

# **CITY OF SALEM, VIRGINIA**



## **COMPREHENSIVE ANNUAL FINANCIAL REPORT YEAR ENDED JUNE 30, 2011**

**DEPARTMENT OF FINANCE**

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# INTRODUCTORY SECTION

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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, 2010. It is the highest form of recognition in governmental financial reporting.

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November 22, 2011

**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, 2011. 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 19 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 2011 estimated population, 25,357, accounts for approximately 8.2% of the population in its metropolitan statistical area (MSA), which includes the neighboring City of Roanoke and Counties of Botetourt, Craig, Franklin and Roanoke.

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. 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**

Salem has a large and diverse economic base that has enabled the City to fare better than other localities over the past several years of national recession. This base consists of industrial manufacturing, medical facilities, wholesale/retail trade, agriculture, hotel and motel services, higher education, rail transportation, banking services and regional utility services. 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. Jobs in the medical field tend to be more recession proof and Salem is home to two of the largest medical facilities in the area, Lewis Gale Hospital and the Veterans Administration Medical Center. Veterans Administration Medical Center and Lewis Gale Hospital are the two largest employers located in Salem, employing approximately 3,360 people. General Electric and Yokohama Industries are Salem's largest manufacturing employers, providing 1,700 jobs. Roanoke College, with a student population of 2,000, is located in Salem.

Given current economic conditions, Salem is proud to have growth continuing in the business community. Yokohama, Salem's largest manufacturer, completed a \$13 million expansion of their Salem operations. The expansion added 50 jobs, bringing Yokohama's total employment to approximately 950. The expansion rearranged the flow of operations and included installation of a new mixer and other equipment, providing 10 to 12 percent increases in the output of automobile and light truck tires.

The former Home Shopping Network location was upgraded and a parking lot expansion is underway. A portion of the building is now occupied by CEI of Roanoke, Inc. and Elizabeth Arden's new assembly and distribution plant. Elizabeth Arden employs eight full time and approximately fifteen temporary employees. CEI of Roanoke, Inc. employs ten full time and up to 150 temporary seasonal employees. Construction of Salem Terrace, an apartment-style assisted living facility, is now complete bringing approximately 40 jobs to Salem. Salem Terrace offers 76 units and represents an investment of \$7.6 million. A parcel of the Elizabeth Campus property was sold to construct Salem's second Montessori School. Construction was completed in the fall of 2011.

Retail businesses are also locating in Salem. Ollie's, a large retailer of closeout, surplus and salvage merchandise, renovated the old Goody's location and opened in July 2011. This is the first Ollie's location in the Roanoke Valley and employs approximately 26 people. Building renovations are underway at Frontline Eurosports, a new motorcycle shop specializing in BMW and Triumph brands. This will be one of only three locations in Virginia that sells BMW motorcycles. The 12,000 square foot business will feature a showroom and service shop and is anticipated to open in December 2011. After completion of substantial building renovations, the first Super Shoes location opened on West Main Street alongside a new Goodwill Store. VAS Aging Solutions, Inc., the first distributor of the newly developed MedCottages, opened during the past year. MedCottages are portable, modular homes equipped with

the latest medical technology to enable families to care for loved ones on their own properties as an alternative to long-term care facilities.

Several new restaurants came to Salem, including Blue Apron, Rancho Viejo, El Cubanito and Dairy Queen. Food Lion on Wildwood Road completed a \$1.0 million renovation. 7-11 stores returned to Salem, purchasing and renovating the former Apple and Orange Market stores.

Construction of new homes has slowed compared to prior years, but 17 new homes and townhouses with an assessed value of \$2.8 million were constructed in the City during fiscal year 2011. Construction continued in several different subdivisions in the City.

Consumer spending, unemployment rates and new home construction, while reflecting some improvement in fiscal year 2011, have not returned to pre-recession levels. Despite continuing financial challenges, Salem was 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. Salem's unemployment rate of 6.1%, a decrease from the prior year, is below the state and national unemployment rates of 6.3% and 9.3%, respectively. A strong educational system providing a well-educated and skilled workforce along with generally lower operating costs is a key reason why employers have chosen to relocate in Salem and the rest of the Valley. The City's effort to retain existing business and industry is an integral part of its economic development efforts.

In fiscal year 2011, general fund revenues increased \$2 million or 3.1%. Property taxes comprised approximately 49.1% of general fund revenues and showed modest growth from the prior year. Many localities faced major declines in real estate assessments over the past several years. Salem's assessments never experienced the spike in prices that took place prior to 2007 in many areas of the country. Subsequently, Salem has not experienced the significant decreases in residential values that have taken place in other areas. Salem's real estate assessments rose 1.7% in fiscal year 2011, resulting in tax revenue growth of \$344,000. Property sales in certain areas of the City triggered slight increases in land values. In addition, improvements to existing properties contributed to the increase. The number of properties in foreclosure remained level with the prior year. Personal property tax revenue increased \$101,000 or 1.8% due to increased purchases of sport utility vehicles. Collections during the 60 day availability period were lower compared to the prior year causing a larger amount of real estate and personal property tax revenue to be deferred. New equipment purchases contributed to the \$111,000 or 4.4% increase in machinery and tools tax revenue.

Other local tax revenue increased \$620,000 or 3.8%. Sales tax revenue showed encouraging growth of \$215,000 or 3.9%. Meals, lodging and admissions tax revenues all increased from the previous fiscal year. Business license taxes, which are based on gross receipts, were up \$143,000 or 3.2% from fiscal year 2010. These revenue streams were reflective of economic conditions, indicating that slow

recovery from the recession is underway. Revenue in this category declined \$406,000 or 8.4% from fiscal year 2009 to fiscal year 2010 before rebounding in fiscal year 2011.

Charges for services revenue increased \$181,000 or 4.2% largely due to higher charges for waste collection and disposal, offset by a corresponding increase in transportation and disposal costs. Intergovernmental revenues increased \$233,000 or 2.2% due to a larger amount of public safety grant money awarded to the City. In addition, revenue from the state for Comprehensive Services for At Risk Youth and Families was higher than the prior year due to the number of children being served and the types of services required. Highway maintenance funding from the State also increased 3.6%.

Maintaining the high service levels to which our citizens are accustomed continued to be a challenge in fiscal year 2011. While it appears the economy is starting to improve and slight revenue growth was experienced, the City continued to closely monitor spending. Limited hiring and capital equipment purchases were made. General fund expenditures remained at fiscal year 2008 levels and totaled \$62 million, an increase of \$1.7 million or 2.9% from the prior year. Public safety costs were up \$433,000 or 3% due largely to increased jail costs. Per diem rates and average daily population increased from the previous year. Highway maintenance spending was \$300,000 higher than the previous year in the public works area. Nondepartmental expenditures increased due to higher health insurance claims expense.

### **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. All six Salem schools were fully accredited by the Virginia Department of Education and the Southern Association of Colleges and Schools (SACS). The district successfully completed the Advance ED District Accreditation process in fiscal year 2011 by hosting a Quality Assurance Team from SACS. Each of Salem's six schools and the division as a whole have met or exceeded the adequate yearly progress benchmarks under the *No Child Left Behind Act* for the 2010-2011 school year. Andrew Lewis Middle School earned the Governor's Award for Educational Excellence for the third consecutive year, one of only fourteen middle schools in Virginia to earn this prestigious honor. The Virginia Board of Education recognized South Salem Elementary, West Salem Elementary, G.W. Carver Elementary, East Salem Elementary and the Salem City School Division with its Board of Excellence Award. G.W. Carver Elementary and East Salem Elementary were recognized for the seventh consecutive year as Distinguished Title I schools by the Virginia Department of Education.

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 to promote conventions and events in the region. The annual Salem Fair held at the Salem Civic Center was the largest free gate fair

in the state. Attendance at the Fair held in July 2010 was up 9% from the previous year as more than 300,000 people visited. The Salem Red Sox played their third season at Salem Memorial Stadium with approximately 225,000 fans in attendance. 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. Besides football and basketball, the City was awarded women's softball through 2013. In 2012, Division III will return, while Division II softball comes back to town in 2013. In 2011, nearly 8,000 people traveled to Salem to attend the NCAA events held in the City, which included the Stagg Bowl, Division III Men's Basketball Championship and Division II and III Softball.

The James I. Moyer Complex hosted nearly 1,500 softball teams this year in tournaments that filled 10,662 hotel rooms in the area. Major tournaments included the ASA Men's Class E and E National Tournaments, the USSSA NIT Youth Tournament, ISF Senior World Cup and the West Virginia Wesleyan College Tournament. The largest event at the Complex was the annual Chance Crawford Benefit Tournament with 143 teams participating.

The City continued work on several major projects during fiscal year 2011. The Colorado Street Bridge replacement was completed at a cost of \$4 million. This project was funded by federal, state and local monies. Design work continued on Phase IIIA of the Roanoke River Greenway in fiscal year 2011 with construction anticipated to begin in late fall of 2011. Phase IIIA will extend the greenway approximately 1.3 miles from Eddy Street to Mill Lane. Funds from the American Recovery and Reinvestment Act have been awarded to the City to pay for a portion of construction costs. Federal Highway Safety Improvement Program funds paid for construction of the Woodbridge Safety Corridor. This quarter mile path/trail for pedestrian and bicycle traffic provides a safe route for Woodbridge Subdivision residents to access the Roanoke River Greenway. Project costs totaled approximately \$200,000. State grant monies funded the construction of canoe launches at four locations along the river to provide public water access. The launches are safe for citizens and protect the stream bank from erosion. The grant also funded the purchase of picnic tables and other amenities at several river access sites in the City.

In December 2010, Salem issued \$6,540,000 in general obligation bonds to fund several projects, including an addition to the Police Department, a new records management/computer aided dispatch/mobile system, and Civic Center HVAC improvements. In addition, 1999 and 2003B bonds totaling \$7,650,000 and \$1,180,000, respectively, were refinanced to take advantage of lower interest rates. Of the 1999 bonds refunded, \$5,400,000 was a liability of the Water and Sewage fund and

\$2,250,000 was general government debt. All of the 2003B issue refunded was general government debt.

The Police Department building was expanded by 3,600 square feet to provide office space for a judge presiding on the U. S. Court of Appeals for the Fourth Circuit and his five member staff. In addition to the new offices, existing locker rooms were expanded. General Services Administration has leased the office space from the City for a period of fifteen years with an optional five year renewal period. The new offices were completed in July 2011. A new records management/computer aided dispatch/mobile system was installed at the Police Department and became operational in the summer of 2011. The new system allows officers to access the records management system real-time from their vehicles and is equipped with automatic vehicle locator technology so dispatchers are able to see the exact location of each vehicle at all times. The new technology also offers the ability for officers to print summons from their vehicles, eliminating duplicate data entry. This feature will be implemented in the upcoming year.

The Civic Center's steam-based HVAC system is being replaced with a hot water system that should reduce maintenance costs and result in a 20% decline in energy consumption. The project includes new boilers, temperature controls, air handlers and piping. New ceilings, floors and mixed use lighting have been installed in the community room. Exterior and interior lighting, including offices, is also being replaced at the Civic Center. Motion sensors have been installed in offices to help reduce energy consumption. Completion of these projects is expected by the end of calendar year 2011.

The City borrowed \$3.8 million from Virginia Resource Authority for sewer rehabilitation. Approximately \$2.3 million was spent in fiscal year 2011 on the continuing sewer rehabilitation project, which will substantially upgrade older and problematic areas of the sewer system. The project includes lining of existing sewer lines, replacement of sewer lines, replacement of manholes and lids and manhole repair. This project is the second of a five-phase approach in improving the City's sewer system. The project should be completed by the end of calendar year 2011.

Thanks to generous donations from businesses and individuals in the community, construction of a new dog park, Salem Rotary Dog Park, was completed in the fall of 2011. The park was constructed on a vacant lot currently owned by the City located beside the Animal Shelter. Designed to be low maintenance, affordable, safe, functional and aesthetically pleasing, the park will provide a place in Salem where dogs and their owners can socialize.

### **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 1<sup>st</sup>. After an extensive study process and a public hearing to receive citizen input, the City Council adopts the budget on or before June 30<sup>th</sup>.

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 department or function 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 generally 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.

In past years when revenues performed well, it was the City's goal to increase fund balance reserves as a safeguard in times of need. Given the revenue declines experienced in fiscal years 2009 and 2010, the City felt it was appropriate to use some of these reserves instead of eliminating services to our citizens. Thanks to modest revenue increases and continued cost cutting measures in fiscal year 2011, fund balance in the general fund increased by \$560,892. Management will continue to closely monitor revenues and expenditures to ensure these reserves continue to recover to pre-recessionary levels.

Electric and Water and Sewage funds saw decreases in net assets in fiscal year 2011. Effective July 1, 2010, a new rate structure and fee schedule for water and sewer services was instituted. Rates were increased January 1, 2011 and additional increases will be effective January 1, 2012 and January 1, 2013. While charges for electricity increased \$2.8 million or 8.5%, purchased power costs increased \$3.5 million or 13.7%. The City purchases electricity for consumption and resale to City residents through an agreement with American Electric Power Service Corporation. Net assets of the Civic Center fund increased due to the transfer of \$4.3 million of bond proceeds to fund capital improvements.

### **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.

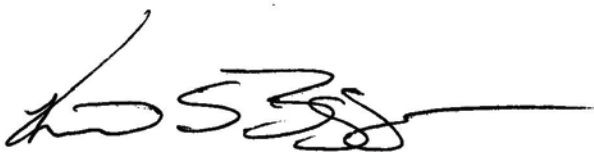
### **Certificate of Achievement for Excellence in Financial Reporting**

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 2010. This represents the twenty-third 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.

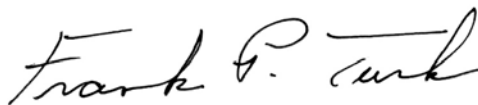
### **Acknowledgments**

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,



Kevin S. Boggess  
City Manager



Frank P. Turk  
Director of Finance

**CITY OF SALEM, VIRGINIA  
DIRECTORY OF PRINCIPAL OFFICIALS  
JUNE 30, 2011**

**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  
Frank P. Turk ..... 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 Harvey cutter, Jr. .... Director of Civic Facilities  
Mike Stevens ..... Director of Communications

**MEMBERS OF SCHOOL BOARD**

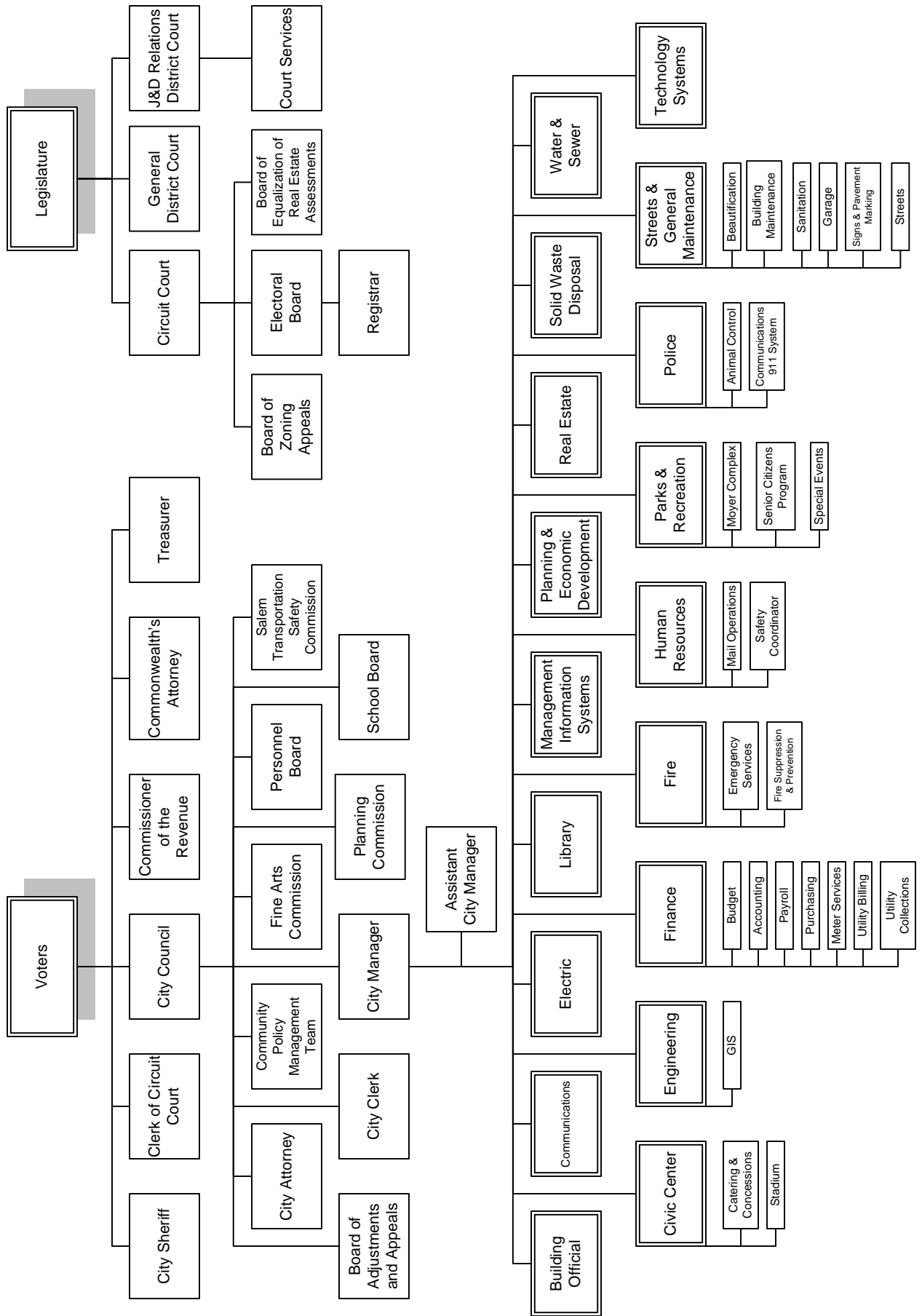
Sarah W. Southard ..... Chairman  
Cindy W. Neathawk ..... Vice Chairman  
David H. Preston ..... Member  
Artice Ledbetter ..... Member  
Dr. Michael A. Chiglinsky ..... Member

**SCHOOL ADMINISTRATION**

Dr. H. Alan Seibert ..... Superintendent of Schools  
Michael A. Bryant ..... Assistant Superintendent  
Frank P. Turk ..... Director of Finance  
Michael R. Crew ..... Director of Business  
Dr. Joseph T. Coleman ..... Director of Assessment and School Principal  
Curtis N. Hicks ..... Director of Secondary Instruction  
Russell L. Holladay ..... Director of Personnel  
Dr. Darryl D. Helems ..... Director of Student Services  
Diane D. Washenberger ..... Director of Elementary Instruction



# CITY OF SALEM, VIRGINIA ORGANIZATIONAL CHART JUNE 30, 2011



# 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, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

## FINANCIAL SECTION

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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

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

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 ("City"), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2011 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* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. 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 financial statements. The accompanying 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken 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.

*Brown, Edwards & Company, L.L.P.*  
CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 22, 2011

**CITY OF SALEM, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2011**

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, 2011. It should be read in conjunction with the transmittal letter and the City's basic financial statements.

**FINANCIAL HIGHLIGHTS**

- As of June 30, 2011, the City of Salem's primary government had \$142.3 million in total net assets, a decrease of \$2.2 million from prior year. Unrestricted net assets available to fund future expenses were \$6.3 million or 4.4% of total net assets and decreased \$4.7 million.
- As of June 30, 2011, the governmental activities had \$77.2 million in total net assets, which decreased \$3.7 million from prior year. Unrestricted net assets available to fund future expenses were \$(12.6) million or (16.3)% of total net assets and decreased by \$3.2 million from prior year.
- As of June 30, 2011, the business-type activities had \$65.1 million in total net assets, which increased \$1.5 million from prior year. Unrestricted net assets available to fund future expenses were \$18.9 million or 29% of total net assets and decreased \$1.5 million from prior year.
- As of June 30, 2011, the general fund had \$6.8 million in total fund balance, which increased by \$560,892 from prior year. Unassigned fund balance was \$3.4 million or 50% 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 33 and include the Statement of Net Assets 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 assets and changes that affected net assets during the fiscal year. The change in the City's net assets, 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 assets 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 Assets 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 35 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 Net Assets**

The following table presents a condensed summary of net assets.

<b>Summary of Net Assets (In Millions)</b>								
	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2011	2010	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 12.1	\$ 11.0	\$ 30.8	\$ 27.7	\$ 42.9	\$ 38.7	\$ 9.2	\$ 9.8
Capital assets, net	99.7	100.3	101.0	100.5	200.7	200.8	37.9	38.4
<b>Total assets</b>	<b>111.8</b>	<b>111.3</b>	<b>131.8</b>	<b>128.2</b>	<b>243.6</b>	<b>239.5</b>	<b>47.1</b>	<b>48.2</b>
Current and other liabilities	4.0	3.7	10.5	7.8	14.5	11.5	4.3	4.7
Long-term liabilities	30.6	26.7	56.2	56.8	86.8	83.5	0.9	0.9
<b>Total liabilities</b>	<b>34.6</b>	<b>30.4</b>	<b>66.7</b>	<b>64.6</b>	<b>101.3</b>	<b>95.0</b>	<b>5.2</b>	<b>5.6</b>
Invested in capital assets, net of related debt	88.4	90.3	44.2	43.2	132.6	133.5	37.9	38.4
Restricted	1.4	-	2.0	-	3.4	-	-	-
Unrestricted	(12.6)	(9.4)	18.9	20.4	6.3	11.0	4.0	4.2
<b>Total net assets</b>	<b>\$ 77.2</b>	<b>\$ 80.9</b>	<b>\$ 65.1</b>	<b>\$ 63.6</b>	<b>\$ 142.3</b>	<b>\$ 144.5</b>	<b>\$ 41.9</b>	<b>\$ 42.6</b>

The primary government net assets decreased from \$144.5 million to \$142.3 million. Net assets of business-type activities increased \$1.5 million offset by a decrease of \$3.7 million in governmental activities. A detailed description of the changes in revenues and expenses that create the differences in net assets is discussed in the next section.

Net assets invested in capital assets, net of related debt, 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 assets, the portion of net assets that can be used to finance the daily operations of the City was \$6.3 million, a decrease of \$4.7 million from prior year. Debt totaling \$4.4 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 \$12.5 million of debt issued for school improvements while the School Division recorded the related asset. As such, \$16.9 million is included in governmental activities long-term liabilities, which directly reduced unrestricted net assets.

Net assets are 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 assets totaling \$1.4 million as of June 30, 2011 for governmental activities. Approximately \$950,000 in state funding was received, but not yet spent, for highway maintenance. Approximately \$335,000 in federal and state public safety grant funding was received, but not yet spent, for fire programs, asset forfeiture and hazardous materials grants. Unspent bond proceeds of \$130,000 are restricted to fund future capital projects. For business type activities, restricted net assets totaled \$2.0 million as of June 30, 2011 and consisted of unspent bond proceeds transferred to the Civic Center to fund ongoing HVAC improvements.



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

As of June 30, 2011, the component unit had \$41.9 million in total net assets, which decreased \$665,686 from prior year. Unrestricted net assets available to fund future expenses were \$4 million or 9.5% of total net assets and decreased by \$136,843 from prior year.

**Summary of Changes in Net Assets**

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

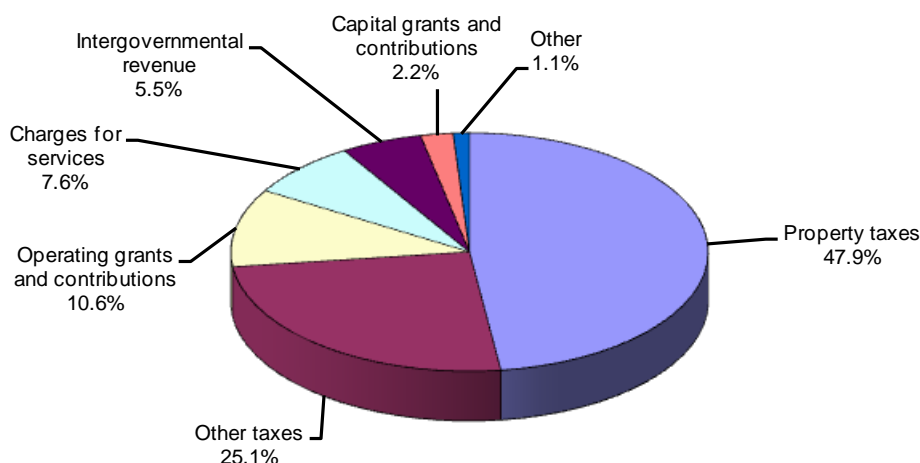
**Summary of Changes in Net Assets**  
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2011	2010	2011	2010	2011	2010	2011	2010
<b>Revenues</b>								
<i>Program Revenues:</i>								
Charges for services	\$ 5.1	\$ 4.9	\$47.5	\$45.1	\$ 52.6	\$ 50.0	\$ 1.6	\$ 1.7
Operating grants and contributions	7.1	6.8	-	-	7.1	6.8	7.2	8.7
Capital grants and contributions	1.5	2.7	-	-	1.5	2.7	-	-
<i>General Revenues:</i>								
Property taxes	32.1	31.5	-	-	32.1	31.5	-	-
Local sales and use tax	5.7	5.5	-	-	5.7	5.5	-	-
Business license tax	4.6	4.4	-	-	4.6	4.4	-	-
Meals tax	2.6	2.4	-	-	2.6	2.4	-	-
Utility taxes	1.1	1.1	-	-	1.1	1.1	-	-
Other taxes	2.8	2.7	-	-	2.8	2.7	-	-
Intergovernmental revenue	3.7	3.8	-	-	3.7	3.8	-	-
Investment earnings	0.1	0.1	-	-	0.1	0.1	-	-
Payments from City of Salem	-	-	-	-	-	-	18.4	18.4
State aid	-	-	-	-	-	-	12.8	13.7
Other	0.6	0.3	-	0.3	0.6	0.6	0.5	0.4
<b>Total revenues</b>	<b>67.0</b>	<b>66.2</b>	<b>47.5</b>	<b>45.4</b>	<b>114.5</b>	<b>111.6</b>	<b>40.5</b>	<b>42.9</b>
<b>Expenses</b>								
General government	\$ 6.2	\$ 5.4	\$ -	\$ -	\$ 6.2	\$ 5.4	\$ -	\$ -
Judicial administration	1.9	1.8	-	-	1.9	1.8	-	-
Public safety	15.8	15.3	-	-	15.8	15.3	-	-
Public works	13.9	14.0	-	-	13.9	14.0	-	-
Health and welfare	2.7	2.3	-	-	2.7	2.3	-	-
Education	18.4	18.4	-	-	18.4	18.4	41.2	42.3
Parks, recreation and cultural	5.5	5.1	-	-	5.5	5.1	-	-
Community development	1.8	1.7	-	-	1.8	1.7	-	-
Interest on long-term debt	1.2	1.1	-	-	1.2	1.1	-	-
Electric	-	-	35.1	\$31.0	35.1	31.0	-	-
Water and sewage	-	-	11.0	11.0	11.0	11.0	-	-
Civic center	-	-	2.3	2.3	2.3	2.3	-	-
Catering and concessions	-	-	0.9	1.0	0.9	1.0	-	-
<b>Total expenses</b>	<b>67.4</b>	<b>65.1</b>	<b>49.3</b>	<b>45.3</b>	<b>116.7</b>	<b>110.4</b>	<b>41.2</b>	<b>42.3</b>
<b>Excess (deficiency) before transfers</b>	<b>(0.4)</b>	<b>1.1</b>	<b>(1.8)</b>	<b>0.1</b>	<b>(2.2)</b>	<b>1.2</b>	<b>(0.7)</b>	<b>0.6</b>
Transfers	(3.3)	0.6	3.3	(0.6)	-	-	-	-
<b>Increase (decrease) in net assets</b>	<b>(3.7)</b>	<b>1.7</b>	<b>1.5</b>	<b>(0.5)</b>	<b>(2.2)</b>	<b>1.2</b>	<b>(0.7)</b>	<b>0.6</b>
<b>Net assets, beginning</b>	<b>80.9</b>	<b>79.2</b>	<b>63.6</b>	<b>64.1</b>	<b>144.5</b>	<b>143.3</b>	<b>42.6</b>	<b>42.0</b>
<b>Net assets, ending</b>	<b>\$ 77.2</b>	<b>\$80.9</b>	<b>\$65.1</b>	<b>\$63.6</b>	<b>\$142.3</b>	<b>\$144.5</b>	<b>\$41.9</b>	<b>\$42.6</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### Governmental Activities – Revenues

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



Property taxes, which were 47.9% 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. These revenues reflected growth of \$591,543 from prior year. New equipment purchases resulted in an \$111,000 or 4.4% increase in machinery and tools tax revenue. Real estate revenue showed moderate growth of 1% or \$209,000.

Other taxes which included sales and use tax, business and professional occupational license tax, meals tax, utility tax, lodging tax, motor vehicle tax, cigarette tax and other miscellaneous tax, comprised 25.1% of total governmental activities revenue and increased \$619,721 or 3.8%. Revenues in this category are very reflective of economic conditions and were most affected in prior years by the recessionary conditions. All taxes in this category except cigarette and motor vehicle tax showed improved performance. Sales and use tax, business and professional occupational license tax and meals tax revenue increased \$480,922 or 3.9%, 3.2% and 5%, respectively compared to the previous year.

Operating grants and contributions, which were 10.6% of total governmental activities revenues, include social service programs, street maintenance funds, reimbursement for constitutional officers, funding received under House Bill 599 for law enforcement and other grants and contributions. These revenues increased \$331,243 from prior year. 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 the types of services provided. In the public works function, highway maintenance funding from the state increased \$120,000 or 3.6% from the previous year.

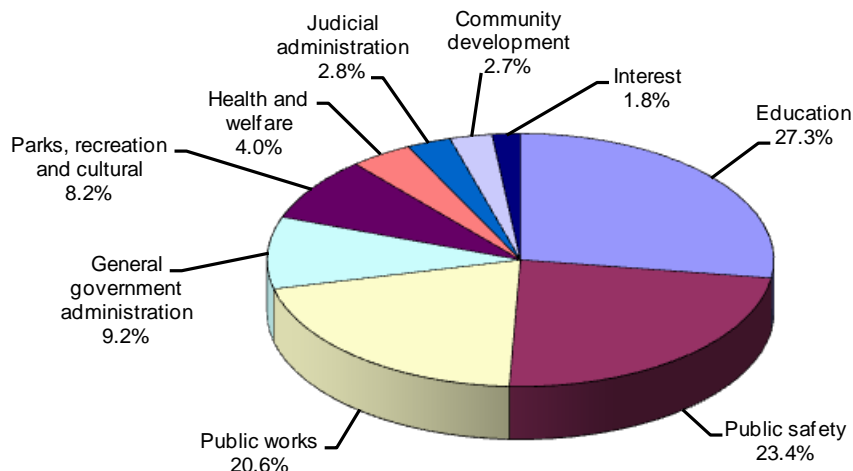
Charges for services, which were 7.6% of total governmental activities revenues, include fines, court fees, inspection fees, garbage collection fees, recreation fees and other program-based fees. These revenues increased \$247,149 from prior year primarily due to higher solid waste disposal charges. Fees charged for ambulance transports under the revenue recovery program also increased.

Capital grants and contributions, which were 2.2% of total governmental activities revenue, include grants received from federal and state agencies to fund capital purchases. These revenues decreased \$1.2 million from the previous year. The Colorado Street bridge project was completed in fiscal year 2011 and less grant funding was received. Phase IIA of the Roanoke River Greenway project was nearing completion at the end of fiscal year 2010 and while work on other phases continued in fiscal year 2011, less funding was received. Funding received from FEMA to purchase homes located in the flood plain declined from the prior year. In addition, infrastructure donations from contractors were lower in fiscal year 2011. These decreases were partially offset by an increase in federal funding received for interior finishing and office furnishings for the judge's chambers at the Police Department.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### Governmental Activities – Expenses

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



As required by Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, a new actuarial study was completed as of June 30, 2011. The City fully funded its actuarially determined annual required contribution of \$396,175 and paid an additional \$40,239 to reduce the OPEB liability incurred in fiscal year 2009. OPEB expense was allocated based on full-time equivalent City government employees by functional area.

Education expenses totaling \$18.4 million or 27.3% of governmental activities, represents the largest allocation of resources. These expenses remained at the same level as the prior year.

Public safety expenses, which were 23.4% 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 \$487,882 higher than prior year largely due to jail costs. Jail per diems and inmate populations rose from the prior year. Increases were partially offset by decreased spending of asset forfeiture funds, cancellation of Dare Camp due to budgetary constraints and lower personnel costs of the Police Department.

Public works expenses, which were 20.6% of total governmental activities expenses, include engineering, solid waste management, building maintenance, street paving, traffic engineering and street maintenance. These expenses decreased \$103,845 primarily due to a loss on the disposal of the old transfer station in the prior year. With construction of the new transfer station, the old building was demolished in fiscal year 2010. The decrease is partially offset by increases in highway maintenance spending and waste disposal costs. The City paid higher rates for hauling and waste disposal and more waste required disposal in fiscal year 2011.

General government expenses, which were 9.2% of total governmental activities expenses, include charges for administrative departments. As part of the City's review of planned capital improvements, it was determined that certain projects would not proceed due to funding or other issues. As such, design costs incurred as of June 30, 2011 were expensed.

Parks, recreation and cultural expenses were 8.2% of total governmental activities expenses and increased \$431,366 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. After review of ongoing projects, certain amounts included in prior year construction in progress balances were expensed.

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

### Business-type Activities

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

### Component Unit – School Division Activities

The School Division incurred total expenses of \$41.2 million for the year ended June 30, 2011 a decrease of \$1.1 million or 2.9% from prior year. Operating grants and contributions were \$1.5 million lower in fiscal year 2011 largely due to cuts in federal stimulus funding. State aid, which included basic aid, sales tax and lottery funding, decreased \$878,835 from the previous year. Lottery funding, which totaled \$292,934 in the previous year, was eliminated in fiscal year 2011. Basic aid decreased \$704,603. An increase of \$121,702 in sales tax revenue partially offset these declines. Cost control measures were instituted to offset the reductions in operating grants and contributions and state aid including cuts in instructional supplies and textbooks and the elimination of nine positions through attrition. The state also reduced the VRS rates the School Division paid for teachers.

## **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

### Governmental Funds

During 2011, the City implemented GASB 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*. The new standard replaces the previous reserved, unreserved and designated fund balance categories with five classifications.

- Nonspendable fund balance includes amounts that are not in spendable form, or amounts that are required to remain intact.
- Restricted fund balance includes amounts that can be spent only for the specific purposes stipulated by external providers, such as grantors or bondholders, as well as amounts that are restricted through enabling legislation.
- Committed fund balance includes amounts that can be used only for the specific purposes that are determined by a formal action of the government's highest level of decision making authority.
- Assigned fund balance applies to amounts that are intended for specific purposes as expressed by the governing body or authorized official and applies to remaining resources in any governmental funds other than general fund.
- Unassigned fund balance includes all amounts not contained in other classifications for the general fund and deficit fund balances in any other governmental fund.

As of June 30, 2011, the governmental funds had \$6.9 million in total fund balance, an increase of \$957,714 from prior year. Unassigned fund balances available to fund future expenditures were \$3.4 million or 49.3% of total fund balance. Unassigned fund balance is available to pay for future years' capital projects expenditures and provide for unforeseen circumstances. Restricted fund balance totaled \$1.4 million and assigned fund balance totaled \$1.6 million.

### General Fund

The general fund is the chief operating fund of the City. As of June 30, 2011, the general fund had \$6.8 million in total fund balance, which increased by \$560,892 from prior year. Unassigned fund balances available to fund future expenditures were \$3.4 million or 50% of total fund balance. As a measure of the general fund's liquidity, it may be useful to compare both total fund balance and unassigned fund balance to total fund expenditures. Total fund balance to total fund expenditures is 10.9% for 2011, which is up from 10.3% in the prior year. Unassigned fund balance to total fund expenditures is 5.4%.

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 state of the economy and the implementation of GASB 45 related to other postemployment benefits have adversely affected progress towards this goal. Unassigned

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **(Continued)**

fund balance to total fund revenues is 5.2%, short of City Council's goal. As the economy improves, the City should be better positioned to meet the objective.

Property taxes, which were 49.1% of total general fund revenue, increased \$582,645 or 1.9% from the prior year. While real estate and personal property assessments increased slightly, collections were down, increasing the amount of deferred revenue. Investment in new equipment by businesses fueled a 4.4% increase in machinery and tools tax.

Other local taxes, which comprised 25.7% of total general fund revenue, increased \$619,721 or 3.8% 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 \$215,000 or 4% from the prior year. Meals, lodging and admission tax revenues also showed growth from the prior year. Business license taxes, which are based on gross receipts, were up \$143,000 or 3.2%.

Intergovernmental revenue, which was 16.3% of total general fund revenue, increased \$232,847 or 2.2% from the prior year. Funding received under the Comprehensive Services Act increased as more children required assistance and the types of services needed resulted in higher costs. Rental tax from Department of Motor Vehicles was higher than the previous year. Additional grant funding was received in the public safety area. Increases were partially offset by a decline in FEMA funding used to purchase properties located in the flood plain in the prior year.

Charges for services, which were 6.8% of total general fund revenue, increased \$181,310 or 4.2% from prior year due to higher waste collection and disposal charges. Recycling proceeds were also higher due to increased efforts to promote the recycling program.

Education expenditures, which represents operating support provided to the School Division, remained level with the prior year. Education expenses represented 29.6% of general fund expenditures.

Public safety expenditures, which comprised 23.8% of total general fund expenditures, increased by \$433,090 or 3.0% from the prior year due to higher jail costs. Per diems increased as did the number of prisoners. Decreased expenditures resulting from the cancellation of the Dare Camp program partially offset these increases.

Public works expenditures, which were 18.7% of total general fund expenditures, increased \$555,762 or 5.0% from the prior year. Highway maintenance costs increased almost \$300,000 or 10%. Waste disposal costs were also higher than the prior year.

General government expenditures decreased \$331,635 or 6.3% largely due to lower expenditures in the technology area. In fiscal year 2010, data center and software expenditures were higher as the data center project was completed.

Health and welfare expenditures were 16.9% or \$388,626 higher than the previous year. Comprehensive Services Act expenditures increased as more children required assistance and the types of services needed resulted in higher costs.

Non-departmental expenditures, which were 4.7% of total general fund expenditures, increased \$328,689 or 12.7% primarily due to higher health insurance claims expense.

#### *Capital Projects Fund*

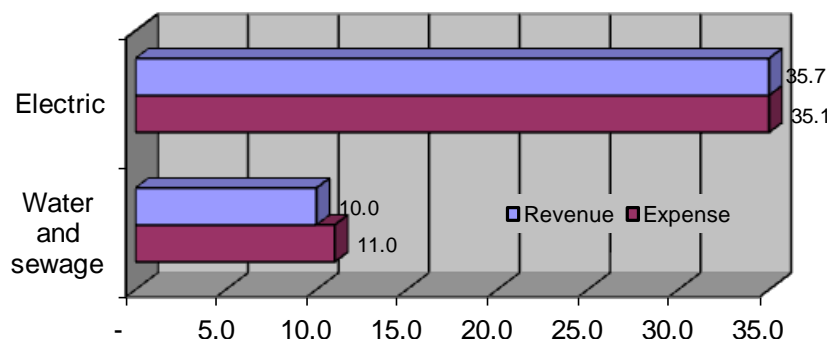
During fiscal year 2011, the capital projects fund total fund balance increased by \$396,822. Bond proceeds of \$6.5 million funded the addition of the judge's chambers at the Police Department and the Police Department's new records management/computer aided dispatch/mobile system. Expenditures of \$1,811,000 and \$558,968, respectively, were incurred in fiscal year 2011 for these two projects. The federal government reimbursed the City \$446,580 for interior finishing costs and furnishings for the judge's chambers. Construction costs of \$1 million were incurred for the Colorado Street Bridge project. Expenditures for the Woodbridge Safety Corridor totaled \$171,776. Revenue from the state totaling \$1.4

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

million helped support these projects. Bond proceeds of \$4.36 million were transferred to the Civic Center fund for HVAC improvements.

### **Proprietary Funds**

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



### **Electric Fund**

As of June 30, 2011, the electric fund had \$32.3 million in total net assets, which decreased by \$1.5 million from prior year. Net assets invested in capital assets, net of related debt were \$14.7 million or 45.6% of total net assets and decreased \$392,267 from prior year. Unrestricted net assets available to fund future expenses were \$17.5 million or 54.4% of total net assets and decreased by \$1.1 million from prior year.

For fiscal year 2011, operating revenue was \$35.7 million and increased \$2.8 million from the prior year primarily due to an average rate increase of 8.5% instituted to cover rising purchased power costs. Operating expenses were \$34.2 million and were \$3.5 million greater than prior year primarily due to higher purchased power costs. Depreciation expense in fiscal year 2011 was higher because a full year of depreciation was included for the new electric administration building. In the previous year, expendable equipment and small tools were purchased to furnish the new administration building. The decrease in expendable equipment in fiscal year 2011 partially offset other increases. Net nonoperating expense was \$897,392, an increase in net expense of \$673,732 from prior year primarily due to an increase in interest expense. Transfers to the general fund were \$2,147,900 and represent a payment in lieu of taxes of \$1.5 million and \$647,900 in funding assistance for capital purchases.

### **Water and Sewage Fund**

As of June 30, 2011, the water and sewage fund had \$26.3 million in total net assets, a decline of \$961,491 from prior year. Net assets invested in capital assets, net of related debt were \$24.9 million or 94.8% of total net assets and decreased \$690,002 from prior year. Unrestricted net assets available to fund future expenses were \$1.4 million or 5.2% of total net assets and decreased by \$271,489 from prior year.

For fiscal year 2011, operating revenue was \$10 million and decreased by \$340,637 from prior 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. However, due to the rate restructuring, operating revenues were lower in fiscal year 2011. Additional rate increases will be phased incrementally over three additional years. Operating expenses were \$9.6 million and increased by \$100,000 from 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, \$415,720 in expenses incurred for these projects was expensed in fiscal year 2011, increasing maintenance costs. Treatment of sewage costs were lower due to improvements in the sewage collection system that reduced infiltration and inflows of storm water into the system, thus reducing the amount of sewage treated. Salary and fringe benefit costs declined as there were several positions vacant during fiscal year 2011, partially offsetting other increases. Net

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

nonoperating expenses were \$1.4 million and decreased by \$130,954 from prior year primarily due to lower interest expense. No capital contributions were received in fiscal year 2011.

### 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 2011 (In Millions)

	Original Budget	Budget As Amended	Actual
Revenues	\$ 63.2	\$ 65.3	\$ 65.3
Expenditures	(60.4)	(63.3)	(62.2)
Transfers in	1.5	2.1	2.1
Transfers out	(4.3)	(4.6)	(4.6)
Use of fund balance	\$ -	\$ (0.5)	\$ 0.6

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, 2010.
- To re-appropriate grants, donations and other revenues authorized in fiscal year 2010 or earlier, but not expended or encumbered as of June 30, 2010.
- To appropriate grants, donations and other revenues accepted or adjusted in fiscal year 2011 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 .5% from \$200.8 million to \$200.7 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.

#### Capital Assets, Net of Depreciation (In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2011	2010	2011	2010	2011	2010	2011	2010
Land	\$ 5.8	\$ 5.7	\$ 1.4	\$ 1.4	\$ 7.2	\$ 7.1	\$ 1.1	\$ 1.1
Construction in progress	2.9	5.2	7.3	2.8	10.2	8.0	0.2	0.6
Machinery and equipment	4.6	5.4	1.6	2.1	6.2	7.5	2.5	2.3
Buildings and improvements	25.7	26.5	17.7	18.2	43.4	44.7	34.1	34.4
Public domain infrastructure	60.7	57.5	-	-	60.7	57.5	-	-
Distribution and transmission	-	-	16.7	17.2	16.7	17.2	-	-
Utility plant	-	-	32.5	34.3	32.5	34.3	-	-
Sewage treatment contract	-	-	23.8	24.5	23.8	24.5	-	-
Total	\$ 99.7	\$ 100.3	\$ 101.0	\$ 100.5	\$ 200.7	\$ 200.8	\$ 37.9	\$ 38.4

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

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

- \$1 million was spent for the Colorado Street Bridge replacement, which was completed at a total cost of \$4 million. The project was funded by federal, state and local monies.
- \$1.8 million was expended for the Police Department addition, which will house a judge presiding on the U. S. Court of Appeals for the Fourth Circuit. This project was funded with bond proceeds of \$1.4 million. The federal government paid the City \$467,000 to cover the costs of finishing the interior of the addition and furnishing the new offices. Existing locker rooms were also expanded. General Services Administration has leased the office space from the City for a period of fifteen years with an optional five year renewal period.
- The Police Department's records management/computer aided dispatch/mobile system was replaced at a cost of \$559,000. Funding of \$150,000 was provided by the state with remaining funding provided from bond proceeds. The new system became operational in July 2011.
- \$171,776 was expended to complete the Woodbridge Safety Corridor, which provides access from Woodbridge subdivision to the Roanoke River Greenway.
- Storm drain infrastructure at Main and Broad Streets was reinforced at a cost of \$175,021.

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

- \$2.4 was spent on the Civic Center HVAC replacement project, which was funded from bond proceeds. The old steam-based system was replaced with a hot water system that will be more energy efficient. Community room improvements were also underway, including installation of a new ceiling, floors and lighting.
- \$2.3 million was expended for the continuing sewer rehabilitation project, which substantially upgraded older and problematic areas of the sewer system. Bonds issued through Virginia Resources Authority funded the project. This phase is expected to be completed by the end of calendar year 2011.
- \$513,000 was spent on improvements to Electric distribution and transmission infrastructure.

### **LONG-TERM DEBT**

At June 30, 2011, the City's long-term liabilities, excluding compensated absences, other postemployment benefit liabilities, bond premiums, bond discounts and bond issuance costs, totaled \$83.7 million. This amount was comprised of \$28.0 million related to governmental activities (including \$12.5 million for debt held on behalf of the School Division) and \$55.7 million related to business-type activities. The City made \$5.6 million in principal payments and amortized \$160,753 in bond issuance costs, discounts and premiums.

Total debt increased \$3,034,332 during the fiscal year due to an additional \$6,540,000 in general obligation bonds issued by the City on December 7, 2010 through the VML/VACo pool to fund current capital projects. Proceeds of \$4,355,000 from the bond issuance were transferred from governmental activities to business-type activities to fund heating, cooling, and air conditioning (HVAC) improvements at the Civic Center. Detailed information regarding these changes in long-term debt is disclosed in Note 8 to the financial statements.

The City issued \$8,570,000 in general obligation bonds to advance refund \$7,650,000 of outstanding 1999 general obligation bonds and \$1,180,000 of outstanding 2003B general obligation bonds. The City completed the advance refunding to reduce its total future debt service payments.

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 \$28.0 million



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

is below the legal debt limit of \$201.2 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 2011 were \$1.2 million or 1.8% of total governmental activities expenses.

### **FACTORS INFLUENCING FUTURE BUDGETS**

Most economists agree that our nation is slowly recovering from the recession. Salem's unemployment rate declined from the prior year rate of 7.2% to 6.1% and is well below the national unemployment rate of 9.3% (Virginia Employment Commission). Salem is experiencing the highest rates of unemployment in the construction industry, but is fortunate to have a large number of people employed in the health care industry, which is less affected by recessionary conditions than other industries (Virginia Employment Commission).

Other local taxes affected by recessionary economic conditions performed better in fiscal year 2011. For fiscal year 2012, it is anticipated that modest revenue growth will continue. Property taxes comprise approximately 52% of the general fund revenue budget. Real estate and personal property tax revenues are expected to show slight increases from fiscal year 2011. Other local tax revenues are also expected to show slight recovery. Limited hiring and reduced capital spending were employed in fiscal year 2011 to deal with budget constraints and will continue in fiscal year 2012. Funding for education comprises approximately 27.3% of the general fund expenditure budget. The City has been able to avoid cuts in education funding, which will remain level funded again in fiscal year 2012.

The City is in the sixth 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 2011, the cost to purchase electricity increased approximately \$3.5 million from the previous year. To offset the rising costs of wholesale electricity, the City increased rates charged to customers by approximately 8% in fiscal year 2011 and anticipates an 8% increase in wholesale electricity rates in fiscal year 2012.

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 system revenue to sustain long-term water and sewer systems will be phased incrementally over a four-year period, which began in 2010. New fees included non-user fees, fire suppression service fees and facility fees. A rate increase was effective January 1, 2011 with additional increases effective January 1, 2012 and January 1, 2013.

Fiscal year 2011 was the last year American Recovery and Reinvestment Act (ARRA) funding was available to Salem School Division. In fiscal year 2012, one-time funding from the federal Jobs Bill stimulus will help alleviate loss of ARRA. In addition, the state provided one-time supplemental support for school operating costs. Limited capital outlay and the elimination of two positions through attrition will help address budget issues in fiscal year 2012.

The City and Salem School Division participate together in a common plan to provide healthcare to employees. This plan is self-insured and to the extent that savings can be created, costs borne by the employer and employees are reduced. After a comprehensive review of benefits and costs, a contract was entered into with HealthStat, Inc. to operate a health clinic available to employees and dependents. The clinic is intended to maximize benefits and lower costs through educating employees and helping

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

them avoid using costly medical facilities. This is a two year pilot program after which an analysis of the effectiveness of the program will determine the impact and continuance of the program.

### **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.salem.va.gov](http://www.salem.va.gov).

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

# BASIC FINANCIAL STATEMENTS

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The basic financial statements subsection of the City of Salem, Virginia's Comprehensive Annual Financial Report includes the governmental-wide statement of net assets 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 assets 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 ASSETS**  
**JUNE 30, 2011**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,460,924	\$ 20,339,420	\$ 23,800,344	\$ 7,689,916
Investments	-	207,354	207,354	-
Receivables, net	3,017,442	5,667,569	8,685,011	1,775
Due from component unit	33,132	-	33,132	-
Due from other governmental units	4,891,250	-	4,891,250	1,380,231
Inventories	494,909	1,604,607	2,099,516	66,139
Prepaid items	60,053	93,151	153,204	37,099
<i>Restricted assets:</i>				
Cash and cash equivalents	195,558	2,911,763	3,107,321	-
<i>Capital assets:</i>				
Nondepreciable	8,752,473	8,666,480	17,418,953	1,334,005
Depreciable, net	90,951,325	92,334,340	183,285,665	36,551,651
Total assets	111,857,066	131,824,684	243,681,750	47,060,816
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	2,079,650	8,383,949	10,463,599	267,250
Accrued payroll and related liabilities	1,122,095	342,554	1,464,649	3,563,009
Accrued interest	347,616	893,346	1,240,962	-
Self insurance claims liability	318,277	83,244	401,521	372,840
Due to primary government	-	-	-	33,132
Unearned revenue	132,157	129,796	261,953	20,925
Customer security deposits	-	638,075	638,075	-
<i>Long-term liabilities</i>				
<i>due in less than one year:</i>				
Bonds payable	2,623,661	3,053,169	5,676,830	-
Compensated absences	1,745,540	451,323	2,196,863	334,560
<i>Long-term liabilities</i>				
<i>due in more than one year:</i>				
Bonds payable	25,290,243	52,408,339	77,698,582	-
Compensated absences	158,726	166,750	325,476	537,440
Other postemployment benefits	772,415	215,747	988,162	-
Total liabilities	34,590,380	66,766,292	101,356,672	5,129,156
<b>NET ASSETS (DEFICIT)</b>				
Invested in capital assets, net of related debt	88,456,284	44,172,488	132,628,772	37,885,656
Restricted for:				
Grant programs	336,869	-	336,869	-
Highway maintenance	950,139	-	950,139	-
Capital projects	129,686	1,989,529	2,119,215	-
Unrestricted	(12,606,292)	18,896,375	6,290,083	4,046,004
Total net assets	\$ 77,266,686	\$ 65,058,392	\$ 142,325,078	\$ 41,931,660

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

**CITY OF SALEM, VIRGINIA  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-type Activities	Total	
<b>Primary Government</b>								
<i>Governmental activities:</i>								
General government	\$ 6,110,416	\$ 197,934	\$ 490,059	\$ 16,253	\$ (5,406,170)		\$ (5,406,170)	
Judicial administration	1,887,444	304,233	966,611	466,580	(150,020)		(150,020)	
Public safety	15,818,359	911,073	1,220,427	168,231	(13,518,628)		(13,518,628)	
Public works	13,915,318	3,418,637	3,414,747	648,185	(6,433,749)		(6,433,749)	
Health and welfare	2,738,894	-	924,241	-	(1,814,653)		(1,814,653)	
Education	18,420,000	-	-	-	(18,420,000)		(18,420,000)	
Parks, recreation and cultural	5,495,431	251,166	143,086	211,092	(4,890,087)		(4,890,087)	
Community development	1,834,749	29,329	-	7,292	(1,798,128)		(1,798,128)	
Interest on long-term debt	1,151,867	-	-	-	(1,151,867)		(1,151,867)	
Total governmental activities	<u>67,372,478</u>	<u>5,112,372</u>	<u>7,159,171</u>	<u>1,517,633</u>	<u>(53,583,302)</u>		<u>(53,583,302)</u>	
<i>Business-type activities:</i>								
Electric	35,145,346	35,726,379	-	39,929		\$ 620,962	620,962	
Water and sewage	11,034,638	9,988,563	-	-		(1,046,075)	(1,046,075)	
Civic Center	2,374,165	912,697	-	-		(1,461,468)	(1,461,468)	
Catering and concessions	878,171	858,714	-	-		(19,457)	(19,457)	
Total business-type activities	<u>49,432,320</u>	<u>47,486,353</u>	<u>-</u>	<u>39,929</u>		<u>(1,906,038)</u>	<u>(1,906,038)</u>	
<b>Total primary government</b>	<u>\$ 116,804,798</u>	<u>\$ 52,598,725</u>	<u>\$ 7,159,171</u>	<u>\$ 1,557,562</u>	<u>\$ (53,583,302)</u>	<u>\$ (1,906,038)</u>	<u>\$ (55,489,340)</u>	
<b>Component Unit</b>	<u>\$ 41,158,259</u>	<u>\$ 1,591,030</u>	<u>\$ 7,159,185</u>	<u>\$ -</u>				<u>\$ (32,408,044)</u>
<i>General revenues:</i>								
Property taxes					32,068,912	-	32,068,912	-
Local sales and use taxes					5,707,813	-	5,707,813	-
Business license tax					4,564,531	-	4,564,531	-
Meals tax					2,551,880	-	2,551,880	-
Utility taxes					1,123,400	-	1,123,400	-
Other taxes					2,805,271	-	2,805,271	-
Intergovernmental revenue not restricted					3,747,722	-	3,747,722	-
Unrestricted investment earnings					129,640	8,049	137,689	-
Payments from City of Salem					-	-	-	18,420,000
State aid					-	-	-	12,815,820
Other					603,696	-	603,696	506,538
Transfers					(3,338,110)	3,338,110	-	-
Total general revenues and transfers					<u>49,964,755</u>	<u>3,346,159</u>	<u>53,310,914</u>	<u>31,742,358</u>
Change in net assets					<u>(3,618,547)</u>	<u>1,440,121</u>	<u>(2,178,426)</u>	<u>(665,686)</u>
<b>Net assets, beginning</b>					<u>80,885,233</u>	<u>63,618,271</u>	<u>144,503,504</u>	<u>42,597,346</u>
<b>Net assets, ending</b>					<u>\$ 77,266,686</u>	<u>\$ 65,058,392</u>	<u>\$ 142,325,078</u>	<u>\$ 41,931,660</u>

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

**CITY OF SALEM, VIRGINIA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011**

	General	Debt Service	Capital Projects	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,460,924	\$ -	\$ -	\$ 3,460,924
Cash and cash equivalents, restricted	2,500	-	193,058	195,558
Receivables, net	3,017,335	-	107	3,017,442
Due from other governmental units	4,361,598	-	529,652	4,891,250
Due from other funds	400,000	-	-	400,000
Due from component unit	33,132	-	-	33,132
Inventories	494,909	-	-	494,909
Prepaid items	60,053	-	-	60,053
Total assets	<u>\$ 11,830,451</u>	<u>\$ -</u>	<u>\$ 722,817</u>	<u>\$ 12,553,268</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 1,904,750	\$ -	\$ 174,900	\$ 2,079,650
Accrued payroll and related liabilities	1,122,095	-	-	1,122,095
Self insurance claims liability	318,277	-	-	318,277
Due to other funds	-	-	400,000	400,000
Deferred revenue	1,702,656	-	18,231	1,720,887
Total liabilities	<u>5,047,778</u>	<u>-</u>	<u>593,131</u>	<u>5,640,909</u>
<b>FUND BALANCES</b>				
Nonspendable	554,962	-	-	554,962
Restricted	1,287,008	-	129,686	1,416,694
Assigned	1,588,768	-	-	1,588,768
Unassigned	3,351,935	-	-	3,351,935
Total fund balances	<u>6,782,673</u>	<u>-</u>	<u>129,686</u>	<u>6,912,359</u>
Total liabilities and fund balances	<u>\$ 11,830,451</u>	<u>\$ -</u>	<u>\$ 722,817</u>	<u>\$ 12,553,268</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 ASSETS**  
**JUNE 30, 2011**

Total fund balance of governmental funds	\$ 6,912,359
Capital assets used in governmental activities are not considered current financial resources and, therefore, are not reported in the governmental funds.	99,703,798
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	1,588,730
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable	(28,033,897)
Bond premiums	(248,001)
Bond discounts	57,889
Bond issuance costs	310,105
Accrued interest	(347,616)
Compensated absences	(1,904,266)
Other postemployment benefits	(772,415)
Net assets of governmental activities	<u><u>\$ 77,266,686</u></u>

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

**CITY OF SALEM, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2011**

	General	Debt Service	Capital Projects	Total Governmental Funds
<b>REVENUES</b>				
Property taxes	\$ 32,042,090	\$ -	\$ -	\$ 32,042,090
Other local taxes	16,752,896	-	-	16,752,896
Permits, fees and licenses	218,094	-	-	218,094
Fines and forfeitures	164,161	-	-	164,161
Revenue from use of money and property	674,853	-	2,952	677,805
Charges for services	4,463,860	-	-	4,463,860
Other	284,324	-	-	284,324
Intergovernmental	10,652,981	250,000	1,659,693	12,562,674
Total revenues	<u>65,253,259</u>	<u>250,000</u>	<u>1,662,645</u>	<u>67,165,904</u>
<b>EXPENDITURES</b>				
<i>Current:</i>				
General government	4,900,770	-	-	4,900,770
Judicial administration	1,788,821	-	-	1,788,821
Public safety	14,792,022	-	-	14,792,022
Public works	11,656,775	-	-	11,656,775
Health and welfare	2,682,090	-	-	2,682,090
Education	18,420,000	-	-	18,420,000
Parks, recreation and cultural	4,203,452	-	-	4,203,452
Community development	879,709	-	-	879,709
Non-departmental	2,908,441	-	-	2,908,441
Capital projects	-	-	3,703,365	3,703,365
<i>Debt service:</i>				
Principal retirement	-	2,606,810	-	2,606,810
Interest	-	930,767	-	930,767
Bond issuance costs	-	55,975	61,714	117,689
Total expenditures	<u>62,232,080</u>	<u>3,593,552</u>	<u>3,765,079</u>	<u>69,590,711</u>
Excess (deficiency) of revenues over expenditures	<u>3,021,179</u>	<u>(3,343,552)</u>	<u>(2,102,434)</u>	<u>(2,424,807)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from long-term debt	-	-	6,540,000	6,540,000
Proceeds from sale of refunding bonds	-	3,339,279	-	3,339,279
Payment to refunded bond escrow agent	-	(3,430,000)	-	(3,430,000)
Premium on sale of bonds	-	169,824	78,933	248,757
Discount on sale of bonds	-	-	(48,989)	(48,989)
Transfers in	2,134,900	3,264,449	284,312	5,683,661
Transfers out	(4,595,187)	-	(4,355,000)	(8,950,187)
Total other financing sources (uses)	<u>(2,460,287)</u>	<u>3,343,552</u>	<u>2,499,256</u>	<u>3,382,521</u>
Net change in fund balances	<u>560,892</u>	<u>-</u>	<u>396,822</u>	<u>957,714</u>
<b>Fund balances, beginning</b>	<u>6,221,781</u>	<u>-</u>	<u>(267,136)</u>	<u>5,954,645</u>
<b>Fund balances, ending</b>	<u>\$ 6,782,673</u>	<u>\$ -</u>	<u>\$ 129,686</u>	<u>\$ 6,912,359</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, 2011**

Net changes in fund balances of governmental funds \$ 957,714

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	3,901,829
Capital donated	16,253
Depreciation expense	(4,209,075)
Net capital transfer to proprietary fund	(71,584)

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	(203,007)
Loss from sale of assets	(40,983)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as fund revenues. 73,752

Issuance of debt provides current financial resources to governmental funds, but increases long-term liabilities in the Statement of Net Assets.

Repayment of bond principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Assets.

Bond Proceeds, net of payment to refunded bond escrow agent	(6,449,279)
Principal payments	2,606,810
Bond premium	(248,757)
Amortization of current year bond premiums	756
Bond discount	48,989
Amortization of current year bond discounts	(1,779)
Bond issuance costs	117,689
Amortization of current year bond issuance costs	(98,430)

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	(113,006)
Change in compensated absences	25,333
Change in other postemployment benefits	68,228

Changes in net assets of governmental activities	\$ (3,618,547)
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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, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 32,227,040	\$ 32,245,040	\$ 32,042,090	\$ (202,950)
Other local taxes	16,435,360	16,570,360	16,752,896	182,536
Permits, fees and licenses	251,200	256,200	218,094	(38,106)
Fines and forfeitures	167,000	167,000	164,161	(2,839)
Revenue from use of money and property	446,550	606,550	674,853	68,303
Charges for services	4,411,650	4,441,650	4,463,860	22,210
Other	32,000	276,914	284,324	7,410
Intergovernmental	9,228,970	10,713,983	10,652,981	(61,002)
Total revenues	63,199,770	65,277,697	65,253,259	(24,438)
<b>EXPENDITURES</b>				
General government	5,092,831	5,027,528	4,900,770	126,758
Judicial administration	1,703,175	1,793,981	1,788,821	5,160
Public safety	14,080,566	15,011,039	14,792,022	219,017
Public works	11,690,520	12,108,097	11,656,775	451,322
Health and welfare	1,720,821	2,682,163	2,682,090	73
Education	18,420,000	18,420,000	18,420,000	-
Parks, recreation and cultural	4,107,193	4,257,976	4,203,452	54,524
Community development	509,244	883,439	879,709	3,730
Non-departmental	3,065,363	3,132,956	2,908,441	224,515
Total expenditures	60,389,713	63,317,179	62,232,080	1,085,099
Excess (deficiency) of revenues over expenditures	2,810,057	1,960,518	3,021,179	1,060,661
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,500,000	2,134,900	2,134,900	-
Transfers out	(4,310,057)	(4,595,205)	(4,595,187)	18
Total other financing uses	(2,810,057)	(2,460,305)	(2,460,287)	18
Net change in fund balances	\$ -	\$ (499,787)	\$ 560,892	\$ 1,060,679

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

**CITY OF SALEM, VIRGINIA**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2011**

	Business-type Activities - Enterprise Funds			
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total Proprietary Funds
<b>ASSETS</b>				
<i>Current assets:</i>				
Cash and cash equivalents	\$ 18,903,623	\$ 1,125,398	\$ 310,399	\$ 20,339,420
Cash and cash equivalents, restricted	-	-	2,911,763	2,911,763
Investments	207,354	-	-	207,354
Receivables, net	4,206,923	1,272,669	187,977	5,667,569
Inventories	1,336,574	248,247	19,786	1,604,607
Prepaid items	-	1,197	91,954	93,151
Total current assets	24,654,474	2,647,511	3,521,879	30,823,864
<i>Capital assets:</i>				
Nondepreciable	1,355,536	4,792,216	2,518,728	8,666,480
Depreciable, net	33,022,856	57,330,961	1,980,523	92,334,340
Total capital assets	34,378,392	62,123,177	4,499,251	101,000,820
Total assets	59,032,866	64,770,688	8,021,130	131,824,684
<b>LIABILITIES</b>				
<i>Current liabilities:</i>				
Accounts payable and accrued liabilities	5,926,251	1,368,731	1,088,967	8,383,949
Accrued payroll and related liabilities	108,130	119,263	115,161	342,554
Accrued interest	218,029	675,317	-	893,346
Self insurance claims liability	22,835	42,431	17,978	83,244
Unearned revenue	-	-	129,796	129,796
Customer security deposits	638,075	-	-	638,075
Bonds payable	632,588	2,420,581	-	3,053,169
Compensated absences	197,892	169,115	84,316	451,323
Total current liabilities	7,743,800	4,795,438	1,436,218	13,975,456
<i>Long-term liabilities:</i>				
Bonds payable	18,873,981	33,534,358	-	52,408,339
Compensated absences	83,450	16,887	66,413	166,750
Other postemployment benefits	56,709	111,442	47,596	215,747
Total long-term liabilities	19,014,140	33,662,687	114,009	52,790,836
Total liabilities	26,757,940	38,458,125	1,550,227	66,766,292
<b>NET ASSETS (DEFICIT)</b>				
Invested in capital assets, net of related debt	14,728,331	24,944,906	4,499,251	44,172,488
Restricted for:				
Capital projects	-	-	1,989,529	1,989,529
Unrestricted	17,546,595	1,367,657	(17,877)	18,896,375
Total net assets	\$ 32,274,926	\$ 26,312,563	\$ 6,470,903	\$ 65,058,392

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

**CITY OF SALEM, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2011**

	Business-type Activities - Enterprise Funds			
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total Proprietary Funds
<b>OPERATING REVENUES</b>				
Charges for services	\$ 35,446,001	\$ 9,710,427	\$ 1,710,659	\$ 46,867,087
Connections and transfers	11,055	77,968	-	89,023
Penalties	92,804	185,228	-	278,032
Pole rentals	160,489	-	-	160,489
Commissions	-	-	19,773	19,773
Other	16,030	14,940	40,979	71,949
Total operating revenues	<u>35,726,379</u>	<u>9,988,563</u>	<u>1,771,411</u>	<u>47,486,353</u>
<b>OPERATING EXPENSES</b>				
Salaries	-	1,530,466	1,342,765	2,873,231
Fringe benefits	-	703,157	475,581	1,178,738
Show expenses	-	-	127,874	127,874
Maintenance	-	967,395	192,286	1,159,681
Billing and collection	355,607	506,557	-	862,164
Professional services	32,333	62,817	25,888	121,038
Insurance	41,423	53,666	11,716	106,805
Purchased power	29,140,045	-	-	29,140,045
Distribution - operations	1,109,329	-	-	1,109,329
Distribution - maintenance	1,069,032	-	-	1,069,032
Administration	648,629	211,081	25,119	884,829
Travel and training	-	7,470	7,728	15,198
Materials and supplies	-	419,149	268,156	687,305
Expendable equipment and small tools	20,324	463	1,900	22,687
Utilities	-	346,645	262,676	609,321
Miscellaneous	144,680	5,890	1,036	151,606
Depreciation	1,671,700	2,874,802	313,262	4,859,764
Amortization	7,266	103,437	-	110,703
Treatment of sewage	-	1,827,045	-	1,827,045
Commissions	-	-	190,850	190,850
Total operating expenses	<u>34,240,368</u>	<u>9,620,040</u>	<u>3,246,837</u>	<u>47,107,245</u>
Operating income (loss)	<u>1,486,011</u>	<u>368,523</u>	<u>(1,475,426)</u>	<u>379,108</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest income	7,586	-	463	8,049
Interest expense	(885,778)	(1,386,355)	-	(2,272,133)
Unrealized loss on investment	(2,871)	-	-	(2,871)
Loss on sale of capital assets	(16,329)	(28,243)	(5,499)	(50,071)
Net nonoperating revenue (expenses)	<u>(897,392)</u>	<u>(1,414,598)</u>	<u>(5,036)</u>	<u>(2,317,026)</u>
Income (loss) before contributions and transfers	<u>588,619</u>	<u>(1,046,075)</u>	<u>(1,480,462)</u>	<u>(1,937,918)</u>
<b>Capital contributions in</b>	39,929	-	-	39,929
<b>Transfers in</b>	-	84,584	5,401,426	5,486,010
<b>Transfers out</b>	(2,147,900)	-	-	(2,147,900)
Change in net assets	<u>(1,519,352)</u>	<u>(961,491)</u>	<u>3,920,964</u>	<u>1,440,121</u>
<b>Net assets, beginning</b>	<u>33,794,278</u>	<u>27,274,054</u>	<u>2,549,939</u>	<u>63,618,271</u>
<b>Net assets, ending</b>	<u>\$ 32,274,926</u>	<u>\$ 26,312,563</u>	<u>\$ 6,470,903</u>	<u>\$ 65,058,392</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, 2011**

	Business-type Activities - Enterprise Funds			
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total Proprietary Funds
<b>OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 35,695,381	\$ 10,135,627	\$ 1,586,735	\$ 47,417,743
Payments to suppliers	(30,034,457)	(4,358,491)	(1,081,843)	(35,474,791)
Payments to employees	(1,679,769)	(2,233,713)	(1,776,420)	(5,689,902)
Other receipts	16,030	14,940	60,752	91,722
Net cash provided by (used in) operating activities	<u>3,997,185</u>	<u>3,558,363</u>	<u>(1,210,776)</u>	<u>6,344,772</u>
<b>NONCAPITAL FINANCING ACTIVITIES</b>				
Interfund loan	700,000	-	-	700,000
Transfers in	-	-	1,046,426	1,046,426
Transfers out	(2,147,900)	-	-	(2,147,900)
Net cash provided by (used in) noncapital financing activities	<u>(1,447,900)</u>	<u>-</u>	<u>1,046,426</u>	<u>(401,474)</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from sale of capital assets	-	4,152	855	5,007
Purchases of capital assets	(1,181,860)	(1,061,042)	(1,471,742)	(3,714,644)
Proceeds from capital debt	-	7,818,353	-	7,818,353
Payments to refunding escrow	-	(5,400,000)	-	(5,400,000)
Principal paid on capital debt	(605,670)	(2,416,524)	-	(3,022,194)
Interest paid on capital debt	(896,341)	(1,447,645)	-	(2,343,986)
Capital contributions	39,929	-	-	39,929
Transfers in	-	-	4,355,000	4,355,000
Funds received for bond issuance costs	-	-	-	-
Net cash provided by (used in) capital and related financing activities	<u>(2,643,942)</u>	<u>(2,502,706)</u>	<u>2,884,113</u>	<u>(2,262,535)</u>
<b>INVESTING ACTIVITIES</b>				
Proceeds from the sale of investments	1,188,484	-	-	1,188,484
Interest received	7,586	-	463	8,049
Net cash provided by investing activities	<u>1,196,070</u>	<u>-</u>	<u>463</u>	<u>1,196,533</u>
Net increase in cash and cash equivalents	1,101,413	1,055,657	2,720,226	4,877,296
<b>Cash and cash equivalents, beginning</b>	<u>17,802,210</u>	<u>69,741</u>	<u>501,936</u>	<u>18,373,887</u>
<b>Cash and cash equivalents, ending</b>	<u>\$ 18,903,623</u>	<u>\$ 1,125,398</u>	<u>\$ 3,222,162</u>	<u>\$ 23,251,183</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR IS COMPRISED OF THE FOLLOWING:</b>				
Cash and cash equivalents	\$ 18,903,623	\$ 1,125,398	\$ 310,399	\$ 20,339,420
Cash and cash equivalents, restricted	-	-	2,911,763	2,911,763
Total	<u>\$ 18,903,623</u>	<u>\$ 1,125,398</u>	<u>\$ 3,222,162</u>	<u>\$ 23,251,183</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 1,486,011	\$ 368,523	\$ (1,475,426)	\$ 379,108
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i>				
Depreciation and amortization	1,678,966	2,978,239	313,262	4,970,467
<i>Decrease (increase) in assets:</i>				
Receivables, net	(135,785)	162,004	(91,945)	(65,726)
Inventories	(33,190)	6,131	(2,231)	(29,290)
Prepaid items	-	(46)	(298)	(344)
<i>Increase (decrease) in liabilities:</i>				
Accounts payable and accrued liabilities	872,515	39,134	32,961	944,610
Accrued payroll and related liabilities	8,252	(647)	25,316	32,921
Self insurance claims liability	2,076	4,468	2,954	9,498
Unearned revenue	-	-	(31,979)	(31,979)
Customer security deposits payable	120,817	-	-	120,817
Compensated absences	182	6,121	17,887	24,190
Other postemployment benefits	(2,659)	(5,564)	(1,277)	(9,500)
Net cash provided by (used in) operating activities	<u>\$ 3,997,185</u>	<u>\$ 3,558,363</u>	<u>\$ (1,210,776)</u>	<u>\$ 6,344,772</u>
<i>Noncash investing, capital, and financing activities</i>				
Capital assets financed with accounts payable	\$ 36,466	\$ 1,133,956	\$ 922,234	\$ 2,092,656
Capital asset donations received	\$ -	\$ 84,584	\$ -	\$ 84,584
Unrealized loss on investments	\$ (2,871)	\$ -	\$ -	\$ (2,871)

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

**CITY OF SALEM, VIRGINIA**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2011**

	Agency Funds	OPEB Trust Fund
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,086,169	\$ -
Investments held by trustee, fair value for other pooled funds	-	2,384,957
Receivables, net	47,550	-
Due from Commonwealth of Virginia	93,930	-
Total assets	<u>1,227,649</u>	<u>2,384,957</u>
<b>LIABILITIES</b>		
Accounts payable	69,449	-
Liability to agency	<u>1,158,200</u>	-
Total liabilities	<u>1,227,649</u>	<u>-</u>
<b>NET ASSETS</b>		
Held in trust for other postemployment benefits	<u>\$ -</u>	<u>\$ 2,384,957</u>

**CITY OF SALEM, VIRGINIA**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**YEAR ENDED JUNE 30, 2011**

	OPEB Trust Fund
<b>ADDITIONS</b>	
Employer contributions	\$ 452,323
<i>Investment Income</i>	
Increase in fair value of investments	335,072
Less investment expenses	<u>(2,607)</u>
Total additions	<u>784,788</u>
Net increase in plan net assets	<u>784,788</u>
<b>Net assets held in trust for other postemployment benefits, beginning</b>	<u>1,600,169</u>
<b>Net assets held in trust for other postemployment benefits, ending</b>	<u><u>\$ 2,384,957</u></u>

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

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**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, Director of Business, 510 South College Avenue, Salem, Virginia 24153.

During the current year, the City provided \$18,420,000 of operating support to the School Division and made debt service payments of \$1,903,484 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 assets** 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 assets, revenues and expenditures/expenses, as appropriate.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**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, 2011**

**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 90 days of year-end for the City or 60 days of year-end for the School Division. 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 *change in net assets and financial position measurement focus* and the *accrual basis of accounting*. It is accounted for in the same manner as a proprietary fund type.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private sector guidance.

**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.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**1. Summary of Significant Accounting Policies (Continued)**

**Budgets and Budgetary Accounting (Continued)**

**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.

**Amendment** – The City Manager is authorized to transfer amounts within and between departments and categories. In addition, City Council may approve budget amendments. During the year, City Council approved \$3,212,614 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** – The appropriation ordinance places legal restrictions on expenditures at the department or function 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 restricted 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, 2011 total \$585,667 in the general fund and \$32,485 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 2011 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, City vehicle decals, which are required by law for all vehicles garaged in the City, may not be issued to any individual having outstanding personal property taxes. Personal property transactions during the year are taxed on a prorated basis. The tax rate for 2011 was \$3.20 per \$100 of assessed value.

**CITY OF SALEM, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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	50 years

The City capitalizes net interest costs on funds borrowed to finance the construction of proprietary capital assets. Capital asset additions included \$29,766 of net capitalized interest for the current year.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**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 assets, 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 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 assets. Bonds payable are reported net of the applicable bond premium or discount. 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.

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, 2011**

**1. Summary of Significant Accounting Policies (Continued)**

**Net Assets**

Net assets invested in capital assets, net of related debt for governmental activities excludes \$12,547,281 of School Division debt and \$4,355,000 of Civic Center debt reported by the City because the related assets are reported by the School Division and the Civic Center, respectively.

**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 or by City Council which has been designated this authority.
- **Unassigned** – Amounts that are available for any purpose; positive amounts are reported only in the general fund.

City Council establishes 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 through adoption or amendment of the budget as 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.

**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.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**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:

	<b>Primary Government</b>	<b>Component Unit</b>
Cash and cash equivalents	\$ 23,800,344	\$ 7,689,916
Cash and cash equivalents, restricted	3,107,321	-
Investments	207,354	-
	<u>\$ 27,115,019</u>	<u>\$ 7,689,916</u>

Restricted cash and cash equivalents consist of a general fund surety bond payable, Civic Center fund HVAC project bond proceeds 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. The City's bank services contract with its lead bank requires the pledging of additional security held by a third party to collateralize 100% of the City's 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).

All investment activity during the year was in securities of the type held at year-end.

**Custodial Credit Risk**

Although the City does not have a formal policy addressing custodial credit risk, the City adheres to State guidelines. As required by the *Code of Virginia*, all security holdings with maturities over 30 days may not be held in safekeeping with the counterparty to the investment transaction. As of June 30, 2011, all of the City's investments were held in a bank's trust department in the City's name or an affiliated financial institution.

**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. As of June 30, 2011, the portfolio is invested in securities with the following ratings using Moody's rating scale:

**CITY OF SALEM, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**2. Deposits and Investments (Continued)**

Rating	Percentage of Portfolio
Aaa rated money market securities	95%
Aaa rated securities	5%

**Concentration of Credit Risk**

Although the intent of the City is to diversify its investment portfolio to avoid incurring unreasonable risks regarding security type, individual financial institution or issuing entity, and maturity, the City places no limit on the amount it may invest in any one issuer. As of June 30, 2011, the portions of the City's investment portfolio with a single issuer that exceed 5% of the total portfolio are as follows:

Issuer	Percentage of Portfolio
U.S. Government Securities Money Market	95%
U.S. Treasury Bills	5%

**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 average maturity. As of June 30, 2011, the fair value and weighted average maturity of the investments are as follows:

Type of Investment	Fair Value	Average Maturity*
U.S. Treasury Bills	\$ 207,354	361
Total Investments	<u>\$ 207,354</u>	
Portfolio weighted average maturity		<u>361</u>

\* Average maturity is in days.

**3. Receivables**

Receivables are as follows:

	Governmental Activities	Business-type Activities			Component Unit
		Electric	Water and Sewage	Nonmajor Proprietary	
Tax receivables	\$ 2,290,985	\$ -	\$ -	\$ -	\$ -
Account receivables	-	4,365,013	1,334,123	200,714	-
Other receivables	1,418,269	-	-	-	1,775
Gross receivables	3,709,253	4,365,013	1,334,123	200,714	1,775
Allowance for uncollectibles	(691,811)	(158,090)	(61,454)	(12,737)	-
Receivables, net	<u>\$ 3,017,442</u>	<u>\$ 4,206,923</u>	<u>\$ 1,272,669</u>	<u>\$ 187,977</u>	<u>\$ 1,775</u>

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**4. Interfund Balances and Transfers**

The composition of the interfund balances is as follows:

Due to (fund)	Due from (fund)	
	Capital projects	
		Total
General fund	\$ 400,000	\$ 400,000
Total	\$ 400,000	\$ 400,000

The amount due to the general fund is a short-term loan to the capital projects fund that will be subsequently reimbursed through State funding.

The composition of the interfund transfers is as follows:

Transfer in (fund)	Transfer out (fund)			
	General	Electric	Capital Projects	Total
General	\$ -	\$ 2,147,900	\$ -	\$ 2,147,900
Debt service	3,264,449	-	-	3,264,449
Capital projects	284,312	-	-	284,312
Water and sewage	84,584	-	-	84,584
Nonmajor enterprise	1,046,426	-	4,355,000	5,401,426
Total	\$ 4,679,771	\$ 2,147,900	\$ 4,355,000	\$ 11,182,671

Transfers to the general fund include a payment in lieu of taxes and funding assistance for certain capital items. Transfers to the debt service fund include principal and interest payments for general government and school debt. Transfers to capital projects include the local match related to several grants and additional funding for current projects. Transfers to the water and sewage fund include capital assets transferred from the general fund. Transfers to nonmajor enterprise funds include funding assistance for operating expenses and a one-time conveyance of debt proceeds in the form of cash for expenses related to the heating, ventilation, and air conditioning (HVAC) system at the Civic Center.

The general fund transferred capital assets of \$84,584 to the water and sewage fund and the electric fund transferred capital assets of \$13,000 to the general fund, for a net transfer to proprietary funds of \$71,584, which is a reconciling item for interfund transfers for the governmental funds between Exhibit 2 and Exhibit 5.



**CITY OF SALEM, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**5. Due from Other Governmental Units**

Amounts due from other governmental units are as follows:

	<b>Governmental Activities</b>	<b>Component Unit</b>
Commonwealth of Virginia		
Personal property tax	\$ 2,588,707	\$ -
Local sales tax	981,789	-
State sales tax	-	554,743
Comprehensive Services Act	332,600	-
Communications tax	169,539	-
Constitutional officers reimbursement	92,346	-
VDEM Homeland Security grant	71,775	-
Other	58,354	-
Rental tax	42,301	-
Colorado Street Bridge funding	30,669	-
911 State grant	24,187	-
Greenway project funding	14,172	-
Federal government		
Reimbursement from GSA	484,811	-
School funds	-	825,488
	<u>\$ 4,891,250</u>	<u>\$ 1,380,231</u>

**6. Capital Assets**

Capital asset activity for the year is as follows:

<b>Governmental Activities</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	\$ 5,713,859	\$ 284,685	\$ (165,903)	\$ 5,832,641
Construction in progress	5,204,708	2,750,614	(5,035,490)	2,919,832
Capital assets, nondepreciable	<u>10,918,567</u>	<u>3,035,299</u>	<u>(5,201,393)</u>	<u>8,752,473</u>
Capital assets, depreciable				
Machinery and equipment	18,126,253	293,460	(353,380)	18,066,333
Buildings and improvements	38,240,583	132,961	(17,955)	38,355,589
Public domain infrastructure	89,250,629	5,501,663	(107,549)	94,644,743
Capital assets, depreciable	<u>145,617,465</u>	<u>5,928,084</u>	<u>(478,884)</u>	<u>151,066,665</u>
Accumulated depreciation				
Machinery and equipment	(12,688,872)	(1,055,235)	290,593	(13,453,514)
Buildings and improvements	(11,772,126)	(889,274)	5,297	(12,656,103)
Public domain infrastructure	(31,764,669)	(2,305,942)	64,888	(34,005,723)
Accumulated depreciation	<u>(56,225,667)</u>	<u>(4,250,451)</u>	<u>360,778</u>	<u>(60,115,340)</u>
Capital assets, depreciable, net	<u>89,391,798</u>	<u>1,677,633</u>	<u>(118,106)</u>	<u>90,951,325</u>
Capital assets, net	<u>\$ 100,310,365</u>	<u>\$ 4,712,932</u>	<u>\$ (5,319,499)</u>	<u>\$ 99,703,798</u>

**CITY OF SALEM, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**6. Capital Assets (Continued)**

<b>Business-type Activities</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	\$ 1,377,952	\$ -	\$ -	\$ 1,377,952
Construction in progress	2,773,436	4,966,612	(451,520)	7,288,528
Capital assets, nondepreciable	<u>4,151,388</u>	<u>4,966,612</u>	<u>(451,520)</u>	<u>8,666,480</u>
Capital assets, depreciable				
Machinery and equipment	6,717,769	37,935	(64,000)	6,691,704
Buildings and improvements	22,796,378	123,297	(7,119)	22,912,556
Distribution and transmission	33,633,425	513,504	(134,806)	34,012,123
Utility plant	73,290,822	182,827	(70,319)	73,403,330
Sewage treatment contract	28,843,397	-	-	28,843,397
Capital assets, depreciable	<u>165,281,791</u>	<u>857,563</u>	<u>(276,244)</u>	<u>165,863,110</u>
Accumulated depreciation				
Machinery and equipment	(4,663,383)	(455,280)	64,000	(5,054,663)
Buildings and improvements	(4,508,663)	(709,058)	765	(5,216,956)
Distribution and transmission	(16,426,188)	(934,338)	118,477	(17,242,049)
Utility plant	(38,987,881)	(1,994,234)	37,924	(40,944,191)
Sewage treatment contract	(4,304,057)	(766,854)	-	(5,070,911)
Accumulated depreciation	<u>(68,890,172)</u>	<u>(4,859,764)</u>	<u>221,166</u>	<u>(73,528,770)</u>
Capital assets, depreciable, net	<u>96,391,619</u>	<u>(4,002,201)</u>	<u>(55,078)</u>	<u>92,334,340</u>
Capital assets, net	<u>\$ 100,543,007</u>	<u>\$ 964,411</u>	<u>\$ (506,598)</u>	<u>\$ 101,000,820</u>

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

<b>Governmental Activities</b>		<b>Business-type Activities</b>	
General government	\$ 259,439	Electric	\$ 1,671,700
Judicial administration	40,252	Water and sewage	2,874,802
Public safety	622,183	Civic Center	306,926
Public works	2,584,060	Catering	6,336
Parks, recreation and cultural	701,404	Total depreciation expense	<u>\$ 4,859,764</u>
Community development	1,737		
Total depreciation expense	<u>\$ 4,209,075</u>		

Accumulated depreciation shown in the capital asset table for governmental activities exceeds depreciation expense by \$41,376 because the table includes accumulated depreciation for infrastructure transferred into parks & recreation.

**CITY OF SALEM, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**6. Capital Assets (Continued)**

<b>Component Unit</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, nondepreciable				
Land	\$ 1,123,637	\$ -	\$ -	\$ 1,123,637
Construction in progress	540,717	176,903	(507,252)	210,368
Capital assets, nondepreciable	1,664,354	176,903	(507,252)	1,334,005
Capital assets, depreciable				
Furniture and equipment	5,474,628	653,877	(178,804)	5,949,701
Buildings and improvements	52,528,487	963,225	(2,692)	53,489,020
Capital assets, depreciable	58,003,115	1,617,102	(181,496)	59,438,721
Accumulated depreciation				
Furniture and equipment	(3,142,072)	(436,073)	134,625	(3,443,520)
Buildings and improvements	(18,110,898)	(1,334,621)	1,969	(19,443,550)
Accumulated depreciation	(21,252,970)	(1,770,694)	136,594	(22,887,070)
Capital assets, depreciable, net	36,750,145	(153,592)	(44,902)	36,551,651
Capital assets, net	\$ 38,414,499	\$ 23,311	\$ (552,154)	\$ 37,885,656

**7. Unearned and Deferred Revenue**

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

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Component Unit</b>
Charges for services and fees	\$ 96,569	\$ 129,796	\$ 20,925
Taxes paid for subsequent year	35,588	-	-
Unearned revenue	\$ 132,157	\$ 129,796	\$ 20,925

Deferred revenue reported in the governmental funds is as follows:

	<b>Unavailable</b>	<b>Unearned</b>	<b>Total</b>
Property taxes	\$ 1,540,835	\$ -	\$ 1,540,835
Grant revenue	22,292	-	22,292
Charges for services and fees	25,603	96,569	122,172
Taxes paid for subsequent year	-	35,588	35,588
Deferred revenue	\$ 1,588,730	\$ 132,157	\$ 1,720,887

**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.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**8. Long-Term Liabilities (Continued)**

**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, 2011, \$22,245,000 of bonds are considered defeased. The deferred costs are being amortized over the life of the new bonds.

**Current Year Debt Issuance and Defeasances of Debt**

On December 7, 2010, the City issued \$2,700,000 in series 2010B general obligation taxable Build America Bonds with a true interest cost of 4.0%. The net proceeds of \$2,670,933 (after payment of \$10,721 in issuance costs and \$18,346 in underwriter's compensation) were used for Salem projects. The City also issued \$1,010,000 in series 2010C general obligation taxable bonds with a true interest cost of 2.7%. The net proceeds of \$1,000,000 (after \$4,011 in issuance costs, \$5,717 in underwriter's compensation, and \$273 in additional proceeds) were used for Salem taxable projects.

In addition, on December 7, 2010, the City issued \$11,400,000 in series 2010D general obligation tax-exempt bonds with a true interest cost of 3.24%. Of this amount, \$2,830,000 was for new bonds and \$8,570,000 was to advance refund \$7,650,000 of outstanding 1999 general obligation bonds with an average interest rate of 4.7% and \$1,180,000 of outstanding 2003B general obligation bonds with an average interest rate of 3.4%. The net proceeds of \$11,810,937 (after payment of \$45,268 in issuance costs, \$60,618 in underwriter's compensation and \$7,957 in additional proceeds) were used for Salem projects and to purchase government securities in the amounts of \$2,829,068 and \$8,981,869, respectively. The securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the 1999 and 2003B general obligation bonds. As a result, \$7,650,000 of the 1999 general obligations bonds and \$1,180,000 of the 2003B general obligation bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

The advance refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$175,405. This difference, reported in the accompanying financial statements as a subtraction from bonds payable, is being amortized over the life of the new bond as a component of interest expense through the year 2019. The City completed the advance refunding to reduce its total debt service payments by \$703,528 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$579,090.

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
General obligation bonds	\$24,066,428	\$ 9,589,884	\$ (5,622,415)	\$28,033,897	\$ 2,623,661
Bond premiums	-	248,757	(756)	248,001	-
Bond discounts	(10,679)	(48,989)	1,779	(57,889)	-
Bond issuance costs	(290,846)	(117,689)	98,430	(310,105)	-
Bonds payable	23,764,903	9,671,963	(5,522,962)	27,913,904	2,623,661
Other debt	125,000	-	(125,000)	-	-
Compensated absences	1,929,599	1,720,207	(1,745,540)	1,904,266	1,745,540
Other postemployment benefits	840,643	1,384,779	(1,453,007)	772,415	-
	<u>\$26,660,145</u>	<u>\$12,776,949</u>	<u>\$ (8,846,509)</u>	<u>\$30,590,585</u>	<u>\$ 4,369,201</u>

**CITY OF SALEM, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**8. Long-Term Liabilities (Continued)**

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>Business-type Activities</b>					
General obligation bonds	\$56,518,876	\$ 7,614,057	\$ (8,422,194)	\$55,710,739	\$ 3,053,169
Bond premiums	843,734	325,012	(51,153)	1,117,593	-
Bond issuance costs	(1,358,561)	(120,716)	112,453	(1,366,824)	-
Bonds payable	56,004,049	7,818,353	(8,360,894)	55,461,508	3,053,169
Compensated absences	593,883	475,513	(451,323)	618,073	451,323
Other postemployment benefits	225,247	427,957	(437,457)	215,747	-
	<u>\$56,823,179</u>	<u>\$ 8,721,823</u>	<u>\$ (9,249,674)</u>	<u>\$56,295,328</u>	<u>\$ 3,504,492</u>
<b>Component Unit</b>					
Compensated absences	\$ 905,746	\$ 90,023	\$ (123,769)	\$ 872,000	\$ 334,560
Other postemployment benefits	-	326,317	(326,317)	-	-
	<u>\$ 905,746</u>	<u>\$ 416,340</u>	<u>\$ (450,086)</u>	<u>\$ 872,000</u>	<u>\$ 334,560</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
<b>General Obligation Bonds</b>						
2002 Public Improvement	5.00%	01/02	01/12	23,000,000	\$ -	\$ 755,000
2003 Public Improvement	2.00-4.50%	10/03	10/23	22,000,000	14,300,000	-
2004 Refunding	1.50-3.50%	03/04	04/16	9,640,000	1,904,900	2,395,100
2004 Public Improvement	3.00%	04/04	07/26	11,052,222	-	9,276,300
2006 Public Improvement	4.00-5.00%	05/06	04/31	25,000,000	2,239,113	19,560,887
2007 Refunding	4.00-5.00%	02/07	01/27	17,045,000	-	16,780,000
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	1,010,000	-
2010 Public Improvement	2.50-4.25%	12/10	02/28	2,830,000	2,830,000	-
2010 Public Improvement	3.15%	09/10	03/31	2,383,336	-	2,383,336
2010 Refunding	2.50-4.00%	12/10	02/19	7,410,000	1,899,884	4,560,116
2010 Refunding	2.50-3.00%	12/10	02/11	1,160,000	1,150,000	-
					<u>28,033,897</u>	<u>55,710,739</u>
				Bond premiums	248,001	1,117,593
				Bond discounts	(57,889)	-
				Bond issuance costs	(310,105)	(1,366,824)
					<u>\$ 27,913,904</u>	<u>\$ 55,461,508</u>

**CITY OF SALEM, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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
2012	\$ 2,623,661	\$1,098,081	\$ 3,053,169	\$ 2,308,234
2013	2,650,685	995,318	3,156,608	2,187,995
2014	2,060,264	905,330	3,209,948	2,076,582
2015	2,066,488	826,128	3,277,195	1,953,810
2016	1,977,623	746,464	3,245,101	1,812,854
2017-2021	8,146,950	2,664,172	14,753,536	7,163,689
2022-2026	5,641,890	1,125,662	15,815,709	3,988,504
2027-2031	2,866,336	384,007	9,199,473	1,064,489
	<u>\$28,033,897</u>	<u>\$8,745,162</u>	<u>\$55,710,739</u>	<u>\$22,556,157</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
<b>Fund Balances:</b>			
<b>Nonspendable:</b>			
Inventories	\$ 494,909	\$ -	\$ -
Prepaid items	60,053	-	-
<b>Restricted for:</b>			
Judicial administration	2,230	-	-
Public safety	334,639	-	74,214
Public works	950,139	-	-
Parks & recreation	-	-	55,472
<b>Assigned to:</b>			
General government administration	268,602	-	-
Judicial administration	50,790	-	-
Public safety	604,294	-	-
Public works	547,146	-	-
Parks & recreation	110,318	-	-
Community development	7,618	-	-
<b>Unassigned:</b>	3,351,935	-	-
Total fund balances	<u>\$ 6,782,673</u>	<u>\$ -</u>	<u>\$ 129,686</u>

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**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 \$531,697 and \$95,927 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 and business automobile have a \$2,000,000 limit. Boiler and machinery coverage and property insurance are covered as per statement of values. The City maintains an additional \$5,000,000 umbrella policy over all forms of liability. 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 \$469,136.

The School Division provides general liability and other insurance through the Virginia Municipal League (VML) Self Insurance Association. General liability and business automobile have a \$1,000,000 limit. Boiler and machinery coverage and property insurance are covered as per statement of values. The School Division maintains an additional \$5,000,000 umbrella policy over all forms of liability. Total premiums for the current fiscal year were \$110,052.

**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. Effective October 1, 2010, the premium equivalent represented a minimum of 5% active or retired employee participation. Effective October 1, 2011, the premium will increase to 10% 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 \$6,695,032 in the aggregate.

During the current fiscal year total claim expenses of \$5,884,636, 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, 2011. The assigned portion of fund balance for self-insurance equaled \$1,003,101 at year-end. The estimated liability for both the City and School Division was \$798,857 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
2011	\$ 685,650	\$ 5,884,636	\$ 5,771,429	\$ 798,857
2010	\$ 618,152	\$ 5,417,326	\$ 5,349,828	\$ 685,650
2009	\$ 342,503	\$ 4,977,225	\$ 4,701,576	\$ 618,152

**Other**

There were no significant changes in insurance coverages 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, 2011**

## **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 have service credits before July 1, 2010 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 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 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. 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.

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 6%. 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.



**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
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**11. Pension Plan (Continued)**

**Plan Description (Continued)**

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 report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2010-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. This 5% member contribution has been assumed by both the City and School Division. 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, 2011 were 16.78% and 11.49% of the annual covered payroll, respectively (including the employee share of 5% paid by the employer).

For the three years ended June 30, 2011, 2010 and 2009, total employer and employee contributions made to the VRS statewide teacher cost-sharing pool for professional employees by the School Division were \$1,881,002, \$2,470,710 and \$3,034,194 representing 8.93%, 5% (last three months of the prior fiscal year), 13.81% (first nine months of the prior fiscal year), and 13.81% of annual covered payroll, respectively (including the employee share of 5% paid by the employer). The prior year contributions were reduced in the last three months of the year because of a VRS holiday.

**Annual Pension Cost**

For the fiscal year ended June 30, 2011, the City's and School Division's annual pension cost of \$3,810,025 and \$142,127, respectively, for VRS were equal to their required and actual contributions.

**Three-Year Trend Information**

		Annual Pension Cost	Percentage of APC	Net Pension
	Fiscal Year Ending	(APC)	Contributed	Obligation
<b>City of Salem</b>	June 30, 2011	\$ 3,810,025	100%	\$ -
	June 30, 2010	\$ 3,487,206	100%	\$ -
	June 30, 2009	\$ 3,540,033	100%	\$ -
<b>Component Unit</b>	June 30, 2011	\$ 142,127	100%	\$ -
<b>Non-Professional Staff</b>	June 30, 2010	\$ 136,108	100%	\$ -
	June 30, 2009	\$ 162,549	100%	\$ -

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
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**11. Pension Plan (Continued)**

**Annual Pension Cost (Continued)**

The FY11 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees 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. 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 for the June 30, 2009 for the unfunded actuarial accrued liability (UAAL) was 20 years.

**Funded Status and Funding Progress**

As of June 30, 2010, the most recent actuarial valuation date for the City, the plan was 76.20% funded. The actuarial accrued liability for benefits was \$166,392,547 and the actuarial value of assets was \$126,786,583, resulting in an unfunded actuarial accrued liability (UAAL) of \$39,605,964. The covered payroll (annual payroll of active employees covered by the plan) was \$23,172,968 and the ratio of the UAAL to the covered payroll was 170.91%.

As of June 30, 2010, the most recent actuarial valuation date for the School Division's non-professional employees, the plan was 102.49% funded. The actuarial accrued liability for benefits was \$4,030,617 and the actuarial value of assets was \$4,130,907, resulting in an unfunded actuarial accrued liability (UAAL) of \$(100,290). The covered payroll (annual payroll of active employees covered by the plan) was \$1,258,062 and the ratio of the UAAL to the covered payroll was (7.97)%.

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, a new actuarial valuation was performed as of June 30, 2011. 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. Effective October 1, 2010, full-time employees retiring 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  
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**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 retirees who retired on or before September 30, 2010 will receive a premium subsidy for 95% of the subscriber-only premium rate. For individuals retiring on or after October 1, 2010, the City will contribute 3% of the subscriber-only premium for each year of service up to 95% of the total subscriber-only premium for pre-65 retirees. Effective October 1, 2011, the maximum subsidy will reduce to 90% of the total subscriber-only premium for pre-65 retirees. Employees hired on or after July 1, 2010 will receive a maximum subsidy of 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 for 95% of the subscriber-only premium rate. Effective January 1, 2011, the City contributes 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 will reduce 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, 2011, the date of the latest actuarial valuation for the City and School Division, plan participation consisted of:

	<b>City of Salem</b>	<b>Component Unit</b>
Active employees	520	528
Retired participants	269	67
Total participants	<u>789</u>	<u>595</u>

**Funding Policy**

The Retiree Health Plan is funded through member and employer contributions. City Retirees receiving benefits contributed a minimum of 5%, 25%, 48% and 48% of the health insurance premium rate for subscriber only, subscriber + one minor child, employee & spouse, and family coverage, respectively. School Division Retirees receiving benefits contributed 100% of the health insurance premium rate. Retired City and School Division members contributed \$187,450 and \$336,297, respectively, of the total premiums through their required contributions of between \$3.15 and \$1,224, depending on the type of coverage and years of service.

**CITY OF SALEM, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**12. Other Postemployment Benefits (Continued)**

**Funding Policy (Continued)**

Based on the June 30, 2011 actuarial valuation, the City contributed \$1,890,463 to the Retiree Health Plan. Included in this amount is a current year contribution of \$436,414 to the Virginia Pooled OPEB Trust, which consisted of \$396,175 representing 100% of the annual required contribution (ARC) and \$40,239 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, 2011 actuarial valuation, the School Division contributed \$326,317 to the Retiree Health Plan. Included in this amount is a current year contribution of \$129,617 to the Virginia Pooled OPEB Trust. It is the School Division's intent 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, 2011.

	<b>City of Salem</b>	<b>Component Unit</b>
Annual required contribution	\$ 1,802,502	\$ 326,317
Interest on net OPEB obligation	71,988	-
Adjustment to annual required contribution	(61,755)	-
Annual OPEB cost	1,812,735	326,317
Contributions made	(1,890,463)	(326,317)
Decrease in net OPEB obligation	(77,728)	-
Net OPEB obligation, beginning	1,065,890	-
Net OPEB obligation, ending	<u>\$ 988,162</u>	<u>\$ -</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
<b>City of Salem</b>	June 30, 2011	\$ 1,812,735	104.3%	\$ 988,162
	June 30, 2010	\$ 1,765,258	105.7%	\$ 1,065,890
	June 30, 2009	\$ 3,418,200	65.9%	\$ 1,165,890
<b>Component Unit</b>	June 30, 2011	\$ 326,317	100.0%	\$ -
	June 30, 2010	\$ 277,617	100.0%	\$ -
	June 30, 2009	\$ 277,617	100.0%	\$ -

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
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**12. Other Postemployment Benefits (Continued)**

**Funded Status and Funding Progress**

As of June 30, 2011, the City's most recent actuarial valuation date, the plan was 9.9% funded. The actuarial accrued liability (AAL) for benefits was \$24,152,578 and the actuarial value of assets was \$2,384,957, resulting in an unfunded actuarial accrued liability (UAAL) for benefits of \$21,767,621. The covered payroll (annual payroll of active employees covered by the plan) was \$22,705,749 and the ratio of the UAAL to the covered payroll was 95.9%.

As of June 30, 2011, the School Division's most recent actuarial valuation date, the plan was 15.1% funded. The AAL for benefits was \$3,041,121 and the actuarial value of assets was \$460,426, resulting in a UAAL for benefits of \$2,580,695. The covered payroll (annual payroll of active employees covered by the plan) was \$22,300,816 and the ratio of the UAAL to the covered payroll was 11.6%.

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.

	<b>City of Salem</b>	<b>Component Unit</b>
	June 30, 2011	June 30, 2011
Actuarial valuation date		
<b><u>Actuarial methods</u></b>		
Actuarial cost method	Projected Unit Credit	Projected Unit Credit
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
<b><u>Actuarial assumptions</u></b>		
Investment rate of return	7.00%	7.00%
Projected annual salaries increase	2.50%	2.50%
Healthcare cost trend rate	10% for fiscal year 2011 grading to 5% for fiscal year 2016	10% for fiscal year 2011 grading to 5% for fiscal year 2016

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**13. Commitments and Contingencies**

**Construction Commitments**

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

	Spent To Date	Remaining Contract
Civic Center HVAC Replacement	\$ 2,336,418	\$1,986,175
Sewer Rehabilitation and Upgrades	2,262,568	268,353
Woodbridge Subdivision Electric Conduit	36,467	81,241
Police Department Judge's Addition	1,778,837	32,485
AIIMS Building A/E	54,038	21,681
Andrew Lewis Pilaster Repairs	39,954	31,629
	<u>\$ 6,508,282</u>	<u>\$2,421,564</u>

**Operating Leases**

The City and School Division entered several non-cancelable operating leases for office space and equipment. Rent expenditures for the current year were \$72,964 and \$58,762 for the City and School Division, respectively. At the end of the year the future minimum rentals for the next five years are as follows:

Fiscal Year Ending	Governmental Activities	Component Unit
June 30, 2012	\$ 79,430	\$ 51,802
June 30, 2013	85,595	20,456
June 30, 2014	66,966	17,202
June 30, 2015	41,616	1,535
June 30, 2016	-	-
	<u>\$ 273,607</u>	<u>\$ 90,995</u>

**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, 2010 expensed in the current fiscal year was \$2,747,649. 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.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**13. Commitments and Contingencies (Continued)**

**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 4<sup>th</sup> 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, 2011, \$80,873 has been remitted.

**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.

**14. 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, 2011, 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.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**14. Jointly Governed Organizations (Continued)**

**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, 2011, the City remitted \$252,540 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, 2011, the School Division remitted \$443,347 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.

**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, 2011, the City remitted \$8,050 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, 2011, the City remitted \$1,017,840 for per diem charges and \$333,191 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.

**15. Subsequent Event**

On July 15, 2011, 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 of space 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. Base annual rent is set at \$10,662 per month. Total base rent over the lease period is \$1,919,135. The lease includes a five year renewal option under the same terms and conditions.



**CITY OF SALEM, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**16. New Accounting Standards**

The Governmental Accounting Standards Board (GASB) has issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The statement establishes recognition, measurement, and disclosure requirements for service concession arrangements (SCAs) for both transferors and government operators. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. Management has not completed the process of evaluating the impact that will result from adoption of the standard, and is therefore unable to disclose the impact of adoption.

The GASB has issued Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*, which provides guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The provisions of this statement are effective for financial statements for periods beginning after June 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.

The GASB has issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. Management has not completed the process evaluating the impact that will result from adoption of the standard, and is therefore unable to disclose the impact of adoption.

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## REQUIRED SUPPLEMENTARY INFORMATION

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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, 2011**

**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, 2010	\$ 126,786,583	\$ 166,392,547	\$ 39,605,964	76.20%	\$ 23,172,968	170.91%
June 30, 2009	\$ 129,680,495	\$ 153,476,528	\$ 23,796,033	84.50%	\$ 24,004,460	99.13%
June 30, 2008	\$ 130,949,044	\$ 143,763,718	\$ 12,814,674	91.09%	\$ 22,986,624	55.75%

**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, 2010	\$ 4,130,907	\$ 4,030,617	\$ (100,290)	102.49%	\$ 1,258,062	-7.97%
June 30, 2009	\$ 4,144,935	\$ 4,243,552	\$ 98,617	97.68%	\$ 1,538,657	6.41%
June 30, 2008	\$ 4,082,565	\$ 3,973,551	\$ (109,014)	102.74%	\$ 1,440,433	-7.57%

**CITY OF SALEM, VIRGINIA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**ANALYSIS OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS**  
**JUNE 30, 2011**

**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, 2011	\$ 2,384,957	\$ 24,152,578	\$ 21,767,621	9.9%	\$ 22,705,749	95.9%
July 1, 2009	\$ 936,910	\$ 23,073,994	\$ 22,137,084	4.1%	\$ 24,004,460	92.2%
July 1, 2008	\$ -	\$ 37,824,191	\$ 37,824,191	0.0%	\$ 22,986,624	164.5%

**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, 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, 2011**

**City of Salem**

<u>Fiscal year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
June 30, 2011	\$ 1,802,502	104.9%
June 30, 2010	\$ 1,754,024	106.3%
June 30, 2009	\$ 3,418,200	65.9%

**Component Unit  
School Division**

<u>Fiscal year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
June 30, 2011	\$ 326,317	100.0%
June 30, 2010	\$ 277,617	100.0%
June 30, 2009	\$ 277,617	100.0%

## OTHER SUPPLEMENTARY INFORMATION

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The Other Supplementary Information subsection of the City of Salem, Virginia's Comprehensive Annual Financial Report includes the combining statement of net assets; combining statement of revenues, expenses, and changes in fund net assets; 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 ASSETS**  
**NONMAJOR PROPRIETARY FUNDS**  
**JUNE 30, 2011**

	Business-type Activities - Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
<b>ASSETS</b>			
<i>Current assets:</i>			
Cash and cash equivalents	\$ 138,494	\$ 171,905	\$ 310,399
Cash and cash equivalents, restricted	2,911,763	-	2,911,763
Receivables, net	128,309	59,668	187,977
Inventories	-	19,786	19,786
Prepaid items	91,954	-	91,954
Total current assets	3,270,520	251,359	3,521,879
<i>Capital assets:</i>			
Nondepreciable	2,518,728	-	2,518,728
Depreciable, net	1,944,304	36,219	1,980,523
Total capital assets	4,463,032	36,219	4,499,251
Total assets	7,733,552	287,578	8,021,130
<b>LIABILITIES</b>			
<i>Current liabilities:</i>			
Accounts payable and accrued liabilities	1,048,361	40,606	1,088,967
Accrued payroll and related liabilities	92,198	22,963	115,161
Self insurance claims liability	14,698	3,280	17,978
Unearned revenue	126,430	3,366	129,796
Compensated absences	63,186	21,130	84,316
Total current liabilities	1,344,873	91,345	1,436,218
<i>Long-term liabilities:</i>			
Compensated absences	44,926	21,487	66,413
Other postemployment benefits	36,811	10,785	47,596
Total long-term liabilities	81,737	32,272	114,009
Total liabilities	1,426,610	123,617	1,550,227
<b>NET ASSETS (DEFICIT)</b>			
Invested in capital assets, net of related debt	4,463,032	36,219	4,499,251
Restricted for:			
Capital projects	1,989,529	-	1,989,529
Unrestricted	(145,619)	127,742	(17,877)
Total net assets	\$ 6,306,942	\$ 163,961	\$ 6,470,903



**CITY OF SALEM, VIRGINIA**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**NONMAJOR PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2011**

	Business-type Activities - Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
<b>OPERATING REVENUES</b>			
Charges for services	\$ 870,716	\$ 839,943	\$ 1,710,659
Commissions	19,773	-	19,773
Other	22,208	18,771	40,979
Total operating revenues	<u>912,697</u>	<u>858,714</u>	<u>1,771,411</u>
<b>OPERATING EXPENSES</b>			
Salaries	1,022,389	320,376	1,342,765
Fringe benefits	381,237	94,344	475,581
Show expenses	127,874	-	127,874
Maintenance	189,702	2,584	192,286
Professional services	6,080	19,808	25,888
Insurance	11,716	-	11,716
Administration	15,523	9,596	25,119
Travel and training	7,503	225	7,728
Materials and supplies	35,744	232,412	268,156
Expendable equipment and small tools	1,900	-	1,900
Utilities	262,072	604	262,676
Miscellaneous	-	1,036	1,036
Depreciation	306,926	6,336	313,262
Commissions	-	190,850	190,850
Total operating expenses	<u>2,368,666</u>	<u>878,171</u>	<u>3,246,837</u>
Operating loss	<u>(1,455,969)</u>	<u>(19,457)</u>	<u>(1,475,426)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	463	-	463
Gain (loss) on sale of capital assets	(5,499)	-	(5,499)
Net nonoperating revenue (expenses)	<u>(5,036)</u>	<u>-</u>	<u>(5,036)</u>
Income (loss) before contributions and transfers	<u>(1,461,005)</u>	<u>(19,457)</u>	<u>(1,480,462)</u>
<b>Transfers in</b>	<u>5,401,426</u>	<u>-</u>	<u>5,401,426</u>
Change in net assets	<u>3,940,421</u>	<u>(19,457)</u>	<u>3,920,964</u>
<b>Net assets, beginning</b>	<u>2,366,521</u>	<u>183,418</u>	<u>2,549,939</u>
<b>Net assets, ending</b>	<u><u>\$ 6,306,942</u></u>	<u><u>\$ 163,961</u></u>	<u><u>\$ 6,470,903</u></u>

**CITY OF SALEM, VIRGINIA**  
**COMBINING STATEMENT OF CASH FLOWS**  
**NONMAJOR PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2011**

	Business-type Activities - Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
<b>OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 770,539	\$ 816,196	\$ 1,586,735
Payments to suppliers	(639,152)	(442,691)	(1,081,843)
Payments to employees	(1,371,189)	(405,231)	(1,776,420)
Other receipts	41,981	18,771	60,752
Net cash used in operating activities	(1,197,821)	(12,955)	(1,210,776)
<b>NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers in	1,046,426	-	1,046,426
Net cash provided by noncapital financing activities	1,046,426	-	1,046,426
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Proceeds from sale of capital assets	855	-	855
Purchases of capital assets	(1,471,742)	-	(1,471,742)
Transfers in	4,355,000	-	4,355,000
Net cash provided by capital and related financing activities	2,884,113	-	2,884,113
<b>INVESTING ACTIVITIES</b>			
Interest received	463	-	463
Net cash provided by investing activities	463	-	463
Net increase (decrease) in cash and cash equivalents	2,733,181	(12,955)	2,720,226
<b>Cash and cash equivalents, beginning</b>	317,076	184,860	501,936
<b>Cash and cash equivalents, ending</b>	<u>\$ 3,050,257</u>	<u>\$ 171,905</u>	<u>\$ 3,222,162</u>
<b>CASH AND CASH EQUIVILENTS AT END OF YEAR IS COMPRISED OF THE FOLLOWING:</b>			
Cash and investments	\$ 138,494	\$ 171,905	\$ 310,399
Restricted cash	2,911,763	-	2,911,763
Total	<u>\$ 3,050,257</u>	<u>\$ 171,905</u>	<u>\$ 3,222,162</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>			
Operating loss	\$ (1,455,969)	\$ (19,457)	\$ (1,475,426)
<i>Adjustments to reconcile operating loss to net cash used in operating activities</i>			
Depreciation	306,926	6,336	313,262
<i>Decrease (increase) in assets:</i>			
Receivables, net	(66,932)	(25,013)	(91,945)
Inventories	-	(2,231)	(2,231)
Prepaid items	(298)	-	(298)
<i>Increase (decrease) in liabilities:</i>			
Accounts payable and accrued liabilities	16,719	16,242	32,961
Accrued payroll and related liabilities	20,340	4,976	25,316
Self insurance claims liability	2,541	413	2,954
Unearned revenue	(33,245)	1,266	(31,979)
Compensated absences	13,230	4,657	17,887
Other postemployment benefits	(1,133)	(144)	(1,277)
Net cash used in operating activities	<u>\$ (1,197,821)</u>	<u>\$ (12,955)</u>	<u>\$ (1,210,776)</u>
<i>Noncash investing, capital, and financing activities</i>			
Capital assets financed with accounts payable	\$ 922,234	\$ -	\$ 922,234

**CITY OF SALEM, VIRGINIA**  
**COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**JUNE 30, 2011**

	Cardinal Criminal Justice Academy	Court- Community Corrections Program	Total Agency Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 442,148	\$ 644,021	\$ 1,086,169
Receivables, net	47,550	-	47,550
Due from Commonwealth of Virginia	-	93,930	93,930
Total assets	<u>\$ 489,698</u>	<u>\$ 737,951</u>	<u>\$ 1,227,649</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 3,034	\$ 66,415	\$ 69,449
Liability to agency	486,664	671,536	1,158,200
Total liabilities	<u>\$ 489,698</u>	<u>\$ 737,951</u>	<u>\$ 1,227,649</u>

**CITY OF SALEM, VIRGINIA**  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**YEAR ENDED JUNE 30, 2011**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<u>CARDINAL CRIMINAL JUSTICE ACADEMY</u>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 366,597	\$ 663,692	\$ (588,141)	\$ 442,148
Receivables, net	95,135	6,210	(53,795)	47,550
Prepaid items	600	-	(600)	-
Total assets	<u>\$ 462,332</u>	<u>\$ 669,902</u>	<u>\$ (642,536)</u>	<u>\$ 489,698</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 3,732	\$ 3,034	\$ (3,732)	\$ 3,034
Liability to agency	458,600	666,868	(638,804)	486,664
Total liabilities	<u>\$ 462,332</u>	<u>\$ 669,902</u>	<u>\$ (642,536)</u>	<u>\$ 489,698</u>
<u>COURT-COMMUNITY CORRECTIONS PROGRAM</u>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 473,144	\$ 2,456,583	\$ (2,285,706)	\$ 644,021
Due from Commonwealth of Virginia	64,346	93,930	(64,346)	93,930
Prepaid items	1,560	-	(1,560)	-
Total assets	<u>\$ 539,050</u>	<u>\$ 2,550,513</u>	<u>\$ (2,351,612)</u>	<u>\$ 737,951</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 89,524	\$ 67,316	\$ (90,425)	\$ 66,415
Liability to agency	449,526	2,483,197	(2,261,187)	671,536
Total liabilities	<u>\$ 539,050</u>	<u>\$ 2,550,513</u>	<u>\$ (2,351,612)</u>	<u>\$ 737,951</u>
<u>TOTAL AGENCY FUNDS</u>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 839,741	\$ 3,120,275	\$ (2,873,847)	\$ 1,086,169
Receivables, net	95,135	6,210	(53,795)	47,550
Due from Commonwealth of Virginia	64,346	93,930	(64,346)	93,930
Prepaid items	2,160	-	(2,160)	-
Total assets	<u>\$ 1,001,382</u>	<u>\$ 3,220,415</u>	<u>\$ (2,994,148)</u>	<u>\$ 1,227,649</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 93,256	\$ 70,350	\$ (94,157)	\$ 69,449
Liability to agency	908,126	3,150,065	(2,899,991)	1,158,200
Total liabilities	<u>\$ 1,001,382</u>	<u>\$ 3,220,415</u>	<u>\$ (2,994,148)</u>	<u>\$ 1,227,649</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.....	84
<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.....	89
<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.....	91
<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.....	93
<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.....	96
<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>	

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**TABLE 1**  
**UNAUDITED**

**CITY OF SALEM, VIRGINIA**  
**NET ASSETS BY COMPONENT**  
**LAST NINE FISCAL YEARS**

	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
					(1)	(2)	(2)	(2)	(2)
<b>Governmental Activities</b>									
Invested in capital assets, net of related debt	\$ 88,456,284	\$ 90,258,361	\$ 89,946,841	\$ 88,463,741	\$ 85,853,628	\$ 88,112,343	\$ 89,479,130	\$ 88,551,933	\$ 76,959,696
Restricted	1,416,694	-	-	-	-	-	-	2,313,457	2,473,586
Unrestricted	(12,606,292)	(9,373,128)	(10,704,656)	(9,598,627)	(9,132,365)	(12,509,444)	(12,674,607)	(15,644,583)	(3,239,660)
Total governmental net assets	<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>	<u>\$ 76,193,622</u>
<b>Business-type activities</b>									
Invested in capital assets, net of related debt	\$ 44,172,488	\$ 43,180,397	\$ 40,790,077	\$ 39,787,750	\$ 41,636,232	\$ 36,954,684	\$ 36,501,799	\$ 31,689,583	\$ 23,078,380
Restricted	1,989,529	-	-	-	-	-	-	-	-
Unrestricted	18,896,375	20,437,874	23,324,884	25,278,681	20,760,143	21,804,567	21,839,306	24,685,946	31,038,458
Total business-type activities net assets	<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>	<u>\$ 54,116,838</u>
<b>Primary government</b>									
Invested in capital assets, net of related debt	\$ 132,628,772	\$ 133,438,758	\$ 130,736,918	\$ 128,251,491	\$ 127,489,860	\$ 125,067,027	\$ 125,980,929	\$ 120,241,516	\$ 100,038,076
Restricted	3,406,223	-	-	-	-	-	-	2,313,457	2,473,586
Unrestricted	6,290,083	11,064,746	12,620,228	15,680,054	11,627,778	9,295,123	9,164,699	9,041,363	27,798,798
Total primary government net assets	<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>	<u>\$ 130,310,460</u>

Notes:

Source: City of Salem Finance Department

Information is presented beginning with the year the City implemented GASB 34.

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

(2) Invested in capital assets, net of related debt and unrestricted net assets of governmental activities were restated to properly classify School Division debt.

**TABLE 2**  
**UNAUDITED**

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003
					(1)			(2)	
<b>Expenses</b>									
<i>Governmental activities</i>									
General government	\$ 6,110,416	\$ 5,328,382	\$ 5,937,208	\$ 5,031,352	\$ 4,803,246	\$ 5,107,268	\$ 4,283,754	\$ 4,402,755	\$ 4,156,677
Judicial administration	1,887,444	1,779,072	1,897,961	1,687,507	1,540,762	1,457,720	1,292,722	1,224,425	1,190,643
Public safety	15,818,359	15,330,477	15,932,421	15,048,715	13,869,676	13,547,191	11,535,321	10,574,969	10,409,689
Public works	13,915,318	14,019,163	14,906,728	14,067,674	13,476,019	12,443,334	10,789,008	9,603,482	9,471,217
Health and welfare	2,738,894	2,333,736	2,354,803	2,450,245	2,193,126	2,055,166	1,823,783	1,419,802	1,217,958
Education	18,420,000	18,420,000	18,420,000	17,995,000	17,095,000	16,266,005	15,618,081	29,340,564	14,747,635
Parks, recreation and cultural	5,495,431	5,064,065	5,620,844	5,721,997	5,796,220	5,239,517	3,851,575	4,257,005	3,697,241
Community development	1,834,749	1,725,528	1,830,327	1,122,221	1,022,096	933,002	513,272	842,963	1,290,922
Nondepartmental	-	-	-	-	-	-	2,424,022	1,788,744	2,253,821
Interest on long-term debt	1,151,867	1,137,667	1,188,350	1,263,858	1,202,201	1,267,296	1,478,103	1,339,037	1,045,306
Total governmental activities	67,372,478	65,138,090	68,088,642	64,388,569	60,998,346	58,316,499	53,609,641	64,793,746	49,481,109
<i>Business-type activities</i>									
Electric	35,145,346	30,978,370	28,763,182	26,505,160	24,308,309	24,692,031	16,311,434	15,116,855	16,810,659
Water and sewage	11,034,638	11,065,592	11,253,172	11,150,046	10,991,783	10,836,280	9,502,885	7,305,334	7,427,270
Civic Center	2,374,165	2,332,330	2,440,459	2,435,383	2,563,090	2,364,891	2,199,589	2,096,344	1,856,562
Catering and concessions	878,171	965,556	1,033,658	1,081,528	1,103,860	1,036,737	960,320	953,609	932,823
Total business-type activities	49,432,320	45,341,848	43,490,471	41,172,117	38,967,042	38,929,939	28,974,228	25,472,142	27,027,314
Total primary government	\$ 116,804,798	\$ 110,479,938	\$ 111,579,113	\$ 105,560,686	\$ 99,965,388	\$ 97,246,438	\$ 82,583,869	\$ 90,265,888	\$ 76,508,423
<b>Program revenues</b>									
<i>Governmental activities</i>									
Charges for services									
Public safety	\$ 911,073	\$ 900,837	\$ 1,107,794	\$ 1,048,587	\$ 1,148,627	\$ 1,315,417	\$ 1,083,694	\$ 532,717	\$ 553,437
Public works	3,418,637	3,248,138	3,627,290	3,203,179	2,892,913	1,799,284	1,821,717	1,805,400	1,781,202
Other activities	782,662	716,248	587,294	566,814	535,125	471,137	415,225	508,282	426,281
Operating grants and contributions	7,159,171	6,827,928	6,763,352	6,613,064	7,024,034	6,038,168	5,979,520	5,359,113	5,557,143
Capital grants and contributions	1,517,633	2,709,381	2,119,392	1,359,606	1,168,709	6,392,874	314,789	3,260,581	300,000
Total governmental activities	13,789,176	14,402,532	14,205,122	12,791,250	12,769,408	16,016,880	9,614,945	11,466,093	8,618,063
<i>Business-type activities</i>									
Charges for services									
Electric	35,726,379	32,915,660	30,863,283	31,000,915	29,300,625	27,699,386	20,192,965	20,092,111	19,640,717
Water and sewage	9,988,563	10,329,200	10,981,350	11,569,453	10,740,194	9,529,125	8,510,106	8,368,156	7,663,093
Civic Center	912,697	865,314	919,781	937,520	1,006,344	793,716	887,312	862,129	716,643
Catering and concessions	858,714	940,834	994,016	1,048,994	1,097,172	991,208	967,446	975,666	995,280
Capital grants and contributions									
Electric	39,929	-	-	-	-	-	-	-	-
Total business-type activities	47,526,282	45,051,008	43,758,430	44,556,882	42,144,335	39,013,435	30,557,829	30,298,062	29,015,733
Total primary government	\$ 61,315,458	\$ 59,453,540	\$ 57,963,552	\$ 57,348,132	\$ 54,913,743	\$ 55,030,315	\$ 40,172,774	\$ 41,764,155	\$ 37,633,796



	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Net (expense) revenue</b>									
Total governmental activities	\$ (53,583,302)	\$ (50,735,558)	\$ (53,883,520)	\$ (51,597,319)	\$ (48,228,938)	\$ (42,299,619)	\$ (43,994,696)	\$ (53,327,653)	\$ (40,863,046)
Total business-type activities	(1,906,038)	(290,840)	267,959	3,384,765	3,177,293	83,496	1,583,601	4,825,920	1,988,419
Total primary government	<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>	<u>\$ (38,874,627)</u>

#### General Revenues and Other Changes in Net Assets

##### Governmental activities:

###### Taxes

Property taxes	\$ 32,068,912	\$ 31,477,369	\$ 31,335,765	\$ 30,082,026	\$ 27,606,560	\$ 27,161,942	\$ 25,062,245	\$ 24,868,585	\$ 23,353,997
Local sales and use taxes	5,707,813	5,492,934	5,568,978	5,908,920	5,711,940	5,634,585	5,601,846	5,397,710	4,996,579
Business license tax	4,564,531	4,421,129	4,827,348	4,714,965	4,258,059	3,866,585	4,032,843	3,647,786	3,496,933
Meals tax	2,551,880	2,429,239	2,448,064	2,546,104	2,397,412	2,351,010	2,190,099	2,091,998	2,055,706
Utility taxes	1,123,400	1,105,818	1,123,616	1,156,775	1,228,975	1,372,250	1,339,238	1,122,167	1,141,696
Other taxes	2,805,271	2,684,054	2,856,119	2,362,788	2,700,657	2,625,066	2,486,633	2,484,614	2,233,301
Intergovernmental revenue not restricted	3,747,722	3,735,738	3,860,269	4,030,210	3,878,955	3,523,634	3,597,191	3,213,462	3,243,932
Unrestricted investment earnings	129,640	132,522	213,671	568,689	789,526	556,039	501,808	394,977	319,062
Gain on sale of property	-	-	24,624	5,715	-	402,089	571,311	-	-
Other	603,696	324,136	375,139	812,702	279,223	218,274	266,019	285,750	302,877
Transfers	(3,338,110)	575,667	1,626,999	1,552,276	495,995	975,685	(70,821)	236,756	226,527
Total governmental activities	<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>	<u>41,370,610</u>

##### Business-type activities:

Unrestricted investment earnings	8,049	23,297	179,714	706,658	928,710	271,303	311,154	110,832	369,743
Gain on sale of property	-	-	205,932	-	6,967	-	-	-	-
Other	-	346,520	21,924	130,909	20,149	-	-	-	-
Transfers	3,338,110	(575,667)	(1,626,999)	(1,552,276)	(495,995)	(975,685)	70,821	(236,756)	(226,527)
Total business-type activities	<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>	<u>143,216</u>
Total primary government	<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>	<u>\$ 41,513,826</u>

#### Changes in Net Assets

Total governmental activities	\$ (3,618,547)	\$ 1,643,048	\$ 377,072	\$ 2,143,851	\$ 1,118,364	\$ 6,387,540	\$ 1,583,716	\$ (9,583,848)	\$ 507,564
Total business-type activities	1,440,121	(496,690)	(951,470)	2,670,056	3,637,124	(620,886)	1,965,576	4,699,996	2,131,635
Total primary government	<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>	<u>\$ 2,639,199</u>

##### Notes:

Source: City of Salem Finance Department

Information is presented beginning with the year the City implemented GASB 34.

(1) Electric expenses and Water and Sewage expenses of business-type activities were restated.

(2) 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>	<u>2003</u>	<u>2002</u>
<b>Pre-GASB 54 implementation:</b>									
<b>General Fund</b>									
Reserved	\$ 1,038,347	\$ 916,227	\$ 893,623	\$ 1,357,034	\$ 1,431,926	\$ 1,179,343	\$ 1,009,767	\$ 745,321	\$ 811,145
Unreserved	5,183,434	5,486,537	7,086,974	6,547,440	6,419,834	10,534,365	11,124,617	10,319,757	7,785,113
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>	<u>\$ 11,065,078</u>	<u>\$ 8,596,258</u>
<b>All Other Governmental Funds</b>									
Reserved	\$ 784,005	\$ 2,130,298	\$ 3,388,893	\$ 1,083,915	\$ 1,251,705	\$ 3,777,959	\$ 7,434,079	\$ 2,920,546	\$ 2,639,011
<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	(305,531)	-
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>\$ 2,615,015</u>	<u>\$ 2,639,011</u>
	<u>2011</u>								
<b>Post-GASB 54 implementation:</b>									
<b>General Fund</b>									
Nonspendable	\$ 554,962								
Restricted	1,287,008								
Assigned	1,588,768								
Unassigned	3,351,935								
Total general fund	<u>\$ 6,782,673</u>								
<b>All Other Governmental Funds</b>									
Restricted	129,686								
Total all other governmental funds	<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**

	2011	2010	2009	2008	2007	2006	2005 (1)	2004	2003	2002
<b>Revenues</b>										
Taxes	\$ 48,794,986	\$ 47,592,620	\$ 48,272,897	\$ 47,254,766	\$ 44,555,391	\$ 44,037,357	\$ 41,593,054	\$ 40,747,374	\$ 38,137,448	\$ 36,436,995
Permits, fees and licenses	218,094	243,035	228,687	303,958	293,004	294,314	286,150	308,511	257,796	269,237
Fines and forfeitures	164,161	159,179	171,056	159,489	159,363	150,860	162,207	197,297	170,922	156,128
Revenue from use of money and property	677,805	465,564	539,930	786,455	1,434,893	1,385,122	1,861,432	579,303	482,878	928,857
Charges for services	4,463,860	4,282,550	4,602,745	4,154,836	3,915,569	2,959,842	2,749,670	2,186,113	2,168,506	1,967,128
Other	284,324	172,872	195,505	152,478	47,673	32,544	43,796	53,590	385,733	1,385,165
Intergovernmental	12,562,674	12,525,033	12,526,047	10,859,986	10,336,870	8,720,129	8,765,664	7,764,376	8,562,593	8,400,270
Total revenues	67,165,904	65,440,853	66,536,867	63,671,968	60,742,763	57,580,168	55,461,973	51,836,564	50,165,876	49,543,780
<b>Expenditures</b>										
General government	4,900,770	5,232,405	6,380,771	4,891,569	4,694,442	4,994,542	4,386,061	4,005,851	3,555,873	3,330,674
Judicial administration	1,788,821	1,695,531	1,723,427	1,649,871	1,506,395	1,321,052	1,256,107	1,207,990	1,172,370	1,185,883
Public safety	14,792,022	14,358,932	14,371,192	14,397,297	13,358,739	12,707,985	11,670,171	10,740,352	10,103,738	9,706,080
Public works	11,656,775	11,101,013	12,113,469	12,156,138	11,434,040	9,400,116	9,777,021	8,879,090	8,514,725	9,491,691
Health and welfare	2,682,090	2,293,464	2,315,841	2,410,340	2,163,687	1,918,490	1,823,783	1,419,802	1,217,958	1,858,199
Education	18,420,000	18,420,000	18,420,000	17,995,000	17,095,000	16,266,005	15,618,081	15,340,564	14,747,635	14,851,000
Parks, recreation and cultural	4,203,452	4,204,705	4,716,767	4,464,456	4,354,144	4,316,920	4,037,410	3,696,621	3,336,510	3,549,487
Community development	879,709	618,217	1,148,291	469,835	639,535	815,991	513,272	842,963	1,290,922	843,615
Non-departmental	2,908,441	2,579,752	3,349,639	1,976,756	1,769,127	3,610,694	2,424,022	1,788,744	2,253,821	1,669,551
Capital projects	3,703,365	2,350,384	1,624,611	1,397,376	2,750,335	4,325,562	5,519,655	14,604,233	76,230	819,507
<i>Debt service:</i>										
Principal retirement	2,606,810	2,593,118	2,618,896	2,612,403	2,607,365	2,863,024	5,616,505	1,055,518	1,628,985	1,969,433
Interest	930,767	1,029,641	1,105,218	1,171,197	1,119,793	1,185,708	1,432,203	1,150,476	1,063,168	1,160,076
Bond Issuance Cost	117,689	-	-	-	-	-	-	-	-	-
Total expenditures	69,590,711	66,477,162	69,888,122	65,592,238	63,492,602	63,726,089	64,074,291	64,732,204	48,961,935	50,435,196
Excess (deficiency) of revenues over expenditures	(2,424,807)	(1,036,309)	(3,351,255)	(1,920,270)	(2,749,839)	(6,145,921)	(8,612,318)	(12,895,640)	1,203,941	(891,416)
<b>Other Financing Sources (Uses)</b>										
Proceeds from long-term debt	6,540,000	-	-	-	-	-	-	31,970,540	-	-
Proceeds from sale of refunding bonds	3,339,279	-	-	-	-	-	-	-	-	-
Payment to refunded bond escrow agent	(3,430,000)	-	-	-	-	-	-	(10,508,287)	-	-
Premium on sale of bonds	248,757	-	-	-	-	-	-	-	-	-
Discount on sale of bonds	(48,989)	-	-	-	-	-	-	-	-	-
Transfers in	5,683,661	4,985,609	6,043,796	6,474,312	7,536,323	8,235,360	5,417,206	4,252,823	3,993,355	2,862,517
Transfers out	(8,950,187)	(4,496,102)	(4,408,322)	(5,136,073)	(4,627,341)	(7,249,644)	(5,488,027)	(4,016,067)	(3,766,828)	(3,875,163)
Total other financing sources (uses)	3,382,521	489,507	1,635,474	1,338,239	2,908,982	985,716	(70,821)	21,699,009	226,527	(1,012,646)
Net change in fund balances	\$ 957,714	\$ (546,802)	\$ (1,715,781)	\$ (582,031)	\$ 159,143	\$ (5,160,205)	\$ (8,683,139)	\$ 8,803,369	\$ 1,430,468	\$ (1,904,062)
Debt service as a percentage of noncapital expenditures	5.56%	5.76%	5.73%	6.04%	6.26%	7.06%	12.35%	4.60%	5.68%	6.51%

Notes:

Source: City of Salem Finance Department

(1) 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**

<b>Fiscal Year Ended June 30,</b>	<b>Real Estate</b>	<b>Personal Property</b>	<b>Machinery and Tools</b>	<b>Public Service Corporation</b>	<b>Mobile Homes</b>	<b>Total Taxable Assessed Value</b>	<b>Total Direct Tax Rate</b>
2011	\$ 1,973,655,843	\$ 265,450,351	\$ 80,706,659	\$ 37,993,502	\$ 1,460,966	\$ 2,359,267,321	1.48
2010	1,940,941,700	262,153,501	79,120,695	36,874,789	1,543,032	2,320,633,717	1.48
2009	1,912,957,600	263,305,279	80,517,625	36,468,242	1,655,642	2,294,904,388	1.48
2008	1,805,483,900	263,662,393	82,535,751	36,451,099	1,780,273	2,189,913,416	1.50
2007	1,601,239,600	254,765,656	86,685,532	34,992,259	1,632,022	1,979,315,069	1.52
2006	1,572,732,200	262,141,563	86,409,864	33,586,047	1,855,348	1,956,725,022	1.54
2005	1,414,891,600	253,619,878	82,714,938	35,032,203	2,186,076	1,788,444,695	1.55
2004	1,386,790,100	250,218,290	88,317,031	35,658,160	2,092,797	1,763,076,378	1.56
2003	1,276,162,600	262,415,563	75,075,156	36,825,471	2,257,457	1,652,736,247	1.60
2002	1,260,133,200	257,336,535	81,289,685	35,119,042	2,573,480	1,636,451,942	1.60

Note:

Source: City of Salem Finance Department

**TABLE 6**  
**UNAUDITED**

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

<b>Fiscal Year</b>	<b>Taxes Levied for the Fiscal Year</b>	<b>Collected within the Fiscal Year of the Levy</b>		<b>Collections in Subsequent Year</b>	<b>Total Collections to Date</b>	
		<b>Amount</b>	<b>Percentage of Levy</b>		<b>Amount</b>	<b>Percentage of Levy</b>
		(1)				
2011	\$ 32,106,299	\$ 30,836,143	96.04%	\$ -	\$ 30,836,143	96.04%
2010	31,800,432	30,440,194	95.72%	822,016	31,262,210	98.31%
2009	31,444,294	30,288,062	96.32%	923,889	31,211,951	99.26%
2008	30,065,979	28,917,803	96.18%	1,049,837	29,967,640	99.67%
2007	27,719,526	26,652,953	96.15%	1,021,464	27,674,417	99.84%
2006	27,433,382	26,209,290	95.54%	1,202,395	27,411,685	99.92%
2005	25,004,098	24,282,081	97.11%	703,410	24,985,491	99.93%
2004	24,913,869	24,017,690	96.40%	881,025	24,898,715	99.94%
2003	23,424,897	22,753,153	97.13%	657,752	23,410,905	99.94%
2002	23,461,123	22,630,090	96.46%	822,464	23,452,554	99.96%

Note:

Source: City of Salem Finance Department

(1) Includes state share of personal property taxes.

**TABLE 7  
UNAUDITED**

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

Taxpayer	2011			2002		
	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	1.85%	\$ 22,377,700	2	1.79%
HRT of Roanoke, Inc.	22,095,300	2	1.12%	29,762,900	1	2.38%
Yokohama Industries	16,142,400	3	0.83%	16,264,300	3	1.30%
BET/Lowe's	12,462,800	4	0.64%			
General Electric	10,665,400	5	0.55%	10,889,100	4	0.87%
U.S. Food Service, Inc.	10,524,500	6	0.54%	6,524,000	8	0.52%
Chateau Riviera Apartments	9,190,500	7	0.47%	7,565,700	7	0.61%
Salem Terrace	8,690,500	8				
Spartan Square	7,944,600	9	0.45%	5,672,500	10	0.45%
Carter Machinery/Carthy Corporation	7,586,000	10	0.39%			
Wal-Mart, Inc.				5,912,200	9	0.47%
Home Shopping Network Virginia Division				8,636,500	5	0.69%
Rowe Furniture/Salem Frame				7,808,600	6	0.63%

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	2011			2002		
	Services Billed	Rank	Percentage of Total Services Billed	Services Billed	Rank	Percentage of Total Services Billed
Lewis-Gale Hospital HCA	\$1,671,411	1	4.71%	\$680,587	1	3.68%
Roanoke College	1,229,663	2	3.46%	486,321	2	2.63%
Graham White	744,214	3	2.10%	364,472	4	1.97%
Rowe Furniture/Salem Frame	688,418	4	1.94%	361,442	5	1.95%
U.S. Food Service, Inc.	661,493	5	1.86%	323,927	6	1.75%
Old Virginia Brick Company	517,035	6	1.46%	222,015	9	1.20%
Kroger	508,667	7	1.43%	298,672	7	1.62%
Sewell Products	464,804	8	1.31%			
Carthy Corporation/Carter Machinery	433,667	9	1.22%	237,017	8	1.28%
Wal-Mart, Inc.	325,728	10	0.92%	207,684	10	1.12%
Valleydale Foods				380,186	3	2.06%

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)				
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
2003	18,362,717	1,000,000	(2,673,586)	16,689,131	42,047,283	58,736,414
2002	19,866,702	1,125,000	(2,621,352)	18,370,350	45,158,298	63,528,648

Fiscal Year	Total Taxable Assessed Value	Percentage of Estimated Actual Value of Taxable Property	Population	Bonded Debt Per Capita	Per Capita Personal Income	Bonded Debt Per Capita Personal Income
	(2)				(3)	
2011	\$ 2,359,267,321	3.55%	25,357	\$ 3,302.62	\$41,019	\$ 2,041.61
2010	2,320,633,717	3.48%	24,860	3,246.59	41,019	1,967.63
2009	2,294,904,388	3.76%	24,684	3,492.17	41,019	2,101.48
2008	2,189,913,416	4.19%	24,673	3,714.91	41,019	2,234.52
2007	1,979,315,069	4.90%	24,482	3,960.75	40,495	2,394.54
2006	1,956,725,022	5.06%	24,508	4,038.64	38,338	2,581.75
2005	1,788,444,695	4.22%	24,310	3,104.96	34,632	2,179.53
2004	1,763,076,378	4.39%	24,096	3,211.91	33,998	2,276.43
2003	1,652,736,247	3.55%	24,465	2,400.83	32,703	1,796.06
2002	1,636,451,942	3.88%	24,554	2,587.30	32,795	1,937.14

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)	
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%
2003	1,312,988,071	131,298,807	60,410,000	1,000,000	(42,047,283)	(2,673,586)	16,689,131	1.27%
2002	1,295,252,242	129,525,224	65,025,000	1,125,000	(45,158,298)	(2,621,352)	18,370,350	1.42%

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**

<b>Fiscal Year Ended</b>	<b>Population</b>	<b>Total Personal Income (In Thousands)</b>	<b>Per Capita Personal Income</b>	<b>Public School Enrollment</b>	<b>Unemployment Rate</b>
(1)	(2)	(3)	(3)	(4)	(5)
2011	25,357	\$4,561,791	\$41,019	3,892	6.10%
2010	24,860	4,561,791	41,019	3,907	7.20%
2009	24,684	4,561,791	41,019	3,905	6.30%
2008	24,673	4,650,882	41,019	3,911	3.60%
2007	24,482	4,563,905	40,495	3,966	3.00%
2006	24,508	4,392,000	38,338	3,902	2.90%
2005	24,310	3,986,137	34,632	3,882	2.50%
2004	24,096	3,853,327	33,998	3,888	2.70%
2003	24,465	3,669,268	32,703	3,910	3.80%
2002	24,554	3,654,128	32,795	3,981	3.10%

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 December 31.

(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

(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. In 2010, BEA revised estimates for personal income and per capita personal income for 2006, 2007 and 2008.

(4) Director of Business Services, School Division

(5) Virginia Employment Commission



**TABLE 12**  
**UNAUDITED**

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

<b>Employer</b>	<b>2011</b>			<b>2002</b>		
	<b>Employees</b>	<b>Rank</b>	<b>Percentage of Total City Employment (1)</b>	<b>Employees</b>	<b>Rank</b>	<b>Percentage of Total City Employment (1)</b>
Veterans Administration Medical Center	1,950	1	8.81%	1,458	1	5.87%
Lewis-Gale Hospital HCA	1,419	2	6.41%	1,420	2	5.72%
Yokohama Industries	950	3	4.29%	1,222	3	4.92%
Virginia Department of Transportation	768	4	3.47%			
General Electric	750	5	3.39%	1,210	4	4.87%
Liberty Medical	625	6	2.82%			
City of Salem Schools	587	7	2.65%	538	7	2.17%
City of Salem	515	8	2.33%	510	8	2.05%
Roanoke College	481	9	2.17%	455	9	1.83%
U.S. Food Service, Inc.	431	10	1.95%	352	10	1.42%
Lewis-Gale Clinic				1,167	5	4.70%
Home Shopping Network				850	6	3.42%

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 NINE FISCAL YEARS**

<b>Function</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
General government	74	72	74	76	74	72	72	71	70
Judicial administration	20	20	20	20	20	19	19	19	19
Public safety	161	162	167	165	164	162	159	154	154
Public works	105	110	112	113	111	115	115	114	115
Parks, recreation and cultural	32	33	33	26	25	25	20	22	22
Community development	3	3	3	3	3	4	2	2	2
Electric	28	29	29	29	29	28	29	29	28
Water and sewage	52	53	58	58	59	58	60	63	63
Civic Center	18	17	18	20	19	19	20	20	19
Catering and concessions	4	4	5	5	5	5	5	5	5
<b>Total</b>	<b>497</b>	<b>503</b>	<b>519</b>	<b>515</b>	<b>509</b>	<b>507</b>	<b>501</b>	<b>499</b>	<b>497</b>

Notes:

Source: City of Salem Finance Department

Information is presented beginning with the year the City implemented GASB 34.

**TABLE 14**  
**UNAUDITED**

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

<b>Function</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>General government</b>									
<i>Finance</i>									
Accounts payable checks issued	12,260	13,595	12,104	13,991	14,617	15,638	16,307	16,836	16,183
<i>Human resources</i>									
Positions filled (full-time and temporary)	143	129	257	244	201	246	233	219	246
<i>Registrar</i>									
Number of registered voters	16,436	16,309	16,258	15,897	15,524	14,995	15,652	15,146	14,442
<i>Fleet</i>									
Pieces of equipment maintained	565	551	560	600	558	527	517	510	498
<b>Judicial administration</b>									
<i>Sheriff</i>									
Inmates housed	2,587	2,343	1,494	1,294	1,296	1,125	1,067	1,497	1,708
Inmate transports	2,025	1,879	1,594	1,545	1,427	1,391	1,315	1,471	1,292
Courts worked	691	676	695	624	639	611	593	588	580
<b>Public safety</b>									
<i>Police</i>									
Calls for service	33,903	34,342	35,159	34,526	33,776	30,163	30,442	31,566	30,396
Accidents	1,063	975	1,024	1,300	1,329	1,221	1,263	1,258	1,221
DUI Arrests	95	129	122	146	176	159	124	196	254
<i>Fire</i>									
Emergency responses - fire	3,661	3,270	3,441	3,083	2,715	3,006	2,537	2,182	2,106
Emergency responses - medic units	3,632	3,335	3,596	3,085	2,982	3,289	2,934	2,281	2,007
Hazardous conditions responses	137	134	161	182	146	82	101	72	79
<i>Building inspections</i>									
Residential construction permits	123	130	148	169	336	309	319	272	599
Commercial construction permits	124	63	71	103	93	92	139	163	53
<b>Public works</b>									
<i>Refuse collection</i>									
Refuse collected (tons per year)	81,485	83,607	88,365	77,027	90,405	81,379	84,270	92,665	90,762
Tons recycled	1,764	3,883	4,841	4,623	4,724	2,154	3,594	3,550	3,559
<i>Other public works</i>									
Tons of asphalt used in resurfacing	5,821	3,616	5,185	6,958	14,510	9,111	11,966	8,005	7,088
Square yards of milling completed	99,960	39,959	80,155	68,091	84,386	58,605	25,480	17,973	15,990
Tons of salt used	817	1,389	176	170	277	901	705	1,350	1,574
Leaves collected (loads)	494	507	448	323	421	422	604	375	400
<b>Parks, recreation and cultural</b>									
<i>Parks and recreation</i>									
Tournaments hosted	49	53	50	54	57	59	54	51	54
Special events held	24	25	24	24	25	21	18	18	18
Youth sports teams	225	210	195	252	186	184	219	219	214
Adult sports teams	44	49	48	59	48	40	40	40	42
<i>Library</i>									
Circulation	285,337	290,309	276,578	264,184	241,816	233,852	232,892	224,712	230,848
Children's program attendance	6,891	7,129	8,792	7,647	4,591	3,580	4,164	2,622	3,324
Patron visits to the library	232,559	245,807	239,745	233,524	234,379	228,560	217,477	220,571	214,911
New patrons	1,288	1,417	1,648	1,694	1,694	1,510	1,537	1,492	1,553
Internet sessions	52,397	58,517	50,711	62,650	55,689	32,650	25,834	27,973	25,845
<b>Electric</b>									
Number of customer accounts	13,163	13,131	13,175	13,130	13,032	12,968	12,856	12,883	12,678
<b>Water</b>									
Number of customer accounts	9,341	9,301	9,304	9,256	9,170	9,107	9,055	9,035	8,916
Million gallons sold to customers	1,004	976.5	1,003.4	1,066.6	1,043.4	1,089.5	1,097.3	1,097.7	1,066.3
<b>Sewage</b>									
Number of customer accounts	8,764	8,717	8,706	8,664	8,561	8,513	8,461	8,446	8,339
Waste/water treated (million gallons/day)	6.5	8.3	6.2	5.7	8.1	6.8	9.2	7.3	7.8
<b>Civic Center</b>									
Concerts	13	9	9	9	13	6	8	12	16
Meetings	936	1,156	1,216	1,295	1,081	1,209	1,282	1,259	1,282
Tickets sold	102,678	103,891	112,997	99,581	147,491	163,972	129,248	150,801	162,263
Arena utilization days	178	179	202	219	201	175	203	180	175

Notes:

Source: Various City of Salem Departments

Information is presented beginning with the year the City implemented GASB 34.

**TABLE 15**  
**UNAUDITED**

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

<b>Function</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Public safety</b>									
Police station	1	1	1	1	1	1	1	1	1
Law enforcement vehicles	47	46	49	50	48	45	42	56	52
Fire stations	3	3	3	3	3	3	3	3	3
Fire trucks	6	6	6	7	6	5	5	5	5
Ambulances	5	5	5	5	5	4	3	3	3
<b>Public works</b>									
Primary streets (lane miles)	67.5	67.5	67.5	67.5	67.5	64.8	64.8	64.3	64.1
Secondary streets (lane miles)	272	272	272	272	269.8	224.8	224.8	222.8	222.8
Alleys (lane miles)	12	12	12	12	12	10.8	10.8	10.8	10.8
Garbage trucks	12	12	12	13	13	10	11	12	12
<b>Parks, recreation and cultural</b>									
Community center/senior center	1	1	1	1	1	3	3	3	3
Parks/athletic fields	15	15	15	15	15	15	15	15	14
Acres of parks maintained	495	495	495	495	495	495	495	495	495
Library	1	1	1	1	1	1	1	1	1
Golf course	1	1	1	1	1	1	1	1	1
<b>Electric</b>									
Substations	11	11	11	11	11	7	7	7	7
Overhead distribution lines (miles)	172	172	171	158	158	159	161	161	183
Underground distribution lines (miles)	38	38	38	33	33	33	31	31	30
Transmission lines (miles)	17	17	17	17	17	23	23	23	23
<b>Water and sewage</b>									
Water treatment plant	1	1	1	1	1	1	2	2	2
Water distribution lines (miles)	182	182	181	182	181	181	180	155	154
Sanitary sewer lines (miles)	177	177	171	176	176	174	174	144	143

Notes:

Source: City of Salem Finance Department

Information is presented beginning with the year the City implemented GASB 34.

## COMPLIANCE SECTION

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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, 2011**

<b><u>Federal Grantor</u></b> <b><i>Pass-through Grantor: Commonwealth of Virginia</i></b> <b>Program Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
<b><u>Department of Agriculture</u></b>		
<b><i>Department of Agriculture and Consumer Services</i></b>		
Food Distribution – Commodities	10.555	\$ 131,316
<b><i>Department of Education</i></b>		
National School Breakfast Program	10.553	124,594
National School Lunch Program	10.555	492,521
<b><u>Department of Justice</u></b>		
<b><i>Direct Payments</i></b>		
Drug Enforcement Task Force	16.000	20,284
Bulletproof Vest Partnership Program	16.607	
Byrne Justice Assistance Grant	16.738	1,893
<b><i>Department of Criminal Justice Services</i></b>		
Crime Victim Assistance	16.575	52,495
<b><u>Department of Transportation</u></b>		
<b><i>Direct Payments</i></b>		
Highway Planning and Construction	20.205	1,318,445
<b><i>Division of Motor Vehicles</i></b>		
Alcohol Traffic Safety and Drunk Driving Prevention	20.601	32,899
<b><u>Department of Education</u></b>		
<b><i>Department of Education</i></b>		
Education Consolidation Improvement Act of 1981:		
Title I: Grants to Local Educational Agencies	84.010	349,418
Title I: Distinguished Schools	84.010	6,035
Title I: Perkins Career and Technical Education	84.048	43,899
Title II: Part A, Improving Teacher Quality	84.367	141,646
Elementary and Secondary Education Act (ESEA):		
Special Education – Grants to States	84.027	745,847
Special Education – Preschool Grants	84.173	17,119
Vocational Education:		
Adult Education	84.002	77,219
Educational Technology State Grants	84.318	3,518
Special Projects:		
Safe and Drug Free Schools and Communities	84.186	891
English Language Acquisition	84.365	7,517
American Recovery and Reinvestment Act of 2009 (ARRA):		
ARRA Title I: Grants to Local Educational Agencies	84.389	55,584
ARRA Special Education Grants to States	84.391	403,593
ARRA Special Education - Preschool Grants	84.392	7,645
ARRA State Fiscal Stabilization Fund - Education State Grants	84.394	467,557
<b><u>Department of Homeland Security</u></b>		
<b><i>Direct Payments</i></b>		
Assistance to Firefighters	97.044	75,015
<b><i>Department of Emergency Management</i></b>		
State Homeland Security Grant	97.073	93,819
Emergency Management Performance Grant	97.042	1,121
Severe Repetitive Loss Program	97.110	5,634
<b>Total Expenditures of Federal Awards</b>		<b>\$ 4,677,524</b>

**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, 2011, the Component Unit – School Division had food commodities in inventory of \$47,733.

**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**

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

We have audited 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 (“City”), as of and for the year ended June 30, 2011, which collectively comprise the City’s basic financial statements and have issued our report thereon dated November 22, 2011. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City’s internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. **We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.**

## **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, including certain provisions of the compliance matters described in the Summary of Compliance Matters, 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 an 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 11-1.**

We noted certain matters that we reported to management of the City in a separate letter dated November 22, 2011.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the City, state and federal awarding agencies and pass-through entities, and City Council and is not intended to be and should not be used by anyone other than these specified parties.

*Brown, Edwards & Company, L.L.P.*  
CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 22, 2011



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

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

**Compliance**

We have audited the compliance of the City of Salem, Virginia ("City"), with the types of compliance requirements described in the U.S. Office of Management and Budget (*OMB Circular A-133 Compliance Supplement*) that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2011. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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. Our audit does not provide a legal determination on the City's compliance with those requirements.

**In our opinion, the City complied, in all material respects, with the 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, 2011.**

## Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. **We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.**

This report is intended solely for the information and use of management, others within the City, state and federal awarding agencies and pass-through entities, and the City Council and is not intended to be, and should not be, used by anyone other than those specified parties.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 22, 2011

**CITY OF SALEM, VIRGINIA**  
**SUMMARY OF COMPLIANCE MATTERS**  
**June 30, 2011**

As more fully described in the 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, 2011**

**A. SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an **unqualified** opinion on the basic financial statements.
2. **No significant deficiencies** related to the audit of the financial statements are reported in the 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** are disclosed in the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with *OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs expresses an **unqualified 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>
Special Education Cluster	84.027, 84.173
ARRA Special Education Grants	84.391, 84.392
ARRA State Fiscal Stabilization Fund – Education State Grants	84.394

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, 2011**

**D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA**

**11-1 Disclosure Statements**

*Condition:*

One out of forty-three members of City appointed boards did not file their statements of economic interest by the required deadline.

*Recommendation:*

Management should ensure all economic interest forms are submitted by the state mandated deadline.

*Management's Response:*

Management concurs with this finding and will ensure monitoring of future filings is adequate to ensure timely filing.

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

Frank P. Turk

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

Senior Accountant

Tammy H. Todd, CPA

Accounting Supervisor

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

Patricia K. Poage

Payroll Supervisor