AA by S&P or Aa by Moody's. Money market mutual funds must trade on a constant net asset value and invest solely in securities otherwise eligible for investment under these guidelines.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

2. Deposits and Investments (Continued)

Interest Rate Risk

Although the City does not have a formal policy addressing interest rate risk, the City manages its exposure to fair value losses arising from increasing interest rates by limiting the length of each investment to achieve a minimal portfolio weighted average maturity.

3. Receivables

Receivables are as follows:

	Governmental Activities	Business-type Activities			Component Unit
		Electric	Water and Sewage	Nonmajor Proprietary	
Tax receivables	\$ 3,218,263	\$ -	\$ -	\$ -	\$ -
Account receivables	-	4,726,756	1,447,732	151,037	-
Other receivables	1,696,956	-	-	-	100
Gross receivables	4,915,219	4,726,756	1,447,732	151,037	100
Allowance for uncollectibles	(1,281,403)	(158,090)	(61,454)	(10,280)	-
Receivables, net	\$ 3,633,816	\$ 4,568,666	\$ 1,386,278	\$ 140,757	\$ 100

4. Interfund Balances and Transfers

The composition of the interfund balances is as follows:

		Due from (fund)			Total
		General	Capital projects	Nonmajor enterprise	
Due to (fund)	General	\$ -	\$ 425,000	\$ -	\$ 425,000
	Electric	400,000	-	512,000	912,000
	Total	\$ 400,000	\$ 425,000	\$ 512,000	\$ 1,337,000

The amount due to the electric fund from the general fund is a long-term loan that will be subsequently paid over a five year period. The amount due to the general fund from the capital projects fund is a short-term loan pending a bond issuance. The amount due to the electric fund from the nonmajor enterprise funds is short-term loan to fund operations.

The composition of the interfund transfers is as follows:

		Transfer out (fund)				Total
		General	Debt service	Capital projects	Electric	
Transfer in (fund)	General	\$ -	\$ 4,619	\$ -	\$ 2,150,000	\$ 2,154,619
	Debt service	3,329,424	-	345	-	3,329,769
	Capital projects	142,463	-	-	-	142,463
	Water and sewage	-	-	178	-	178
	Nonmajor enterprise	1,080,000	-	-	-	1,080,000
	Total	\$ 4,551,887	\$ 4,619	\$ 523	\$ 2,150,000	\$ 6,707,029

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

4. Interfund Balances and Transfers (Continued)

Transfers to the general fund include a payment in lieu of taxes and bond proceeds for bank charges. Transfers to the debt service fund include principal and interest payments for general government and school debt. Transfers to capital projects include funding for current projects. Transfers to water and sewage funds include remaining immaterial bond proceeds for debt payments. Transfers to nonmajor enterprise funds include funding assistance for operating expenses.

5. Due from Other Governmental Units

Amounts due from other governmental units are as follows:

	Governmental Activities	Component Unit
Commonwealth of Virginia		
Personal property tax	\$ 2,588,707	\$ -
Local sales tax	1,056,188	-
State sales tax	-	579,066
Roanoke River Greenway project funding	187,900	-
Communications tax	172,900	-
Comprehensive Services Act	125,541	-
Constitutional officers reimbursement	91,746	-
FEMA storm costs reimbursement	88,686	-
Mason Creek Greenway project funding	81,187	-
Other	49,362	-
Victim Witness program	26,531	-
Rental tax	26,289	-
CPMT reimbursement	19,572	-
Recordation tax	15,564	-
DEA reimbursement	12,962	-
Fire programs grant	11,066	-
911 State grant	10,544	-
Federal government		
School funds	-	458,772
Reimbursement from GSA	10,682	-
	<u>\$ 4,575,427</u>	<u>\$ 1,037,838</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

6. Capital Assets

Capital asset activity for the year is as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	\$ 5,832,641	\$ 17,607	\$ -	\$ 5,850,248
Construction in progress	1,380,695	1,547,324	(958,984)	1,969,035
Capital assets, nondepreciable	7,213,336	1,564,931	(958,984)	7,819,283
Capital assets, depreciable				
Machinery and equipment	18,888,603	1,465,738	(140,473)	20,213,868
Buildings and improvements	40,413,942	85,455	(16,759)	40,482,638
Public domain infrastructure	95,310,582	1,164,301	(102,617)	96,372,266
Capital assets, depreciable	154,613,127	2,715,494	(259,849)	157,068,772
Accumulated depreciation				
Machinery and equipment	(14,412,452)	(1,128,425)	74,497	(15,466,380)
Buildings and improvements	(13,609,781)	(967,800)	14,086	(14,563,495)
Public domain infrastructure	(36,309,992)	(2,342,616)	43,264	(38,609,344)
Accumulated depreciation	(64,332,225)	(4,438,841)	131,847	(68,639,219)
Capital assets, depreciable, net	90,280,902	(1,723,347)	(128,002)	88,429,553
Capital assets, net	\$ 97,494,238	\$ (158,416)	\$ (1,086,986)	\$ 96,248,836
Business-type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	\$ 1,377,952	\$ 145,846	\$ -	\$ 1,523,798
Construction in progress	1,385,339	310,318	(13,714)	1,681,943
Capital assets, nondepreciable	2,763,291	456,164	(13,714)	3,205,741
Capital assets, depreciable				
Machinery and equipment	6,738,193	348,012	(24,905)	7,061,300
Buildings and improvements	27,048,123	-	-	27,048,123
Distribution and transmission	34,408,303	464,551	(166,856)	34,705,998
Utility plant	76,856,838	110,052	(15,367)	76,951,523
Sewage treatment contract	28,843,397	-	-	28,843,397
Capital assets, depreciable	173,894,854	922,615	(207,128)	174,610,341
Accumulated depreciation				
Machinery and equipment	(5,407,431)	(400,367)	3,673	(5,804,125)
Buildings and improvements	(5,852,845)	(930,110)	-	(6,782,955)
Distribution and transmission	(17,923,678)	(1,044,716)	146,969	(18,821,425)
Utility plant	(42,774,559)	(2,094,559)	14,277	(44,854,841)
Sewage treatment contract	(5,837,765)	(766,854)	-	(6,604,619)
Accumulated depreciation	(77,796,278)	(5,236,606)	164,919	(82,867,965)
Capital assets, depreciable, net	96,098,576	(4,313,991)	(42,209)	91,742,376
Capital assets, net	\$ 98,861,867	\$ (3,857,827)	\$ (55,923)	\$ 94,948,117

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

6. Capital Assets (Continued)

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

Governmental Activities		Business-type Activities	
General government	\$ 408,142	Electric	\$ 1,747,431
Judicial administration	38,052	Water and sewage	2,970,745
Public safety	690,261	Civic Center	512,119
Public works	2,581,592	Catering	6,311
Parks, recreation and cultural	720,794	Total depreciation expense	<u>\$ 5,236,606</u>
Total depreciation expense	<u>\$ 4,438,841</u>		

Component Unit	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	\$ 1,123,637	\$ -	\$ -	\$ 1,123,637
Construction in progress	1,400,505	12,688,039	(67,464)	14,021,080
Capital assets, nondepreciable	<u>2,524,142</u>	<u>12,688,039</u>	<u>(67,464)</u>	<u>15,144,717</u>
Capital assets, depreciable				
Furniture and equipment	6,121,136	504,381	(120,840)	6,504,677
Buildings and improvements	53,615,317	242,288	(193,842)	53,663,763
Capital assets, depreciable	<u>59,736,453</u>	<u>746,669</u>	<u>(314,682)</u>	<u>60,168,440</u>
Accumulated depreciation				
Furniture and equipment	(3,676,941)	(484,539)	120,840	(4,040,640)
Buildings and improvements	(20,747,265)	(1,360,425)	36,593	(22,071,097)
Accumulated depreciation	<u>(24,424,206)</u>	<u>(1,844,964)</u>	<u>157,433</u>	<u>(26,111,737)</u>
Capital assets, depreciable, net	<u>35,312,247</u>	<u>(1,098,295)</u>	<u>(157,249)</u>	<u>34,056,703</u>
Capital assets, net	<u>\$ 37,836,389</u>	<u>\$11,589,744</u>	<u>\$ (224,713)</u>	<u>\$ 49,201,420</u>

7. Unearned and Deferred Revenue

Unearned revenue reported in the statement of net position is as follows:

	Governmental Activities	Business-type Activities	Component Unit
Charges for services and fees	\$ 70,097	\$ 151,351	\$ 20,347
Unearned revenue	<u>\$ 70,097</u>	<u>\$ 151,351</u>	<u>\$ 20,347</u>

Deferred revenue reported in the governmental funds is as follows:

	Unavailable	Unearned	Total
Property taxes	\$ 1,318,592	\$ -	\$ 1,318,592
Charges for services and fees	9,104	70,097	79,201
Deferred revenue	<u>\$ 1,327,696</u>	<u>\$ 70,097</u>	<u>\$ 1,397,793</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

8. 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 under those provisions.

Prior Year Defeasances of Debt

In prior years, the City defeased certain general obligation bonds by placing the proceeds in irrevocable trusts to provide for all future debt service on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. As of June 30, 2013, \$11,300,000 of bonds are considered defeased.

Current Year Debt Issuance

On October 10, 2012, the City issued a short-term general obligation note series 2012 in the amount of \$5,010,000 with a variable interest rate equal to the Bank's Prime Rate (floating) for the first 90 days, and thereafter, the Bank's Prime Rate (floating), plus 1.5% per annum not to exceed 10% per year. The net proceeds of \$5,003,750 (after payment of \$6,250 in issuance costs) were used to pay the costs of certain infrastructure projects including the design, engineering, replacement, acquisition, construction, and equipping of capital facilities for the new South Salem Elementary School, together with related costs and expenses, of the City.

On December 17, 2012, the City issued \$9,545,000 in series 2012A general obligation bonds with a true interest cost of 2.35%. The net proceeds of \$9,505,500 (after payment of \$39,500 in issuance costs), were used to refund on a current basis series 2012 general obligation note in the amount of \$5,010,000 plus accrued interest of \$5,359. The remaining net proceeds of \$5,590,141 were used to finance the cost of certain infrastructure projects including the design, engineering, replacement, acquisition, construction, and equipping of capital facilities for the new South Salem Elementary School, together with related costs and expenses.

The current refunding resulted in no difference between the reacquisition price and the net carrying value of the old debt and no economic gain. The City completed the current refunding to convert interim short-term debt to long-term debt financing.

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	\$26,095,236	\$14,555,000	\$ (7,765,685)	\$32,884,551	\$2,647,514
Bond premiums	229,471	-	(30,623)	198,848	-
Bond discounts	(56,110)	-	1,779	(54,331)	-
Deferred amounts on refunding	(532,233)	-	354,696	(177,537)	-
Bond issuance costs	(265,638)	(45,750)	84,924	(226,464)	-
Bonds payable	25,470,726	14,509,250	(7,354,909)	32,625,067	2,647,514
Compensated absences	2,044,153	1,744,323	(1,827,937)	1,960,539	1,827,937
Other postemployment benefits	629,278	1,403,422	(1,510,329)	522,371	-
	<u>\$28,144,157</u>	<u>\$17,656,995</u>	<u>\$ (10,693,175)</u>	<u>\$35,107,977</u>	<u>\$4,475,451</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

8. Long-Term Liabilities (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Business-type Activities					
General obligation bonds	\$53,877,529	\$ 210,980	\$ (3,215,958)	\$50,872,551	\$3,270,580
Bond premiums	1,054,742	-	(70,950)	983,792	-
Bond issuance costs	(1,254,371)	(17,325)	112,737	(1,158,959)	-
Bonds payable	53,677,900	193,655	(3,174,171)	50,697,384	3,270,580
Compensated absences	665,318	456,457	(467,492)	654,283	467,492
Other postemployment benefits	169,955	445,930	(479,899)	135,986	-
	<u>\$54,513,173</u>	<u>\$ 1,096,042</u>	<u>\$ (4,121,562)</u>	<u>\$51,487,653</u>	<u>\$3,738,072</u>
Component Unit					
Compensated absences	\$ 889,298	\$ 75,860	\$ (59,987)	\$ 905,171	\$ 372,827
Other postemployment benefits	(73,243)	294,471	(287,374)	(66,146)	-
	<u>\$ 816,055</u>	<u>\$ 370,331</u>	<u>\$ (347,361)</u>	<u>\$ 839,025</u>	<u>\$ 372,827</u>

The general fund has been used to liquidate the liabilities for all long-term debt excluding bond and other debt payments in prior years.

Details of long-term indebtedness are as follows:

	Interest Rates	Issue Date	Maturity Date	Issue Amount	Governmental Activities	Business-type Activities
General Obligation Bonds						
2003 Public Improvement	2.00-4.50%	10/03	10/15	22,000,000	3,300,000	-
2004 Refunding	1.50-3.50%	03/04	04/16	9,640,000	1,083,135	1,361,865
2004 Public Improvement	3.00%	04/04	07/26	11,052,222	-	8,305,795
2006 Public Improvement	4.00-5.00%	05/06	04/31	25,000,000	2,091,208	18,268,792
2007 Refunding	4.00-5.00%	02/07	01/27	17,045,000	-	15,930,000
2010 Taxable Build America	4.57-6.56%	12/10	02/31	2,700,000	2,700,000	-
2010 Taxable	1.55-3.17%	12/10	02/16	1,010,000	550,000	-
2010 Public Improvement	3.00-4.25%	12/10	02/28	2,830,000	2,825,000	-
2010 Public Improvement	3.15%	09/10	03/30	3,648,124	-	3,410,327
2010 Refunding	2.50-5.25%	12/10	02/19	7,410,000	1,410,208	3,384,792
2011 Refunding	2.14%	12/11	10/23	9,485,000	9,380,000	-
2012 Public Improvement	2.35%	12/12	08/32	9,545,000	9,545,000	-
2013 Public Improvement	1.25%	02/13	04/35	210,980	-	210,980
					32,884,551	50,872,551
				Bond premiums	198,848	983,792
				Bond discounts	(54,331)	-
				Deferred Amount on Refunding	(177,537)	-
				Bond issuance costs	(226,464)	(1,158,959)
					<u>\$ 32,625,067</u>	<u>\$ 50,697,384</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

8. Long-Term Liabilities (Continued)

The annual requirements to amortize long-term debt and related interest are as follows:

Fiscal Year	Governmental Activities		Business-type Activities	
	Bonds payable		Bonds payable	
	Principal	Interest	Principal	Interest
2014	\$ 2,647,514	\$ 978,573	\$ 3,270,580	\$ 2,112,667
2015	2,653,738	855,988	3,339,875	1,987,970
2016	2,569,873	762,702	3,314,599	1,846,341
2017	2,277,916	682,083	3,048,176	1,711,185
2018	2,268,570	621,353	3,135,156	1,585,754
2019-2023	10,326,666	2,263,020	15,076,843	6,017,672
2024-2028	5,957,577	1,146,453	15,010,812	2,721,202
2029-2033	4,182,697	298,249	4,652,035	402,034
2034-2035	-	-	24,475	384
	<u>\$32,884,551</u>	<u>\$7,608,421</u>	<u>\$50,872,551</u>	<u>\$18,385,209</u>

9. Fund Balance

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

	General Fund	Debt Service Fund	Capital Projects Fund
Fund Balances:			
Nonspendable:			
Inventories	\$ 410,949	\$ -	\$ -
Prepaid items	36,148	-	-
Restricted for:			
Judicial administration	5,189	-	-
Public safety	373,694	-	-
Public works	1,517,848	-	-
Parks & recreation	-	-	228
Committed to:			
General government administration	-	-	115,000
Assigned to:			
General government administration	216,273	-	-
Judicial administration	41,855	-	-
Public safety	356,871	-	-
Public works	244,705	-	-
Parks & recreation	75,313	-	-
Community development	6,609	-	-
Unassigned:	3,517,718	-	(432,316)
Total fund balances	<u>\$ 6,803,172</u>	<u>\$ -</u>	<u>\$ (317,088)</u>

Negative unassigned fund balance in the capital projects fund is due to a pending bond issuance.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

10. Risk Management

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

Worker's Compensation

Worker's Compensation Insurance is provided through the Virginia Municipal Self Insurance Association for the City and through School Systems of Virginia 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 \$415,079 and \$84,068 for the City and School Division, respectively.

General Liability and Other

The City provides general liability and other insurance through Selective Insurance Company of America. General liability has a \$3,000,000 limit, with \$1,000,000 limit per occurrence. Automotive liability has a combined single limit of \$1,000,000. Boiler and machinery coverage and property insurance are covered as per statement of values. The City maintains an additional \$20,000,000 umbrella policy over all forms of liability. The City has flood insurance coverage through Nationwide Mutual Insurance Company for properties in designated flood zones or that are part of the water plant. In addition, both police professional liability and public officials' liability insurance with a \$1,000,000 limit are covered through a policy with the Commonwealth of Virginia. Total premiums for the current fiscal year were \$488,473.

The School Division provides general liability and other insurance through the Virginia Municipal League (VML) Self Insurance Association. General liability and automobile have a \$1,000,000 limit. Boiler and machinery coverage and property insurance are covered as per statement of values. The School Division maintains an additional \$10,000,000 umbrella policy over all forms of liability. Total premiums for the current fiscal year were \$108,703.

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 employees pay a premium equivalent for participation. The premium equivalent represents a minimum of 10% active or retired employee participation. The City is obligated for claims payments under the program. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$150,000 per covered individual and approximately \$7,903,922 in the aggregate.

During the current fiscal year total claim expenses of \$6,095,536, which did not exceed the stop loss provisions, were incurred. This represents claims processed and an estimate for claims incurred but not reported (IBNR) as of June 30, 2013. The assigned portion of fund balance for self-insurance equaled \$839,308 at year-end. The estimated liability for the City, School Division, and Agency Funds was \$372,397, \$300,551, and \$16,328, respectively for a total of \$689,276 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
2013	\$ 738,264	\$ 6,095,536	\$ 6,144,524	\$ 689,276
2012	\$ 798,857	\$ 6,048,672	\$ 6,109,265	\$ 738,264
2011	\$ 685,650	\$ 5,884,636	\$ 5,771,429	\$ 798,857

Other

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

11. Pension Plan

Plan Description

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

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

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who were vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as 55 with at least five years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

11. Pension Plan (Continued)

Plan Description (Continued)

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5%; under Plan 2, the COLA cannot exceed 3%. During years of no inflation or deflation, the COLA is 0%. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2012-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their compensation toward their retirement. All or part of the 5% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the City and School Division are required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's and School Division's non-professional employee contribution rates for the fiscal year ended June 30, 2013 were 21.27% and 12.91% of the annual covered payroll, respectively (including the employee share of 5% paid by the employer).

For the three years ended June 30, 2013, 2012 and 2011, total employer and employee contributions made to the VRS statewide teacher cost-sharing pool for professional employees by the School Division were \$3,666,828, \$2,403,733, and \$1,881,002 representing 16.66%, 11.33%, and 8.93% of annual covered payroll, respectively (including the employee share of 5% paid by the employer).

Annual Pension Cost

For the fiscal year ended June 30, 2013, the City's and School Division's annual pension cost of \$4,976,394 and \$164,578, respectively, for VRS were equal to their required and actual contributions.

Three-Year Trend Information

	Fiscal Year Ending	Annual Pension Cost	Percentage of APC	Net Pension
		(APC)	Contributed	Obligation
City of Salem	June 30, 2013	\$ 4,976,394	100%	\$ -
	June 30, 2012	\$ 3,803,207	100%	\$ -
	June 30, 2011	\$ 3,810,025	100%	\$ -
Component Unit	June 30, 2013	\$ 164,578	100%	\$ -
Non-Professional Staff	June 30, 2012	\$ 142,347	100%	\$ -
	June 30, 2011	\$ 142,127	100%	\$ -

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

11. Pension Plan (Continued)

Annual Pension Cost (Continued)

The fiscal year 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%. The actuarial value of the City's and School Division's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City's and School Division's unfunded actuarial accrued liabilities are being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 for the unfunded actuarial accrued liability (UAAL) was 30 years.

Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date for the City, the plan was 70.49% funded. The actuarial accrued liability for benefits was \$176,792,475 and the actuarial value of assets was \$124,613,944, resulting in an unfunded actuarial accrued liability (UAAL) of \$52,178,531. The covered payroll (annual payroll of active employees covered by the plan) was \$22,364,013 and the ratio of the UAAL to the covered payroll was 233.31%.

As of June 30, 2012, the most recent actuarial valuation date for the School Division's non-professional employees, the plan was 89.46% funded. The actuarial accrued liability for benefits was \$4,624,721 and the actuarial value of assets was \$4,137,362 resulting in an unfunded actuarial accrued liability (UAAL) of \$487,359. The covered payroll (annual payroll of active employees covered by the plan) was \$1,225,598 and the ratio of the UAAL to the covered payroll was 39.77%.

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

12. Other Postemployment Benefits

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* establishes standards for the measurement, recognition and display of OPEB expense and related liabilities in the financial statements. In addition to salary, many employees earn benefits over their years of service that will not be received until they retire. The cost of these postemployment benefits are part of the compensation employees earn each year, rather than costs of future years when the benefits are paid and should be recognized during their years of service.

In accordance with GASB 45, an actuarial valuation was performed as of June 30, 2013. The specific limitations, which the new actuarial valuation was based on, are outlined under the plan description.

Plan Description

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

12. Other Postemployment Benefits (Continued)

Plan Description (Continued)

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

In addition to the implicit rate subsidy, all pre-65 who retired on or before September 30, 2010 will receive a premium subsidy for 90% of the subscriber-only premium rate. For individuals retiring on or after October 1, 2010 and who were hired before July 1, 2010, the City will contribute 3% of the subscriber-only premium for each year of service up to 90% of the total subscriber-only premium for pre-65 retirees. For employees hired on or after July 1, 2010, the City will contribute 3% of the subscriber-only premium for each year of service up to 50% of the total subscriber-only premium for pre-65 retirees.

When a retiree turns age 65 or otherwise becomes eligible for Medicare, the retiree transfers to a Medicare Health Supplement and Part D Drug plan. These individuals no longer receive the implicit rate subsidy; however, they still receive a premium subsidy. Effective January 1, 2011, the City contributed 3% of the subscriber-only premium for each year of service up to 95% and not to exceed \$3,300. Effective January 1, 2012, the maximum contribution was reduced to 90% not to exceed \$3,300. Employees hired on or after July 1, 2010 are no longer eligible to receive the Medicare Health Supplement and Part D Drug plan benefit.

City retirees do not receive a premium subsidy for dependents and are responsible to pay the difference in the actual premium rates above the premium subsidy. School Division retirees do not receive any premium subsidy and are responsible to pay the entire premium.

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

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

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

	City of Salem	Component Unit
Active employees	502	535
Retired participants	279	56
Total participants	<u>781</u>	<u>591</u>

Funding Policy

The Retiree Health Plan is funded through member and employer contributions. City Retirees receiving benefits contribute a minimum of 10%, 28%, 50% and 50% of the health insurance premium rate for subscriber only, subscriber + one minor child, employee & spouse, and family coverage, respectively. School Division Retirees receiving benefits contribute 100% of the health insurance premium rate. During the current year, retired City and School Division members contributed \$279,104 and \$365,778, respectively, of the total premiums through their required contributions of between \$7.02 and \$1,395, depending on the type of coverage and years of service.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

12. Other Postemployment Benefits (Continued)

Funding Policy (Continued)

Based on the June 30, 2013 actuarial valuation, the City contributed \$1,990,228 to the Retiree Health Plan. Included in this amount is a current year contribution of \$322,246 to the Virginia Pooled OPEB Trust, which consisted of \$181,085 representing 100% of the annual required contribution (ARC) and \$141,161 to reduce the net other postemployment benefit (OPEB) obligation. It is the City's intent to reduce this obligation to zero and fully fund the ARC each year.

Based on the June 30, 2013 actuarial valuation, the School Division contributed \$287,374 to the Retiree Health Plan. Included in this amount is a current year contribution of \$56,374 to the Virginia Pooled OPEB Trust, which consisted of \$63,471 representing 100% of the annual required contribution (ARC) and (\$7,097) to reduce the net other postemployment benefit (OPEB) asset. It is the School Division's intent to reduce this asset to zero and to fully fund the ARC each year.

Annual OPEB Cost and Net OPEB Obligation

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

The following table presents the City's and School Division's annual OPEB cost, amount contributed and changes in the net OPEB obligation for the fiscal year ended June 30, 2013.

	City of Salem	Component Unit
Annual required contribution	\$ 1,841,418	\$ 295,200
Interest on net OPEB obligation	55,818	(5,127)
Adjustment to annual required contribution	(47,884)	4,398
Annual OPEB cost	1,849,352	294,471
Contributions made	(1,990,228)	(287,374)
Increase (decrease) in net OPEB obligation	(140,876)	7,097
Net OPEB obligation (asset), beginning	799,233	(73,243)
Net OPEB obligation (asset), ending	<u>\$ 658,357</u>	<u>\$ (66,146)</u>

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

Three-Year Trend Information

	Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
City of Salem	June 30, 2013	\$ 1,849,352	107.6%	\$ 658,357
	June 30, 2012	\$ 1,815,277	110.4%	\$ 799,233
	June 30, 2011	\$ 1,812,735	104.3%	\$ 988,162
Component Unit	June 30, 2013	\$ 294,471	97.6%	\$ (66,146)
	June 30, 2012	\$ 284,897	125.7%	\$ (73,243)
	June 30, 2011	\$ 326,317	100.0%	\$ -

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

12. Other Postemployment Benefits (Continued)

Funded Status and Funding Progress

As of June 30, 2013, the City's most recent actuarial valuation date, the plan was 12.2% funded. The actuarial accrued liability (AAL) for benefits was \$28,083,367 and the actuarial value of assets was \$3,430,040, resulting in an unfunded actuarial accrued liability (UAAL) for benefits of \$24,653,327. The covered payroll (annual payroll of active employees covered by the plan) was \$23,396,303 and the ratio of the UAAL to the covered payroll was 105.4%.

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

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

Methods and Assumptions

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

Calculations for financial reporting purposes are based on the benefits provided under terms of the substantive plan (the plan as understood by the employer and the plan members) in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in AAL and the actuarial value of assets.

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

	City of Salem	Component Unit
Actuarial valuation date	June 30, 2013	June 30, 2013
<u>Actuarial methods</u>		
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level percent of payroll	Level percent of payroll
Amortization period	Open over 30 years	Open over 30 years
Asset valuation method	Cost basis	Cost basis
Liability valuation method	Closed group	Closed group
<u>Actuarial assumptions</u>		
Investment rate of return	7.00%	7.00%
Inflation rate	2.50%	2.50%
Healthcare cost trend rate	8% for fiscal year 2013 grading to 5% for fiscal year 2016	8% for fiscal year 2013 grading to 5% for fiscal year 2016

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

13. Operating Leases

Rental Costs

The City and School Division entered several non-cancelable operating leases for office space and equipment. Rent expenditures for the current year were \$81,520 and \$37,809 for the City and School Division, respectively. Scheduled minimum rental payments for the next five years are as follows:

Fiscal Year Ending	Governmental Activities	Component Unit
June 30, 2014	\$ 79,399	\$ 32,521
June 30, 2015	56,051	15,092
June 30, 2016	8,311	11,421
June 30, 2017	4,870	5,962
June 30, 2018	-	-
	<u>\$ 148,631</u>	<u>\$ 64,996</u>

Rental Revenues

The City entered into a fifteen year lease agreement with the General Services Administration (GSA). The lease provides for the use of 2,875 rentable square feet yielding 2,500 of office area square feet (ABOA) located on the third floor of the City of Salem Police Department at 36 East Calhoun Street, Salem, Virginia 24153 to be used for such purposes as may be determined by the GSA. The lease includes a five year renewal option under the same terms and conditions. The net book value of leased assets of \$1,723,609 (cost of \$1,843,486 less accumulated depreciation of \$119,877) is included in capital assets in the government-wide financial statements. Rent is determined as \$48.75 per ABOA plus a component for operating costs adjusted annually based on the annual change in the Cost of Living Index as measured by the Department of Labor revised Consumer Price Index for urban wage earners and clerical workers, U.S. city average, all items figure, published by the Bureau of Labor Statistics. Rent revenues for the current year were \$128,172. Scheduled minimum rental revenues over the remaining lease period are \$1,694,343. Due to undetermined future changes in the Cost of Living Index, minimum rental revenues are determined using the current year change in the monthly rent payment of 0.19% projected for each future year of the lease. Scheduled minimum rental revenues for the next five years are as follows:

Fiscal Year	Total Revenues
June 30, 2014	\$ 128,421
June 30, 2015	128,661
June 30, 2016	128,902
June 30, 2017	129,143
June 30, 2018	129,384
	<u>\$ 644,511</u>

14. Commitments and Contingencies

Construction Commitments

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

	Spent To Date	Remaining Contract
Water Storage Tank Renovation	\$ 115,322	\$ 19,558
Roanoke River Greenway Phase 3A Pedestrian Bridge	646,623	93,217
Mason Creek Greenway	401,696	174,096
South Salem Elementary School	11,858,935	3,102,436
	<u>\$ 13,022,576</u>	<u>\$ 3,389,307</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

14. Commitments and Contingencies (Continued)

Electrical Service

On July 1, 2006, the City entered 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, 2012 recognized a credit of \$2,301,092 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 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.

Solid Waste Disposal

On July 1, 2006, the City entered an agreement with Waste Management Inc. for disposal of nonhazardous solid waste. The agreement amended the original contract by extending the expiration date to June 30, 2016.

On January 1, 2008, the City entered an agreement with Botetourt County to accept the County's solid waste at the City's transfer station. The agreement expires June 30, 2016 or upon expiration of the City's agreement with Waste Management, Inc., whichever occurs first.

Water and Wastewater Treatment Contract

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

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

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

Special Services

On July 1, 1973, the City entered 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.

Performance Agreement

On July 30, 2008, the City entered a performance agreement with a company to provide incentive payments for development of property located at 4th Street and Main Street. The City will make maximum annual payments of \$500,000 for no more than 10 years not to exceed \$3,000,000. As of June 30, 2013, \$837,092 has been remitted.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

14. Commitments and Contingencies (Continued)

Line of Credit

On December 26, 2012, the City entered into a committed guidance line of credit agreement with StellarOne Bank. The agreement provided for borrowings of up to \$5,000,000 to provide for general working capital needs. The outstanding principal balance will be payable in full on demand or at maturity, whichever occurs first. Interest will accrue on the outstanding principal balance at the Wall Street Journal Prime Rate, with changes becoming effective on the day such rate changes. Payments of interest will be due on the first day of each month. This commitment will expire on December 31, 2013. As of June 30, 2013, no principal balance was outstanding.

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.

15. 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.

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, mental retardation and substance abuse services. BRBH is governed by a 16-member board; three members are appointed by the City of Salem. 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, 2013, the City remitted \$103,500 to BRBH for services. Financial statements may be obtained from Blue Ridge Behavioral Healthcare at 301 Elm Street, 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 of Salem. Each locality's financial obligation is based on the number of juveniles housed at the facility. The Commission has the authority to issue debt and such debt is the responsibility of the Commission. For the year ended June 30, 2013, the City remitted \$140,200 to the Commission for per diem charges. Financial statements may be obtained from the Roanoke Valley Detention Commission at 498 Coyner Springs Road, Roanoke, Virginia 24012.

Roanoke Valley Regional Board

The Counties of Botetourt, Craig and Franklin, the City of Roanoke and the City of Salem School Division jointly participate in a regional education program for severely disabled students operated by the Roanoke Valley Regional Board (Regional Board). The Regional Board is governed by a five-member board, one from each participating locality. The School Division has control over budget and financing only to the extent of representation by the one board member appointed. Each locality's financial obligation is based on their proportionate share of students attending the regional program. For the year ended June 30, 2013, the School Division remitted \$790,371 to the Regional Board for services. Financial statements may be obtained from the Roanoke Valley Regional Board at 12 Barron Drive, Suite 1, Troutville, Virginia 24175.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

15. Jointly Governed Organizations (Continued)

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, 2013, the City remitted \$7,090 for operating costs of the facility. Financial statements may be obtained from the Roanoke Valley Regional Fire/EMS Training Center at 1220 Kessler Mill Road, Salem, Virginia 24153.

Western Virginia Regional Jail Authority

The Counties of Franklin, Montgomery and Roanoke and the City of Salem formed the Western Virginia Regional Jail Authority (Jail Authority) to develop and operate a regional jail. The Jail Authority is governed by a 12-member board; three from each participating locality. Each locality's financial obligation is based on the number of prisoner days used and a share of the capital costs to build the facility. For the year ended June 30, 2013, the City remitted \$1,066,233 for per diem charges and \$593,944 for capital costs to the Jail Authority. Financial statements may be obtained from Western Virginia Regional Jail Authority at 5885 West River Road, Salem, Virginia 24153.

16. Subsequent Event

On August 26, 2013, Salem City Council authorized the issuance of \$7,255,000 in general obligation bonds to finance South Salem Elementary School, the ERP systems, the local portion of the Roanoke River and Mason Creek Greenways, a new 911 System for the Police Department, the City's share of the Social Services Building Renovation, and various pieces of equipment for City departments. The City is in the application phase of bond issuance and expects to issue the general obligations bonds in December 2013.

17. New Accounting Standards

The GASB has issued Statement 65, *Items Previously Reported as Assets and Liabilities*. The statement clarifies the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. Management has not completed the process of evaluating the impact that will result from adoption of this standard and is therefore unable to disclose the impact of adoption.

The GASB has issued Statement 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*. The statement resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is therefore unable to disclose the impact of adoption.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

17. New Accounting Standards (Continued)

The GASB has issued Statement 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. The statement requires enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. The new information will enhance the decision-usefulness of the financial reports of these pension plans, their value for assessing accountability, and their transparency by providing information about measures of net pension liabilities and explanations of how and why those liabilities changed from year to year. The provisions of this statement are effective for fiscal years beginning after June 15, 2013. 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 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*. The statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information. The provisions of this statement are effective for fiscal years beginning after June 15, 2014. 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 69, *Government Combinations and Disposals of Government Operations*. The statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations including a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The provisions of this statement are effective for fiscal years beginning after December 15, 2013. 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 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make payment on the guarantee. The statement also specifies information required to be disclosed by governments that extend nonexchange financial guarantees or receive nonexchange financial guarantees. The provisions of this statement are effective for fiscal years beginning after June 15, 2013. 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.

THIS PAGE INTENTIONALLY BLANK

REQUIRED SUPPLEMENTARY INFORMATION



The Required Supplementary Information subsection of the City of Salem, Virginia's Comprehensive Annual Financial Report includes an analysis of funding progress for the defined benefit pension plan, an analysis of funding progress for other postemployment benefits, and employer contributions for other postemployment benefits.

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN
JUNE 30, 2013

City of Salem

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as of Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
June 30, 2012	\$ 124,613,944	\$ 176,792,475	\$ 52,178,531	70.49%	\$ 22,364,013	233.31%
June 30, 2011	\$ 127,092,832	\$ 170,752,509	\$ 43,659,677	74.43%	\$ 22,707,562	192.27%
June 30, 2010	\$ 126,786,583	\$ 166,392,547	\$ 39,605,964	76.20%	\$ 23,172,968	170.91%

Component Unit
School Division (Non-Professional Staff)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as of Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
June 30, 2012	\$ 4,137,362	\$ 4,624,721	\$ 487,359	89.46%	\$ 1,225,598	39.77%
June 30, 2011	\$ 4,170,371	\$ 4,369,904	\$ 199,533	95.43%	\$ 1,218,992	16.37%
June 30, 2010	\$ 4,130,907	\$ 4,030,617	\$ (100,290)	102.49%	\$ 1,258,062	-7.97%

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2013

City of Salem

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as of Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
June 30, 2013	\$ 3,430,040	\$ 28,083,367	\$ 24,653,327	12.2%	\$ 23,396,303	105.4%
June 30, 2011	\$ 2,384,957	\$ 24,152,578	\$ 21,767,621	9.9%	\$ 22,707,562	95.9%
July 1, 2009	\$ 936,910	\$ 23,073,994	\$ 22,137,084	4.1%	\$ 24,004,460	92.2%

**Component Unit
School Division**

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

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYER CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2013**

City of Salem

<u>Fiscal year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
June 30, 2013	\$ 1,841,418	108.1%
June 30, 2012	\$ 1,805,415	111.0%
June 30, 2011	\$ 1,802,502	104.9%

**Component Unit
School Division**

<u>Fiscal year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
June 30, 2013	\$ 295,200	97.3%
June 30, 2012	\$ 284,897	125.7%
June 30, 2011	\$ 326,317	100.0%

OTHER SUPPLEMENTARY INFORMATION



The Other Supplementary Information subsection of the City of Salem, Virginia's Comprehensive Annual Financial Report includes the combining statement of net position; combining statement of revenues, expenses, and changes in fund net position; and combining statement of cash flows for the nonmajor proprietary funds. This subsection also includes the combining statement of fiduciary assets and liabilities and the combining statement of changes in fiduciary assets and liabilities for the agency funds.

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2013

	Business-type Activities - Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
ASSETS			
<i>Current assets:</i>			
Cash and cash equivalents	\$ 15,350	\$ 26,992	\$ 42,342
Receivables, net	91,988	48,769	140,757
Inventories	-	17,883	17,883
Prepaid items	78,436	-	78,436
Total current assets	185,774	93,644	279,418
<i>Capital assets:</i>			
Nondepreciable	176,653	-	176,653
Depreciable, net	5,353,607	51,201	5,404,808
Total capital assets	5,530,260	51,201	5,581,461
Total assets	5,716,034	144,845	5,860,879
LIABILITIES			
<i>Current liabilities:</i>			
Accounts payable and accrued liabilities	96,593	31,122	127,715
Accrued payroll and related liabilities	66,274	15,892	82,166
Self insurance claims liability	11,934	2,527	14,461
Due to other funds	512,000	-	512,000
Unearned revenue	141,351	-	141,351
Compensated absences	73,188	23,946	97,134
Total current liabilities	901,340	73,487	974,827
<i>Long-term liabilities:</i>			
Compensated absences	44,484	19,254	63,738
Other postemployment benefits	27,266	963	28,229
Total long-term liabilities	71,750	20,217	91,967
Total liabilities	973,090	93,704	1,066,794
NET POSITION			
Net investment in capital assets	5,530,260	51,201	5,581,461
Unrestricted (deficit)	(787,316)	(60)	(787,376)
Total net position	\$ 4,742,944	\$ 51,141	\$ 4,794,085

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

	Business-type Activities - Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
OPERATING REVENUES			
Charges for services	\$ 729,113	\$ 762,791	\$ 1,491,904
Commissions	15,347	-	15,347
Other	30,977	18,678	49,655
Total operating revenues	<u>775,437</u>	<u>781,469</u>	<u>1,556,906</u>
OPERATING EXPENSES			
Salaries	1,099,421	329,401	1,428,822
Fringe benefits	381,371	92,317	473,688
Show expenses	272,980	-	272,980
Maintenance	141,265	4,365	145,630
Professional services	5,160	12,024	17,184
Insurance	12,499	-	12,499
Administration	45,726	9,235	54,961
Travel and training	11,483	-	11,483
Materials and supplies	63,070	221,784	284,854
Expendable equipment and small tools	25,356	10,644	36,000
Utilities	267,718	663	268,381
Miscellaneous	331	2,572	2,903
Depreciation	512,119	6,311	518,430
Commissions	-	159,990	159,990
Total operating expenses	<u>2,838,499</u>	<u>849,306</u>	<u>3,687,805</u>
Operating loss	<u>(2,063,062)</u>	<u>(67,837)</u>	<u>(2,130,899)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	79	-	79
Net nonoperating revenue (expenses)	<u>79</u>	<u>-</u>	<u>79</u>
Income (loss) before contributions and transfers	<u>(2,062,983)</u>	<u>(67,837)</u>	<u>(2,130,820)</u>
Transfers in	<u>1,080,000</u>	<u>-</u>	<u>1,080,000</u>
Change in net position	<u>(982,983)</u>	<u>(67,837)</u>	<u>(1,050,820)</u>
Net position, beginning	<u>5,725,927</u>	<u>118,978</u>	<u>5,844,905</u>
Net position, ending	<u>\$ 4,742,944</u>	<u>\$ 51,141</u>	<u>\$ 4,794,085</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

	Business-type Activities - Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
OPERATING ACTIVITIES			
Receipts from customers	\$ 766,144	\$ 759,815	\$ 1,525,959
Payments to suppliers	(841,541)	(430,272)	(1,271,813)
Payments to employees	(1,460,470)	(423,594)	(1,884,064)
Other receipts	30,977	18,678	49,655
Net cash used in operating activities	(1,504,890)	(75,373)	(1,580,263)
NONCAPITAL FINANCING ACTIVITIES			
Interfund Loan	447,000	65,000	512,000
Transfers in	1,080,000	-	1,080,000
Net cash provided by noncapital financing activities	1,527,000	65,000	1,592,000
CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(7,124)	(26,437)	(33,561)
Net cash used in capital and related financing activities	(7,124)	(26,437)	(33,561)
INVESTING ACTIVITIES			
Interest received	79	-	79
Net cash provided by investing activities	79	-	79
Net increase (decrease) in cash and cash equivalents	15,065	(36,810)	(21,745)
Cash and cash equivalents, beginning	285	63,802	64,087
Cash and cash equivalents, ending	<u>\$ 15,350</u>	<u>\$ 26,992</u>	<u>\$ 42,342</u>

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES

Operating loss	\$ (2,063,062)	\$ (67,837)	\$ (2,130,899)
<i>Adjustments to reconcile operating loss to net cash used in operating activities</i>			
Depreciation	512,119	6,311	518,430
<i>Decrease (increase) in assets:</i>			
Receivables, net	13,643	(1,731)	11,912
Inventories	-	204	204
Prepaid items	(1,080)	-	(1,080)
<i>Increase (decrease) in liabilities:</i>			
Accounts payable and accrued liabilities	6,043	(8,867)	(2,824)
Accrued payroll and related liabilities	26,011	8,723	34,734
Self insurance claims liability	(916)	(332)	(1,248)
Unearned revenue	8,041	(1,245)	6,796
Compensated absences	(1,499)	(1,472)	(2,971)
Other postemployment benefits	(4,190)	(9,127)	(13,317)
Net cash used in operating activities	<u>\$ (1,504,890)</u>	<u>\$ (75,373)</u>	<u>\$ (1,580,263)</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2013

	Cardinal Criminal Justice Academy	Court- Community Corrections Program	Total Agency Funds
ASSETS			
Cash and cash equivalents	\$ 503,330	\$ 1,043,630	\$ 1,546,960
Receivables, net	3,100	-	3,100
Due from Commonwealth of Virginia	-	77,988	77,988
Total assets	<u>\$ 506,430</u>	<u>\$ 1,121,618</u>	<u>\$ 1,628,048</u>
LIABILITIES			
Accounts payable	\$ 13,474	\$ 33,981	\$ 47,455
Liability to agency	492,956	1,087,637	1,580,593
Total liabilities	<u>\$ 506,430</u>	<u>\$ 1,121,618</u>	<u>\$ 1,628,048</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
YEAR ENDED JUNE 30, 2013

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<u>CARDINAL CRIMINAL JUSTICE ACADEMY</u>				
ASSETS				
Cash and cash equivalents	\$ 533,291	\$ 647,949	\$ (677,910)	\$ 503,330
Receivables, net	1,197	9,040	(7,137)	3,100
Total assets	<u>\$ 534,488</u>	<u>\$ 656,989</u>	<u>\$ (685,047)</u>	<u>\$ 506,430</u>
LIABILITIES				
Accounts payable	\$ 7,119	\$ 342,474	\$ (336,119)	\$ 13,474
Liability to agency	527,369	314,515	(348,928)	492,956
Total liabilities	<u>\$ 534,488</u>	<u>\$ 656,989</u>	<u>\$ (685,047)</u>	<u>\$ 506,430</u>
<u>COURT-COMMUNITY CORRECTIONS PROGRAM</u>				
ASSETS				
Cash and cash equivalents	\$ 832,842	\$ 2,397,163	\$ (2,186,375)	\$ 1,043,630
Due from Commonwealth of Virginia	71,616	77,988	(71,616)	77,988
Total assets	<u>\$ 904,458</u>	<u>\$ 2,475,151</u>	<u>\$ (2,257,991)</u>	<u>\$ 1,121,618</u>
LIABILITIES				
Accounts payable	\$ 63,593	\$ 704,465	\$ (734,077)	\$ 33,981
Liability to agency	840,865	1,770,686	(1,523,914)	1,087,637
Total liabilities	<u>\$ 904,458</u>	<u>\$ 2,475,151</u>	<u>\$ (2,257,991)</u>	<u>\$ 1,121,618</u>
<u>TOTAL AGENCY FUNDS</u>				
ASSETS				
Cash and cash equivalents	\$ 1,366,133	\$ 3,045,112	\$ (2,864,285)	\$ 1,546,960
Receivables, net	1,197	9,040	(7,137)	3,100
Due from Commonwealth of Virginia	71,616	77,988	(71,616)	77,988
Total assets	<u>\$ 1,438,946</u>	<u>\$ 3,132,140</u>	<u>\$ (2,943,038)</u>	<u>\$ 1,628,048</u>
LIABILITIES				
Accounts payable	\$ 70,712	\$ 1,046,939	\$ (1,070,196)	\$ 47,455
Liability to agency	1,368,234	2,085,201	(1,872,842)	1,580,593
Total liabilities	<u>\$ 1,438,946</u>	<u>\$ 3,132,140</u>	<u>\$ (2,943,038)</u>	<u>\$ 1,628,048</u>

STATISTICAL SECTION



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

Contents	Page
Financial Trends.....	86
<i>These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>	
Revenue Capacity.....	91
<i>These schedules contain information to help the reader assess the government's most significant local revenue sources, property tax and sale of electricity.</i>	
Debt Capacity.....	94
<i>These schedules present information to help the reader assess the affordability of the government's current level of outstanding debt and the government's ability to issue additional debt in the future.</i>	
Demographic and Economic Information.....	96
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.</i>	
Operating Information.....	98
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.</i>	

THIS PAGE INTENTIONALLY BLANK

**TABLE 1
UNAUDITED**

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u> (1)	<u>2006</u> (2)	<u>2005</u> (2)	<u>2004</u> (2)
Governmental Activities										
Net investment in capital assets	\$ 86,860,275	\$ 87,145,604	\$ 88,456,284	\$ 90,258,361	\$ 89,946,841	\$ 88,463,741	\$ 85,853,628	\$ 88,112,343	\$ 89,479,130	\$ 88,551,933
Restricted	1,896,959	1,260,230	1,416,694	-	-	-	-	-	-	2,313,457
Unrestricted	(20,157,809)	(10,590,213)	(12,606,292)	(9,373,128)	(10,704,656)	(9,598,627)	(9,132,365)	(12,509,444)	(12,674,607)	(15,644,583)
Total governmental net position	<u>\$ 68,599,425</u>	<u>\$ 77,815,621</u>	<u>\$ 77,266,686</u>	<u>\$ 80,885,233</u>	<u>\$ 79,242,185</u>	<u>\$ 78,865,114</u>	<u>\$ 76,721,263</u>	<u>\$ 75,602,899</u>	<u>\$ 76,804,523</u>	<u>\$ 75,220,807</u>
Business-type activities										
Net investment in capital assets	\$ 43,413,519	\$ 44,265,414	\$ 44,172,488	\$ 43,180,397	\$ 40,790,077	\$ 39,787,750	\$ 41,636,232	\$ 36,954,684	\$ 36,501,799	\$ 31,689,583
Restricted	-	-	1,989,529	-	-	-	-	-	-	-
Unrestricted	24,273,387	18,453,692	18,896,375	20,437,874	23,324,884	25,278,681	20,760,143	21,804,567	21,839,306	24,685,946
Total business-type activities net position	<u>\$ 67,686,906</u>	<u>\$ 62,719,106</u>	<u>\$ 65,058,392</u>	<u>\$ 63,618,271</u>	<u>\$ 64,114,961</u>	<u>\$ 65,066,431</u>	<u>\$ 62,396,375</u>	<u>\$ 58,759,251</u>	<u>\$ 58,341,105</u>	<u>\$ 56,375,529</u>
Primary government										
Net investment in capital assets	\$ 130,273,794	\$ 131,411,018	\$ 132,628,772	\$ 133,438,758	\$ 130,736,918	\$ 128,251,491	\$ 127,489,860	\$ 125,067,027	\$ 125,980,929	\$ 120,241,516
Restricted	1,896,959	1,260,230	3,406,223	-	-	-	-	-	-	2,313,457
Unrestricted	4,115,578	7,863,479	6,290,083	11,064,746	12,620,228	15,680,054	11,627,778	9,295,123	9,164,699	9,041,363
Total primary government net position	<u>\$ 136,286,331</u>	<u>\$ 140,534,727</u>	<u>\$ 142,325,078</u>	<u>\$ 144,503,504</u>	<u>\$ 143,357,146</u>	<u>\$ 143,931,545</u>	<u>\$ 139,117,638</u>	<u>\$ 134,362,150</u>	<u>\$ 135,145,628</u>	<u>\$ 131,596,336</u>

Notes:

Source: City of Salem Finance Department

(1) Unrestricted net position of business-type activities were restated.

(2) Net investment in capital assets and unrestricted net position of governmental activities were restated to properly classify School Division debt.

**TABLE 2
UNAUDITED**

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

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
	(1)						(2)			(3)
Expenses										
<i>Governmental activities</i>										
General government	\$ 6,450,069	\$ 6,583,782	\$ 6,110,416	\$ 5,328,382	\$ 5,937,208	\$ 5,031,352	\$ 4,803,246	\$ 5,107,268	\$ 4,283,754	\$ 4,402,755
Judicial administration	1,952,657	1,866,052	1,887,444	1,779,072	1,897,961	1,687,507	1,540,762	1,457,720	1,292,722	1,224,425
Public safety	17,279,490	16,492,831	15,818,359	15,330,477	15,932,421	15,048,715	13,869,676	13,547,191	11,535,321	10,574,969
Public works	13,809,579	14,421,981	13,915,318	14,019,163	14,906,728	14,067,674	13,476,019	12,443,334	10,789,008	9,603,482
Health and welfare	2,709,561	2,430,955	2,738,894	2,333,736	2,354,803	2,450,245	2,193,126	2,055,166	1,823,783	1,419,802
Education	30,295,228	18,471,653	18,420,000	18,420,000	18,420,000	17,995,000	17,095,000	16,266,005	15,618,081	29,340,564
Parks, recreation and cultural	5,436,335	5,284,647	5,495,431	5,064,065	5,620,844	5,721,997	5,796,220	5,239,517	3,851,575	4,257,005
Community development	2,327,751	2,076,325	1,834,749	1,725,528	1,830,327	1,122,221	1,022,096	933,002	513,272	842,963
Nondepartmental	-	-	-	-	-	-	-	-	2,424,022	1,788,744
Interest on long-term debt	1,354,680	1,139,218	1,151,867	1,137,667	1,188,350	1,263,858	1,202,201	1,267,296	1,478,103	1,339,037
Total governmental activities	81,615,350	68,767,444	67,372,478	65,138,090	68,088,642	64,388,569	60,998,346	58,316,499	53,609,641	64,793,746
<i>Business-type activities</i>										
Electric	33,171,403	36,047,453	35,145,346	30,978,370	28,763,182	26,505,160	24,308,309	24,692,031	16,311,434	15,116,855
Water and sewage	10,671,798	10,952,702	11,034,638	11,065,592	11,253,172	11,150,046	10,991,783	10,836,280	9,502,885	7,305,334
Civic Center	2,838,499	2,472,731	2,374,165	2,332,330	2,440,459	2,435,383	2,563,090	2,364,891	2,199,589	2,096,344
Catering and concessions	849,306	903,039	878,171	965,556	1,033,658	1,081,528	1,103,860	1,036,737	960,320	953,609
Total business-type activities	47,531,006	50,375,925	49,432,320	45,341,848	43,490,471	41,172,117	38,967,042	38,929,939	28,974,228	25,472,142
Total primary government	\$ 129,146,356	\$ 119,143,369	\$ 116,804,798	\$ 110,479,938	\$ 111,579,113	\$ 105,560,686	\$ 99,965,388	\$ 97,246,438	\$ 82,583,869	\$ 90,265,888
Program revenues										
<i>Governmental activities</i>										
Charges for services										
Public safety	\$ 1,069,969	\$ 991,473	\$ 911,073	\$ 900,837	\$ 1,107,794	\$ 1,048,587	\$ 1,148,627	\$ 1,315,417	\$ 1,083,694	\$ 532,717
Public works	3,523,970	3,560,239	3,418,637	3,248,138	3,627,290	3,203,179	2,892,913	1,799,284	1,821,717	1,805,400
Other activities	1,034,129	1,005,691	782,662	716,248	587,294	566,814	535,125	471,137	415,225	508,282
Operating grants and contributions	7,436,195	7,124,704	7,159,171	6,827,928	6,763,352	6,613,064	7,024,034	6,038,168	5,979,520	5,359,113
Capital grants and contributions	2,003,251	595,986	1,517,633	2,709,381	2,119,392	1,359,606	1,168,709	6,392,874	314,789	3,260,581
Total governmental activities	15,067,514	13,278,093	13,789,176	14,402,532	14,205,122	12,791,250	12,769,408	16,016,880	9,614,945	11,466,093
<i>Business-type activities</i>										
Charges for services										
Electric	40,280,161	36,824,320	35,726,379	32,915,660	30,863,283	31,000,915	29,300,625	27,699,386	20,192,965	20,092,111
Water and sewage	11,729,755	11,114,241	9,988,563	10,329,200	10,981,350	11,569,453	10,740,194	9,529,125	8,510,106	8,368,156
Civic Center	775,437	880,306	912,697	865,314	919,781	937,520	1,006,344	793,716	887,312	862,129
Catering and concessions	781,469	856,919	858,714	940,834	994,016	1,048,994	1,097,172	991,208	967,446	975,666
Capital grants and contributions										
Electric	-	-	39,929	-	-	-	-	-	-	-
Water and sewage	-	13,222	-	-	-	-	-	-	-	-
Total business-type activities	53,566,822	49,689,008	47,526,282	45,051,008	43,758,430	44,556,882	42,144,335	39,013,435	30,557,829	30,298,062
Total primary government	\$ 68,634,336	\$ 62,967,101	\$ 61,315,458	\$ 59,453,540	\$ 57,963,552	\$ 57,348,132	\$ 54,913,743	\$ 55,030,315	\$ 40,172,774	\$ 41,764,155

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Net (expense) revenue										
Total governmental activities	\$ (66,547,836)	\$ (55,489,351)	\$ (53,583,302)	\$ (50,735,558)	\$ (53,883,520)	\$ (51,597,319)	\$ (48,228,938)	\$ (42,299,619)	\$ (43,994,696)	\$ (53,327,653)
Total business-type activities	6,035,816	(686,917)	(1,906,038)	(290,840)	267,959	3,384,765	3,177,293	83,496	1,583,601	4,825,920
Total primary government	<u>\$ (60,512,020)</u>	<u>\$ (56,176,268)</u>	<u>\$ (55,489,340)</u>	<u>\$ (51,026,398)</u>	<u>\$ (53,615,561)</u>	<u>\$ (48,212,554)</u>	<u>\$ (45,051,645)</u>	<u>\$ (42,216,123)</u>	<u>\$ (42,411,095)</u>	<u>\$ (48,501,733)</u>
General Revenues and Other Changes in Net Position										
<i>Governmental activities:</i>										
Taxes										
Property taxes	\$ 32,272,995	\$ 32,480,280	\$ 32,068,912	\$ 31,477,369	\$ 31,335,765	\$ 30,082,026	\$ 27,606,560	\$ 27,161,942	\$ 25,062,245	\$ 24,868,585
Local sales and use taxes	6,083,030	5,891,941	5,707,813	5,492,934	5,568,978	5,908,920	5,711,940	5,634,585	5,601,846	5,397,710
Business license tax	5,107,983	4,751,638	4,564,531	4,421,129	4,827,348	4,714,965	4,258,059	3,866,585	4,032,843	3,647,786
Meals tax	4,118,041	3,242,532	2,551,880	2,429,239	2,448,064	2,546,104	2,397,412	2,351,010	2,190,099	2,091,998
Utility taxes	1,153,190	1,124,383	1,123,400	1,105,818	1,123,616	1,156,775	1,228,975	1,372,250	1,339,238	1,122,167
Other taxes	2,924,694	2,604,603	2,805,271	2,684,054	2,856,119	2,362,788	2,700,657	2,625,066	2,486,633	2,484,614
Intergovernmental revenue not restricted	3,859,380	3,747,854	3,747,722	3,735,738	3,860,269	4,030,210	3,878,955	3,523,634	3,597,191	3,213,462
Unrestricted investment earnings	134,650	127,210	129,640	132,522	213,671	568,689	789,526	556,039	501,808	394,977
Gain on sale of property	1,198	-	-	-	24,624	5,715	-	402,089	571,311	-
Other	606,657	411,355	603,696	324,136	375,139	812,702	279,223	218,274	266,019	285,750
Transfers	1,069,822	1,656,490	(3,338,110)	575,667	1,626,999	1,552,276	495,995	975,685	(70,821)	236,756
Total governmental activities	<u>57,331,640</u>	<u>56,038,286</u>	<u>49,964,755</u>	<u>52,378,606</u>	<u>54,260,592</u>	<u>53,741,170</u>	<u>49,347,302</u>	<u>48,687,159</u>	<u>45,578,412</u>	<u>43,743,805</u>
<i>Business-type activities:</i>										
Unrestricted investment earnings	168	4,121	8,049	23,297	179,714	706,658	928,710	271,303	311,154	110,832
Gain on sale of property	1,638	-	-	-	205,932	-	6,967	-	-	-
Other	-	-	-	346,520	21,924	130,909	20,149	-	-	-
Transfers	(1,069,822)	(1,656,490)	3,338,110	(575,667)	(1,626,999)	(1,552,276)	(495,995)	(975,685)	70,821	(236,756)
Total business-type activities	<u>(1,068,016)</u>	<u>(1,652,369)</u>	<u>3,346,159</u>	<u>(205,850)</u>	<u>(1,219,429)</u>	<u>(714,709)</u>	<u>459,831</u>	<u>(704,382)</u>	<u>381,975</u>	<u>(125,924)</u>
Total primary government	<u>\$ 56,263,624</u>	<u>\$ 54,385,917</u>	<u>\$ 53,310,914</u>	<u>\$ 52,172,756</u>	<u>\$ 53,041,163</u>	<u>\$ 53,026,461</u>	<u>\$ 49,807,133</u>	<u>\$ 47,982,777</u>	<u>\$ 45,960,387</u>	<u>\$ 43,617,881</u>
Changes in Net Position										
Total governmental activities	\$ (9,216,196)	\$ 548,935	\$ (3,618,547)	\$ 1,643,048	\$ 377,072	\$ 2,143,851	\$ 1,118,364	\$ 6,387,540	\$ 1,583,716	\$ (9,583,848)
Total business-type activities	4,967,800	(2,339,286)	1,440,121	(496,690)	(951,470)	2,670,056	3,637,124	(620,886)	1,965,576	4,699,996
Total primary government	<u>\$ (4,248,396)</u>	<u>\$ (1,790,351)</u>	<u>\$ (2,178,426)</u>	<u>\$ 1,146,358</u>	<u>\$ (574,398)</u>	<u>\$ 4,813,907</u>	<u>\$ 4,755,488</u>	<u>\$ 5,766,654</u>	<u>\$ 3,549,292</u>	<u>\$ (4,883,852)</u>

Notes:

Source: City of Salem Finance Department

- (1) Education expenses of governmental activities includes \$9,518,801 of bond funds transferred to the School Division to fund capital projects.
- (2) Electric expenses and Water and Sewage expenses of business-type activities were restated.
- (3) Education expenses of governmental activities includes \$14,000,000 of bond funds transferred to the School Division to fund capital projects.

**TABLE 3
UNAUDITED**

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Pre-GASB 54 implementation:							
General Fund							
Reserved	\$ 1,038,347	\$ 916,227	\$ 893,623	\$ 1,357,034	\$ 1,431,926	\$ 1,179,343	\$ 1,009,767
Unreserved	5,183,434	5,486,537	7,086,974	6,547,440	6,419,834	10,534,365	11,124,617
Total general fund	<u>\$ 6,221,781</u>	<u>\$ 6,402,764</u>	<u>\$ 7,980,597</u>	<u>\$ 7,904,474</u>	<u>\$ 7,851,760</u>	<u>\$ 11,713,708</u>	<u>\$ 12,134,384</u>
All Other Governmental Funds							
Reserved	\$ 784,005	\$ 2,130,298	\$ 3,388,893	\$ 1,083,915	\$ 1,251,705	\$ 3,777,959	\$ 7,434,079
<i>Unreserved, reported in:</i>							
Capital projects fund	(1,051,141)	(2,031,615)	(3,152,261)	(189,129)	(463,348)	(1,691,345)	2,914,998
Total all other governmental funds	<u>\$ (267,136)</u>	<u>\$ 98,683</u>	<u>\$ 236,632</u>	<u>\$ 894,786</u>	<u>\$ 788,357</u>	<u>\$ 2,086,614</u>	<u>\$ 10,349,077</u>
	<u>2013</u>	<u>2012</u>	<u>2011</u>				
Post-GASB 54 implementation:							
General Fund							
Nonspendable	\$ 447,097	\$ 497,206	\$ 554,962				
Restricted	1,896,731	1,244,986	1,287,008				
Committed	-	519,817	-				
Assigned	941,626	1,256,103	1,588,768				
Unassigned	3,517,718	3,469,721	3,351,935				
Total general fund	<u>\$ 6,803,172</u>	<u>\$ 6,987,833</u>	<u>\$ 6,782,673</u>				
All Other Governmental Funds							
Restricted	\$ 228	\$ 15,244	\$ 129,686				
Committed	115,000	39,436	-				
Unassigned	(432,316)	-	-				
Total all other governmental funds	<u>\$ (317,088)</u>	<u>\$ 54,680</u>	<u>\$ 129,686</u>				

Note:

Source: City of Salem Finance Department

FY2011 was the first year the City implemented GASB 54 which revised fund balance classifications

**TABLE 4
UNAUDITED**

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

	2013 (1)	2012	2011	2010	2009	2008	2007	2006	2005 (2)	2004
Revenues										
Taxes	\$ 52,276,472	\$ 50,284,343	\$ 48,794,986	\$ 47,592,620	\$ 48,272,897	\$ 47,254,766	\$ 44,555,391	\$ 44,037,357	\$ 41,593,054	\$ 40,747,374
Permits, fees and licenses	198,742	202,342	218,094	243,035	228,687	303,958	293,004	294,314	286,150	308,511
Fines and forfeitures	153,584	160,816	164,161	159,179	171,056	159,489	159,363	150,860	162,207	197,297
Revenue from use of money and property	697,140	642,067	677,805	465,564	539,930	786,455	1,434,893	1,385,122	1,861,432	579,303
Charges for services	4,925,221	4,700,364	4,463,860	4,282,550	4,602,745	4,154,836	3,915,569	2,959,842	2,749,670	2,186,113
Other	247,149	104,701	284,324	172,872	195,505	152,478	47,673	32,544	43,796	53,590
Intergovernmental	13,129,214	11,462,504	12,562,674	12,525,033	12,526,047	10,859,986	10,336,870	8,720,129	8,765,664	7,764,376
Total revenues	<u>71,627,522</u>	<u>67,557,137</u>	<u>67,165,904</u>	<u>65,440,853</u>	<u>66,536,867</u>	<u>63,671,968</u>	<u>60,742,763</u>	<u>57,580,168</u>	<u>55,461,973</u>	<u>51,836,564</u>
Expenditures										
General government	5,881,344	5,792,852	4,900,770	5,232,405	6,380,771	4,891,569	4,694,442	4,994,542	4,386,061	4,005,851
Judicial administration	1,866,050	1,801,429	1,788,821	1,695,531	1,723,427	1,649,871	1,506,395	1,321,052	1,256,107	1,207,990
Public safety	16,371,685	15,353,250	14,792,022	14,358,932	14,371,192	14,397,297	13,358,739	12,707,985	11,670,171	10,740,352
Public works	11,502,485	11,988,380	11,656,775	11,101,013	12,113,469	12,156,138	11,434,040	9,400,116	9,777,021	8,879,090
Health and welfare	2,672,631	2,391,628	2,682,090	2,293,464	2,315,841	2,410,340	2,163,687	1,918,490	1,823,783	1,419,802
Education	30,295,228	18,471,653	18,420,000	18,420,000	18,420,000	17,995,000	17,095,000	16,266,005	15,618,081	15,340,564
Parks, recreation and cultural	4,508,319	4,403,170	4,203,452	4,204,705	4,716,767	4,464,456	4,354,144	4,316,920	4,037,410	3,696,621
Community development	829,081	981,483	879,709	618,217	1,148,291	469,835	639,535	815,991	513,272	842,963
Non-departmental	2,867,807	2,658,955	2,908,441	2,579,752	3,349,639	1,976,756	1,769,127	3,610,694	2,424,022	1,788,744
Capital projects	2,377,884	1,571,118	3,703,365	2,350,384	1,624,611	1,397,376	2,750,335	4,325,562	5,519,655	14,604,233
<i>Debt service:</i>										
Principal retirement	7,765,685	2,623,661	2,606,810	2,593,118	2,618,896	2,612,403	2,607,365	2,863,024	5,616,505	1,055,518
Interest	824,824	970,434	930,767	1,029,641	1,105,218	1,171,197	1,119,793	1,185,708	1,432,203	1,150,476
Bond Issuance Cost	45,750	31,900	117,689	-	-	-	-	-	-	-
Total expenditures	<u>87,808,773</u>	<u>69,039,913</u>	<u>69,590,711</u>	<u>66,477,162</u>	<u>69,888,122</u>	<u>65,592,238</u>	<u>63,492,602</u>	<u>63,726,089</u>	<u>64,074,291</u>	<u>64,732,204</u>
Excess (deficiency) of revenues over expenditures	(16,181,251)	(1,482,776)	(2,424,807)	(1,036,309)	(3,351,255)	(1,920,270)	(2,749,839)	(6,145,921)	(8,612,318)	(12,895,640)
Other Financing Sources (Uses)										
Proceeds from long-term debt	9,518,800	-	6,540,000	-	-	-	-	-	-	31,970,540
Proceeds from sale of refunding bonds	5,036,200	9,485,000	3,339,279	-	-	-	-	-	-	-
Payment to refunded bond escrow agent	-	(9,513,728)	(3,430,000)	-	-	-	-	-	-	(10,508,287)
Premium on sale of bonds	-	-	248,757	-	-	-	-	-	-	-
Discount on sale of bonds	-	-	(48,989)	-	-	-	-	-	-	-
Transfers in	5,626,851	6,458,723	5,683,661	4,985,609	6,043,796	6,474,312	7,536,323	8,235,360	5,417,206	4,252,823
Transfers out	(4,557,029)	(4,817,065)	(8,950,187)	(4,496,102)	(4,408,322)	(5,136,073)	(4,627,341)	(7,249,644)	(5,488,027)	(4,016,067)
Total other financing sources (uses)	<u>15,624,822</u>	<u>1,612,930</u>	<u>3,382,521</u>	<u>489,507</u>	<u>1,635,474</u>	<u>1,338,239</u>	<u>2,908,982</u>	<u>985,716</u>	<u>(70,821)</u>	<u>21,699,009</u>
Net change in fund balances	<u>\$ (556,429)</u>	<u>\$ 130,154</u>	<u>\$ 957,714</u>	<u>\$ (546,802)</u>	<u>\$ (1,715,781)</u>	<u>\$ (582,031)</u>	<u>\$ 159,143</u>	<u>\$ (5,160,205)</u>	<u>\$ (8,683,139)</u>	<u>\$ 8,803,369</u>
Debt service as a percentage of noncapital expenditures	10.16%	5.37%	5.39%	5.76%	5.73%	6.04%	6.26%	7.06%	12.35%	4.60%

Notes:

Source: City of Salem Finance Department

(1) Principal retirement includes the current refunding of a general obligation note for \$5,010,000.

(2) Principal retirement includes one-time balloon payment of \$2,715,000.

**TABLE 5
UNAUDITED**

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

Fiscal Year	Real Estate		Personal Property		Machinery and Tools		Public Service Corporation		Mobile Homes		Total Taxable 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		
2013	\$ 1,997,447,800	1.18	\$ 267,755,307	3.20	\$ 84,169,172	3.20	\$ 42,281,759	1.18	\$ 1,431,949	1.18	\$ 2,393,085,987	1.47
2012	1,977,986,400	1.18	267,877,285	3.20	90,287,324	3.20	37,468,284	1.18	1,668,743	1.18	2,375,288,036	1.48
2011	1,973,655,843	1.18	265,450,351	3.20	80,706,659	3.20	37,993,502	1.18	1,460,966	1.18	2,359,267,321	1.48
2010	1,940,941,700	1.18	262,153,501	3.20	79,120,695	3.20	36,874,789	1.18	1,543,032	1.18	2,320,633,717	1.48
2009	1,912,957,600	1.18	263,305,279	3.20	80,517,625	3.20	36,468,242	1.18	1,655,642	1.18	2,294,904,388	1.48
2008	1,805,483,900	1.18	263,662,393	3.20	82,535,751	3.20	36,451,099	1.18	1,780,273	1.18	2,189,913,416	1.50
2007	1,601,239,600	1.18	254,765,656	3.20	86,685,532	3.20	34,992,259	1.18	1,632,022	1.18	1,979,315,069	1.52
2006	1,572,732,200	1.18	262,141,563	3.20	86,409,864	3.20	33,586,047	1.18	1,855,348	1.18	1,956,725,022	1.54
2005	1,414,891,600	1.18	253,619,878	3.20	82,714,938	3.20	35,032,203	1.18	2,186,076	1.18	1,788,444,695	1.55
2004	1,386,790,100	1.18	250,218,290	3.20	88,317,031	3.20	35,658,160	1.18	2,092,797	1.18	1,763,076,378	1.56

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
2013	\$ 32,537,416	\$ 30,854,728	94.83%	\$ -	\$ -	\$ 30,854,728	94.83%
2012	32,672,916	31,351,991	95.96%	63,844	811,498	32,163,489	98.25%
2011	32,104,079	30,836,144	96.05%	139,310	975,593	31,811,737	98.66%
2010	31,627,310	30,440,194	96.25%	186,289	1,134,391	31,574,585	99.25%
2009	31,336,233	30,288,062	96.66%	124,862	1,070,788	31,358,850	99.68%
2008	29,846,597	28,917,802	96.89%	217,549	1,080,525	29,998,327	99.78%
2007	27,357,053	26,652,952	97.43%	361,155	1,020,229	27,673,181	99.84%
2006	27,035,930	26,209,290	96.94%	423,942	1,209,365	27,418,655	99.85%
2005	24,789,091	24,282,081	97.95%	235,208	722,693	25,004,774	99.92%
2004	24,554,069	24,017,690	97.82%	379,169	896,990	24,914,680	99.93%

Note:

Source: City of Salem Finance Department

**TABLE 7
UNAUDITED**

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

Taxpayer	2013			2004		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Lewis-Gale Hospital HCA	\$ 36,118,600	1	1.81%	\$ 29,762,900	1	2.38%
HRT of Roanoke, Inc.	22,095,300	2	1.11%	22,377,700	2	1.79%
Yokohama Industries	13,946,300	3	0.70%	16,264,300	3	1.30%
General Electric	12,685,600	4	0.64%	10,889,100	4	0.87%
BET/Lowe's	12,462,800	5	0.63%			
U.S. Food Service, Inc.	10,683,600	6	0.54%	6,524,000	8	0.52%
Chateau Riviera Apartments	9,466,900	7	0.47%	7,565,700	7	0.61%
Spartan Square	8,953,000	8	0.45%	5,672,500	10	0.45%
Salem Terrace	8,361,700	9	0.42%			
Carter Machinery/Carthy Corporation	7,586,000	10	0.38%			
Home Shopping Network Virginia Division				8,636,500	5	0.69%
Rowe Furniture/Salem Frame				7,808,600	6	0.63%
Wal-Mart, Inc.				5,912,200	9	0.47%

Note:

Source: City of Salem Real Estate Valuation Department

**TABLE 8
UNAUDITED**

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

Customer	2013			2004		
	Services Billed	Rank	Percentage of Total Services Billed	Services Billed	Rank	Percentage of Total Services Billed
Lewis-Gale Hospital HCA	\$2,012,086	1	5.04%	\$750,192	1	3.84%
Roanoke College	1,485,268	2	3.72%	532,418	2	2.73%
Graham White	904,802	3	2.27%	420,585	5	2.15%
Rowe Furniture/Salem Frame	815,651	4	2.04%	387,841	6	1.99%
U.S. Food Service, Inc.	778,241	5	1.95%	484,905	3	2.48%
Kroger	589,700	6	1.48%	275,819	7	1.41%
Sewell Products	551,815	7	1.38%			
Carter Machinery/Carthy Corporation	507,042	8	1.27%	241,491	9	1.24%
Wal-Mart	375,485	9	0.94%	185,291	10	0.95%
Old Virginia Brick Co	363,011	10	0.91%	243,117	8	1.25%
Valleydale Foods				442,389	4	2.27%

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	Other Long-term Debt	Amounts Restricted to Repaying Principal	Total	General Obligation Bonds	
	(1)	(1)				
2013	\$ 32,884,551	\$ -	\$ -	\$ 32,884,551	\$ 50,872,551	\$ 83,757,102
2012	26,095,236	-	-	26,095,236	53,877,529	79,972,765
2011	28,033,897	-	-	28,033,897	55,710,739	83,744,636
2010	24,066,428	125,000	-	24,191,428	56,518,876	80,710,304
2009	26,534,546	250,000	-	26,784,546	59,416,149	86,200,695
2008	29,028,442	375,000	-	29,403,442	62,254,430	91,657,872
2007	31,515,845	500,000	-	32,015,845	64,951,116	96,966,961
2006	31,498,210	625,000	-	32,123,210	66,855,732	98,978,942
2005	34,236,234	750,000	-	34,986,234	40,495,352	75,481,586
2004	39,727,739	875,000	(2,988,308)	37,614,431	39,779,649	77,394,080

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)	
2013	\$ 2,393,085,987	3.50%	25,267	\$ 3,315	\$ 40,688	8.00%
2012	2,375,288,036	3.37%	25,145	3,180	39,866	8.00%
2011	2,359,267,321	3.55%	24,970	3,354	39,866	8.00%
2010	2,320,633,717	3.48%	24,860	3,247	39,866	8.00%
2009	2,294,904,388	3.76%	24,684	3,492	39,525	9.00%
2008	2,189,913,416	4.19%	24,673	3,715	40,760	9.00%
2007	1,979,315,069	4.90%	24,482	3,961	39,479	10.00%
2006	1,956,725,022	5.06%	24,508	4,039	38,194	11.00%
2005	1,788,444,695	4.22%	24,310	3,105	36,611	8.00%
2004	1,763,076,378	4.39%	24,096	3,212	35,882	9.00%

Notes:

Source: City of Salem Finance Department

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

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

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

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

(3) See Table 11 for population and per capita personal income.

TABLE 10
UNAUDITED

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

Fiscal Year	Assessed Value of Real Property	Debt Limit 10% of Assessed Value	Amount of Debt Applicable to Limit					Legal Debt Margin
			Total General Obligation Bonds	Total Other Long-term Debt	Enterprise Bonds	Amounts Restricted to Repaying Principal	Net Debt Applicable to Limit	
	(1)				(2)		(3)	
2013	\$ 2,039,729,559	\$ 203,972,956	\$ 83,757,102	\$ -	\$ (50,872,551)	\$ -	\$ 32,884,551	1.61%
2012	2,015,454,684	201,545,468	79,972,765	-	(53,877,529)	-	26,095,236	1.29%
2011	2,011,649,345	201,164,935	83,744,636	-	(55,710,739)	-	28,033,897	1.39%
2010	1,977,816,489	197,781,649	80,585,304	125,000	(56,518,876)	-	24,191,428	1.22%
2009	1,949,425,842	194,942,584	85,950,695	250,000	(59,416,149)	-	26,784,546	1.37%
2008	1,841,934,999	184,193,500	91,282,872	375,000	(62,254,430)	-	29,403,442	1.60%
2007	1,636,231,859	163,623,186	96,466,961	500,000	(64,951,116)	-	32,015,845	1.96%
2006	1,606,318,247	160,631,825	98,353,942	625,000	(66,855,732)	-	32,123,210	2.00%
2005	1,449,923,803	144,992,380	74,731,586	750,000	(40,495,352)	-	34,986,234	2.41%
2004	1,422,448,260	142,244,826	79,507,388	875,000	(39,779,649)	(2,988,308)	37,614,431	2.64%

Notes:

Source: City of Salem Finance Department

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

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

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

**TABLE 11
UNAUDITED**

**CITY OF SALEM, VIRGINIA
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS**

Fiscal Year Ended	Population	Total Personal Income (In Thousands)	Per Capita Personal Income	Public School Enrollment	Unemployment Rate
(1)	(2)	(3)	(3)	(4)	(5)
2013	25,267	\$ 4,789,030	\$ 40,688	3,823	6.6%
2012	25,145	4,672,291	39,866	3,867	6.5%
2011	24,970	4,672,291	39,866	3,892	6.1%
2010	24,860	4,672,291	39,866	3,907	7.2%
2009	24,684	4,620,761	39,525	3,905	6.3%
2008	24,673	4,743,543	40,760	3,911	3.6%
2007	24,482	4,563,905	39,479	3,966	3.0%
2006	24,508	4,392,229	38,194	3,902	2.9%
2005	24,310	4,157,343	36,611	3,882	2.5%
2004	24,096	4,028,616	35,882	3,888	2.7%

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 March 2013.

(2) Population is based on Intercensal estimates of the resident population for counties of Virginia: April 1, 2000 to July 1, 2010. US Census Bureau, Population Division. Population for 2012 and 2013 were obtained from Weldon Cooper Center, University of Virginia.

(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 capital personal income was computed using Census Bureau midyear population estimates.

(4) Supervisor of Business Services, School Division

(5) Virginia Employment Commission

TABLE 12
UNAUDITED

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

Employer	2013			2004		
	Employees	Rank	Percentage of Total City Employment (1)	Employees	Rank	Percentage of Total City Employment (1)
Veterans Administration Medical Center	1,912	1	8.54%	1,458	1	6.04%
Lewis-Gale Hospital HCA	1,445	2	6.46%	1,420	2	5.88%
Yokohama Industries	900	3	4.02%	1,222	3	5.06%
General Electric	804	4	3.59%	1,188	5	4.92%
City of Salem Schools	580	5	2.59%	542	6	2.25%
Virginia Department of Transportation	486	6	2.17%			
Roanoke College	481	7	2.15%	455	8	1.89%
City of Salem	462	8	2.06%	515	7	2.13%
U.S. Food Service, Inc.	429	9	1.92%	373	10	1.55%
Carter Machinery/Carthy Corporation	338	10	1.51%			
Lewis-Gale Clinic				1,190	4	4.93%
Home Shopping Network				420	9	1.74%

Notes:

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

(1) Calculated using data provided by Virginia Employment Commission

TABLE 13
UNAUDITED

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

Function	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
General government	71	71	74	72	74	76	74	72	72	71
Judicial administration	19	21	20	20	20	20	20	19	19	19
Public safety	162	160	161	162	167	165	164	162	159	154
Public works	94	100	105	110	112	113	111	115	115	114
Parks, recreation and cultural	32	32	32	33	33	26	25	25	20	22
Community development	3	3	3	3	3	3	3	4	2	2
Electric	26	26	28	29	29	29	29	28	29	29
Water and sewage	49	51	52	53	58	58	59	58	60	63
Civic Center	17	18	18	17	18	20	19	19	20	20
Catering and concessions	4	4	4	4	5	5	5	5	5	5
Total	<u>477</u>	<u>486</u>	<u>497</u>	<u>503</u>	<u>519</u>	<u>515</u>	<u>509</u>	<u>507</u>	<u>501</u>	<u>499</u>

Notes:

Source: City of Salem Finance Department

TABLE 14
UNAUDITED

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

Function	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
General government										
<i>Finance</i>										
Accounts payable checks issued	8,937	11,002	12,260	13,595	12,104	13,991	14,617	15,638	16,307	16,836
<i>Human resources</i>										
Positions filled (full-time and temporary)	142	146	143	129	257	244	201	246	233	219
<i>Registrar</i>										
Number of registered voters	16,625	16,678	16,436	16,309	16,258	15,897	15,524	14,995	15,652	15,146
<i>Fleet</i>										
Pieces of equipment maintained	572	573	565	551	560	600	558	527	517	510
Judicial administration										
<i>Sheriff</i>										
Inmates housed	2,776	2,668	2,587	2,343	1,494	1,294	1,296	1,125	1,067	1,497
Inmate transports	1,062	1,069	1,276	1,879	1,594	1,545	1,427	1,391	1,315	1,471
Courts worked	686	648	691	676	695	624	639	611	593	588
Public safety										
<i>Police</i>										
Calls for service	39,519	36,549	33,903	34,342	35,159	34,526	33,776	30,163	30,442	31,566
Accidents	905	919	1,063	975	1,024	1,300	1,329	1,221	1,263	1,258
DUI Arrests	107	62	95	129	122	146	176	159	124	196
<i>Fire</i>										
Emergency responses - fire	3,337	3,241	3,661	3,270	3,441	3,083	2,715	3,006	2,537	2,182
Emergency responses - medic units	3,569	3,358	3,632	3,335	3,596	3,085	2,982	3,289	2,934	2,281
Hazardous conditions responses	125	105	137	134	161	182	146	82	101	72
<i>Building inspections</i>										
Residential construction permits	106	122	123	130	148	169	336	309	319	272
Commercial construction permits	110	116	124	63	71	103	93	92	139	163
Public works										
<i>Refuse collection</i>										
Refuse collected (tons per year)	80,609	81,427	81,485	83,607	88,365	77,027	90,405	81,379	84,270	92,665
Tons recycled	2,315	2,844	1,764	3,883	4,841	4,623	4,724	2,154	3,594	3,550
<i>Other public works</i>										
Tons of asphalt used in resurfacing	5,770	7,507	5,821	3,616	5,185	6,958	14,510	9,111	11,966	8,005
Square yards of milling completed	92,988	143,962	99,960	39,959	80,155	68,091	84,386	58,605	25,480	17,973
Tons of salt used	1,098	183	817	1,389	176	170	277	901	705	1,350
Leaves collected (loads)	316	369	494	507	448	323	421	422	604	375
Parks, recreation and cultural										
<i>Parks and recreation</i>										
Tournaments hosted	62	58	49	53	50	54	57	59	54	51
Special events held	24	24	24	25	24	24	25	21	18	18
Youth sports teams	170	205	225	210	195	252	186	184	219	219
Adult sports teams	39	37	44	49	48	59	48	40	40	40
<i>Library</i>										
Circulation	271,600	295,911	285,337	290,309	276,578	264,184	241,816	233,852	232,892	224,712
Children's program attendance	3,924	4,926	6,891	7,129	8,792	7,647	4,591	3,580	4,164	2,622
Patron visits to the library	211,605	226,696	232,559	245,807	239,745	233,524	234,379	228,560	217,477	220,571
New patrons	1,373	1,315	1,288	1,417	1,648	1,694	1,694	1,510	1,537	1,492
Internet sessions	33,885	51,033	52,397	58,517	50,711	62,650	55,689	32,650	25,834	27,973
Electric										
Number of customer accounts	13,198	13,202	13,163	13,131	13,175	13,130	13,032	12,968	12,856	12,883
Water										
Number of customer accounts	9,375	9,365	9,341	9,301	9,304	9,256	9,170	9,107	9,055	9,035
Million gallons sold to customers	838	955	1,004	977	1,003	1,067	1,043	1,090	1,097	1,098
Sewage										
Number of customer accounts	8,823	8,803	8,764	8,717	8,706	8,664	8,561	8,513	8,461	8,446
Waste/water treated (million gallons/day)	7.0	7.0	6.5	8.3	6.2	5.7	8.1	6.8	9.2	7.3
Civic Center										
Concerts	11	13	13	9	9	9	13	6	8	12
Meetings	614	792	936	1,156	1,216	1,295	1,081	1,209	1,282	1,259
Tickets sold	83,638	87,006	102,678	103,891	112,997	99,581	147,491	163,972	129,248	150,801
Arena utilization days	175	173	178	179	202	219	201	175	203	180

Notes:

Source: Various City of Salem Departments

TABLE 15
UNAUDITED

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

Function	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Public safety										
Police station	1	1	1	1	1	1	1	1	1	1
Law enforcement vehicles	47	47	47	46	49	50	48	45	42	56
Fire stations	3	3	3	3	3	3	3	3	3	3
Fire trucks	6	6	6	6	6	7	6	5	5	5
Ambulances	4	4	5	5	5	5	5	4	3	3
Public works										
Primary streets (lane miles)	68	68	68	68	68	68	68	65	65	64
Secondary streets (lane miles)	272	272	272	272	272	272	270	225	225	223
Alleys (lane miles)	12	12	12	12	12	12	12	11	11	11
Garbage trucks	13	12	12	12	12	13	13	10	11	12
Parks, recreation and cultural										
Community center/senior center	1	1	1	1	1	1	1	3	3	3
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	0	0	0	0	0	0	0	0
Electric										
Substations	11	11	11	11	11	11	11	7	7	7
Overhead distribution lines (miles)	172	172	172	172	171	158	158	159	161	161
Underground distribution lines (miles)	38	38	38	38	38	33	33	33	31	31
Transmission lines (miles)	17	17	17	17	17	17	17	23	23	23
Water and sewage										
Water treatment plant	1	1	1	1	1	1	1	1	2	2
Water distribution lines (miles)	175	175	182	182	181	182	181	181	180	155
Sanitary sewer lines (miles)	170	177	177	177	171	176	176	174	174	144

Notes:

Source: City of Salem Finance Department

THIS PAGE INTENTIONALLY BLANK

COMPLIANCE SECTION



The compliance section of the City of Salem, Virginia's Comprehensive Annual Financial Report presents a schedule of expenditures of federal awards. Also included are reports from the independent auditors.

CITY OF SALEM, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2013

Federal Grantor	Federal CFDA Number	Federal Expenditures
<i>Pass-through Grantor: Commonwealth of Virginia</i>		
Program Title		
<u>Department of Agriculture</u>		
<i>Department of Agriculture and Nutrition Service</i>		
Supplemental Nutrition Assistance Program	10.551	\$ 5,154
<i>Department of Agriculture and Consumer Services</i>		
Food Distribution – Commodities	10.555	91,581
<i>Department of Education</i>		
National School Breakfast Program	10.553	139,235
National School Lunch Program	10.555	513,273
<u>Department of Justice</u>		
<i>Direct Payments</i>		
Drug Enforcement Task Force	16.000	27,560
Bulletproof Vest Partnership Program	16.607	3,959
<i>Department of Criminal Justice Services</i>		
Crime Victim Assistance	16.575	53,063
<u>Department of Transportation</u>		
<i>Direct Payments</i>		
Highway Planning and Construction	20.205	1,190,694
Highway Planning and Construction (ARRA)	20.205	380,025
<i>Division of Motor Vehicles</i>		
Alcohol Traffic Safety and Drunk Driving Prevention	20.601	2,558
Alcohol Open Container Requirements	20.607	20,338
<u>Department of Education</u>		
<i>Department of Education</i>		
Education Consolidation Improvement Act of 1981:		
Title I: Grants to Local Educational Agencies	84.010	476,299
Title I: Perkins Career and Technical Education	84.048	79,041
Title II: Part A, Improving Teacher Quality	84.367	121,972
Elementary and Secondary Education Act (ESEA):		
Special Education – Grants to States	84.027	618,328
Special Education – Preschool Grants	84.173	19,745
Vocational Education:		
Adult Education	84.002	325,372
Special Projects:		
Carol White PEP Grant	84.215	315,598
English Language Acquisition	84.365	4,729
American Recovery and Reinvestment Act of 2009 (ARRA):		
ARRA Education Jobs Fund	84.410	17,403
<u>Department of Homeland Security</u>		
Assistance to Firefighters	97.044	147,146
<i>Department of Emergency Management</i>		
State Homeland Security Grant	97.073	30,000
Emergency Management Performance Grant	97.042	638
Disaster Grants-Public Assistance (Presidentially Declared Disasters)	97.036	88,686
Total Expenditures of Federal Awards		\$ 4,672,397

Note 1: Basis of Accounting

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

Note 2: Nonmonetary Assistance

Nonmonetary assistance is reported in the Schedule of Expenditures of Federal Awards at the fair market value of the food commodities disbursed. At June 30, 2013, the Component Unit – School Division had food commodities in inventory of \$37,529.

**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 *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, 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, 2013, 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 20, 2013.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 13-1.**

City of Salem's Response to the Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questions costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 20, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the City's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Salem, Virginia's (the "City") major federal programs for the year ended June 30, 2013. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Salem, Virginia, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 20, 2013

CITY OF SALEM, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2013

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

FEDERAL COMPLIANCE MATTERS

U.S. Office of Management and Budget (OMB A-133) Compliance Supplement:

Provisions and conditions of agreements related to federal programs selected for testing.

CITY OF SALEM, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the basic financial statements.
2. **No significant deficiencies** related to the audit of the financial statements are reported 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*.
3. **No instances of noncompliance material** to the basic financial statements were disclosed during the audit.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by *OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings** relating to major programs.
7. The programs tested as major programs include:

<u>Name of Programs</u>	<u>CFDA#</u>
Child Nutrition Cluster	10.553, 10.555
Highway Planning and Construction	20.205
Highway Planning and Construction (ARRA)	20.205
Adult Education	84.002
Title I Cluster	84.010, 84.048

8. The **threshold for** distinguishing Types A and B programs was **\$300,000**.
9. The City **was determined to be a low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS

None

CITY OF SALEM, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

13-1: CSA Pool Reimbursement Requests

Condition:

The October 2012 CSA pool reimbursement request was not filed until April 2013.

Recommendation:

Steps should be taken to ensure that all CSA pool reimbursement requests are filed at least quarterly.

Management's Response:

Management concurs with the recommendation and has implemented internal processes to ensure CSA pool reimbursement requests are filed at least quarterly.

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

Rosemarie B. Jordan, CPA

Director of Finance

Accounting/Accounts Payable/Purchasing

Vickie L. Akers

Accounting Assistant

Kathryn K. Fox, CPA

Senior Accountant

Yen T. Ha

Senior Accountant

Linda K. Harris

Buyer

Amy R. Morris, CPA

Senior Accountant

Mary Ann Penney, CPA

Accounting Supervisor

Tammy H. Todd, CPA

Assistant Director of Finance

Karen M. Vaught

Accounting Technician

Kathryn B. Williams

Accounting Assistant

Administrative

Alyson R. Chaisson

Finance Administrative Secretary/
Accounting Technician

Payroll

Mechelle Bennett-Stump

Payroll Technician

Glenda S. Dalton

Payroll Supervisor