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CITY OF SALEM, VIRGINIA

Comprehensive Annual Financial Report

Year Ended June 30, 2019

CITY OF SALEM, VIRGINIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT YEAR ENDED JUNE 30, 2019

DEPARTMENT OF FINANCE

**CITY OF SALEM, VIRGINIA
TABLE OF CONTENTS
JUNE 30, 2019**

| | Page |
|--|-------------|
| INTRODUCTORY SECTION | |
| Letter of Transmittal | 4 |
| Directory of Principal Officials | 13 |
| Organizational Chart | 14 |
| Certificate of Achievement for Excellence in Financial Reporting | 15 |
| FINANCIAL SECTION | |
| Independent Auditor's Report | 17 |
| Management's Discussion and Analysis | 20 |
| <i>Basic Financial Statements</i> | |
| Government-wide Financial Statements | |
| Exhibit 1 Statement of Net Position | 33 |
| Exhibit 2 Statement of Activities | 34 |
| Governmental Funds' Financial Statements | |
| Exhibit 3 Balance Sheet | 35 |
| Exhibit 4 Reconciliation of the Governmental Funds' Balance Sheet to the Statement of Net Position | 36 |
| Exhibit 5 Statement of Revenues, Expenditures and Changes in Fund Balances | 37 |
| Exhibit 6 Reconciliation of the Governmental Funds' Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities | 38 |
| Exhibit 7 Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual – General Fund | 39 |
| Proprietary Funds' Financial Statements | |
| Exhibit 8 Statement of Net Position | 40 |
| Exhibit 9 Statement of Revenues, Expenses and Changes in Net Position | 41 |
| Exhibit 10 Statement of Cash Flows | 42 |
| Fiduciary Funds' Financial Statements | |
| Exhibit 11 Statement of Fiduciary Net Position | 43 |
| Exhibit 12 Statement of Changes in Fiduciary Net Position | 43 |
| Component Units' Financial Statements | |
| Exhibit 13 Combining Statement of Net Position | 44 |
| Exhibit 14 Combining Statement of Activities | 45 |
| Notes to Financial Statements | 46 |
| <i>Required Supplementary Information</i> | |
| Exhibit 15a Schedule of Changes in Net Pension Liability and Related Ratios | 109 |
| Exhibit 15b Schedule of Changes in Net Pension Liability (Asset) and Related Ratios | 110 |
| Exhibit 16 Schedule of Employer Pension Contributions | 111 |
| Exhibit 17 Schedule of Employer's Share of Net Pension Liability - VRS Teacher Retirement Plan | 112 |
| Exhibit 18 Schedule of Employer Pension Contributions - VRS Teacher Retirement Plan | 113 |
| Exhibit 19 Schedule of Changes in Net OPEB Liability and Related Ratios - Retiree Health Plan | 114 |
| Exhibit 20 Schedule of Employer OPEB Contributions - Retiree Health Plan | 115 |
| Exhibit 21 Schedule of Changes in Net OPEB Liability and Related Ratios - Political Subdivision Health Insurance Credit Program | 116 |

**CITY OF SALEM, VIRGINIA
TABLE OF CONTENTS
JUNE 30, 2019**

| | Page |
|---|-------------|
| Exhibit 22 Schedule of Employer OPEB Contributions - Political Subdivision Health Insurance Credit Program..... | 117 |
| Exhibit 23 Schedule of Employer's Share of Net OPEB Liability – GLI and Teacher Employee HIC Programs..... | 118 |
| Exhibit 24 Schedule of Employer OPEB Contributions – GLI and Teacher Employee HIC Programs..... | 119 |
| Notes to Required Supplementary Information..... | 120 |
| Other Supplementary Information | |
| Nonmajor Proprietary Funds' Combining Schedules | |
| Exhibit 25 Combining Statement of Net Position..... | 123 |
| Exhibit 26 Combining Statement of Revenues, Expenses and Changes in Net Position..... | 124 |
| Exhibit 27 Combining Statement of Cash Flows..... | 125 |
| Agency Funds' Combining Schedules | |
| Exhibit 28 Combining Statement of Fiduciary Assets and Liabilities..... | 126 |
| Exhibit 29 Combining Statement of Changes in Fiduciary Assets and Liabilities..... | 127 |
| Economic Development Authority of the City of Salem | |
| Exhibit 30 Balance Sheet..... | 128 |
| Exhibit 31 Statement of Revenues, Expenditures and Changes in Fund Balance..... | 129 |
| STATISTICAL SECTION | |
| Table 1 Net Position by Component..... | 132 |
| Table 2 Changes in Net Position..... | 133 |
| Table 3 Fund Balances, Governmental Funds..... | 135 |
| Table 4 Changes in Fund Balance, Governmental Funds..... | 136 |
| Table 5 Assessed Value and Actual Value of Taxable Property..... | 137 |
| Table 6 Property Tax Levies and Collections..... | 138 |
| Table 7 Principal Real Estate Property Taxpayers..... | 139 |
| Table 8 Principal Electric Customers..... | 139 |
| Table 9 Ratios of General Bonded Debt Outstanding..... | 140 |
| Table 10 Legal Debt Margin Information..... | 141 |
| Table 11 Demographic Statistics..... | 142 |
| Table 12 Principal Employers..... | 143 |
| Table 13 Full-time Equivalent City Government Employees by Function..... | 144 |
| Table 14 Operating Indicators by Function..... | 145 |
| Table 15 Capital Asset Statistics by Function..... | 146 |
| COMPLIANCE SECTION | |
| Schedule of Expenditures of Federal Awards..... | 149 |
| Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 151 |
| Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance..... | 153 |
| Summary of Compliance Matters..... | 155 |
| Schedule of Findings and Questioned Costs..... | 156 |

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INTRODUCTORY SECTION



The Introductory Section of the City of Salem, Virginia's Comprehensive Annual Financial Report contains the Letter of Transmittal, which presents an overview of the profile of the City of Salem government, the local economic condition and outlook, major initiatives and accomplishments, and financial policies and financial planning. Also included in this section are an organizational chart and the Certificate of Achievement for Excellence in Financial Reporting awarded by the Government Finance Officers Association of the United States and Canada (GFOA) for the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2018. It is the highest form of recognition in governmental financial reporting.

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November 14, 2019

**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, Virginia (City) Comprehensive Annual Financial Report (CAFR) as of and for the fiscal year ended June 30, 2019. 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 accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB).

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the 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) beginning on page 20 provides a narrative introduction, overview and analysis to assist users in interpreting the basic financial statements as required by GAAP. This letter is meant to complement the MD&A and should be read in conjunction with it.

Profile of the Government

Salem is located in Virginia's Blue Ridge Mountains, approximately 190 miles west of Richmond and 250 miles southwest of Washington, DC. Its position in the southeastern United States gives the City ready access, within a 500-mile radius, to nearly two-thirds of the total population of the United States. In addition, the City lies at the region's crossroads of major rail and highway systems, 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 2019 estimated population, 25,643, 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. Under this form of government, City Council is elected by the voters and is comprised of five members, who elect two of their members as Mayor and Vice-Mayor for a two-year term. The City Council employs a City Manager who is responsible for the proper administration of the City government. The Primary Government provides a full range of services including general government administration, judicial administration, public safety, public works, health and welfare, parks and recreation, community development activities and support for education. The City also owns and operates an electric distribution system, water and sewage facilities and a civic center.

The financial reporting entity reflected in the CAFR, which is more fully described in Note 1 to the basic financial statements, conforms to the requirements of GAAP. 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 two discretely presented component units, City of Salem School Division and the Economic Development Authority of the City of Salem, due to the City's financial accountability for these organizations. The discretely presented component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position and results of operations from that of the primary government. Additional information concerning these legally separate organizations can be found in Note 1 to the financial statements.

Local Economic Condition and Outlook

Salem is proud to provide an atmosphere and quality of life conducive to families and businesses. Over the years, Salem has been able to maintain stable property tax rates. A strong educational system providing a well-educated and skilled workforce along with generally lower operating costs are reasons why employers have chosen to locate in Salem and the rest of the Valley. The City continues to actively pursue economic development opportunities, both in Downtown and other areas.

In January 2016, City Council adopted the Downtown Plan, the culmination of over a year of work by City staff, stakeholders and citizens. The Downtown Plan is a comprehensive strategy to improve and revitalize downtown Salem and includes multiple improvements, such as a distinctive new streetscape, a façade program, overhead lighting and brick sidewalks. New event programming for a younger and more cosmopolitan audience, outreach to businesses and the involvement of state programs such as the Tourism Development Program, the Department of Historic Resources and the Department of Housing and Community Development are also part of the planned improvements. Work on the downtown area will continue over several years and will involve multiple phases. Most City departments will be involved and many of the activities the City sponsors will need to be reoriented to better support downtown.

Since the implementation of the Downtown Plan is such a large undertaking, it involves multiple funding sources. The reason for this is twofold. First, the City wants to bring as many resources to bear on the effort as possible. Secondly, the City wants to bring the project to fruition as quickly as possible. In addition to local funding for the Façade Grant Program and for event programming, portions of the Downtown Plan are funded by Smartscale (HB2), Community Development Block Grants, Revenue Sharing, Transportation Alternatives Program funding and donations from partners such as Roanoke College and the Rotary Club of Salem. Grant funding totaling approximately \$10.7 million has been awarded with a required local match of approximately \$1.6 million.

Engineering work on the new streetscape is almost complete. The first phase of construction on College Avenue is slated to begin during the fall of 2019, with a portion of Main Street at the Farmer's Market immediately following. Additional phases are planned and will proceed as grant awards and other funding becomes available. Construction will be phased. In addition, the City's Façade Grant Program has been very popular with numerous businesses participating. In fiscal year 2019, grants totaling \$24,000 were paid to various downtown businesses.

The Downtown Plan has been successful well beyond expectations, attracting significant investment not just in Downtown, but in surrounding areas as well, and resulting in the adaptive reuse of several well-known derelict properties. The effort has also realized several long time "wish list" items for Downtown, such as better housing units and a downtown microbrewery.

Renovation of the Salem Motor Lofts, the former West Salem Body Shop on Main Street, is complete with 14 luxury boutique hotel rooms, which was a change from the original plan to offer loft apartments. Two restaurants, El Jefe and West Salem Barbecue, now occupy the bottom floor.

Renovation of the former Ridenhour Music building, now The Sharp Flats, is underway and will be completed soon. The bottom floor will be the new home to FedStar Credit Union. Upper floors will include eleven one and two-bedroom apartments. The ornate tin ceiling and other rustic features have been preserved during the renovation, which represents an investment of \$2 million.

The renovation of the historic Salem Theatre building is nearing completion. The lower level will house Frankie's Grille, an upscale restaurant, while fourteen boutique hotel rooms will be located on the upper floors.

Positive economic trends continue, resulting in a decrease in Salem's unemployment rate to 2.9%, from the prior year rate of 3.4%. Salem's unemployment rate remained lower than the national unemployment rate of 3.8%, and was level with the state unemployment rate of 2.9%. Salem is fortunate to have a diversified economy comprised of health care, manufacturing, higher education, retail trade and government. Included in the manufacturing process are high-tech electronics, medical equipment, tires, steel, tool and die and railroad equipment, just to name a few. Health care remains an important part of Salem's economy. The Salem VA Medical Center (Salem VAMC) was Salem's largest employer in fiscal year 2019, employing approximately 1,830 people. Lewis Gale Hospital and Lewis Gale Physicians remained major employers in Salem, with workforces of 1,173 and 713, respectively.

Real estate trends reflected growth in assessment from the prior year. During fiscal year 2019, thirty two new homes were constructed with an assessed value of almost \$8 million. In fiscal year 2018, fifteen new homes were constructed with an assessed value of \$3.4 million. As of December 31, 2018, the median sales price of homes in the City of Salem was \$175,000, an increase from \$172,000 as of December 31, 2017.

Major Initiatives and Accomplishments

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

Salem students demonstrated high levels of performance in academic, extracurricular and athletic activities. All six Salem schools were fully accredited by the Virginia Department of Education. The City of Salem School Division was again named one of the top ten school districts in Virginia for 2019 by Niche. South Salem Elementary was among 175 schools and 8 school divisions that earned 2019 Virginia Index

of Performance (VIP) awards for advanced learning and achievement. The City of Salem School Division was also one of 15 divisions to receive the Distinguished Achievement Award. We are very proud of the 2019 graduation rate of 95.27%. Approximately 83% of Salem High School graduates attend 2 or 4 year colleges or universities.

Design work has begun on the Salem High School renovation project. Phase 1 of the project includes classroom additions in the front and back of the building, a new administration area in the front, façade improvements, a new roof, improved security and a new cafeteria courtyard adjacent to the cafeteria. Renovations are being done in a way that will enable future incremental classroom modernization of the existing classrooms within the original structure. Design work should be completed by the end of 2019 with construction concluding by December 2021. The cost of Phase 1 renovations is estimated at \$36 million, with a \$32 million borrowing planned in early 2020 to pay for the project. Increases in real estate tax, personal property tax and totor fees effective July 1, 2019 will allow the City to pay debt service on the project.

Salem, Virginia's Championship City, has developed a nationwide reputation as a sports town, bringing to the community hundreds of collegiate and amateur tournaments and championships. The City, in conjunction with Roanoke College, recently hosted the 2019 NCAA Division III women's basketball championship and it will return in 2021. The City and Roanoke College will also host Division II and III women's lacrosse championships in 2020 and Division II women's lacrosse in 2021. The Central Intercollegiate Athletic Association (CIAA) football championship was held in Salem in the fall of 2018 for the third year and will be back for the next six years. Attendance at this game is approximately 4,000. The CIAA cross country championship was held in Salem in the fall of 2018 and will also be returning in 2019. CIAA softball was held in May 2019 and will be back in 2020 beginning a three-year run. CIAA women's volleyball was held in Salem in the fall of 2018 and will return in 2019 and 2020. The Old Dominion Athletic Conference (NCAA DIII) hosted their men's and women's basketball championships at the Civic Center, softball at James I. Moyer Sports Complex and baseball at Salem Memorial Stadium in the city and all will return in 2019-2020 along with cross country. In addition, the Mountain East Conference played their softball championship in Salem in May and will return in 2019-2020. The City and the Old Dominion Athletic Conference (ODAC) were awarded the Division III National Softball Championship in 2021-2022 along with women's lacrosse in 2021 and 2022. In 2022, the City will also host the NCAA DII women's lacrosse championship at the same time as DIII co-hosted by the Mountain East Conference. In 2018-2019, nearly 23,000 people traveled to Salem to attend NCAA DII and DIII collegiate events held in the City, with an estimated economic impact of \$4.5 million.

The City has been selected to host the Virginia High School League state championships in volleyball (Divisions 1, 2, and 3) at the Salem Civic Center, football (Division 1 and 2) at Salem Stadium, indoor track (Divisions 1, 2, and 3) at Roanoke College and wrestling (Division 1 and 2) at the Salem Civic Center for the next two years. The Spring Jubilee, which includes softball, baseball, boys' and girl's tennis,

and soccer, will be held at various City sites in 2020 and 2021. Over 1,500 athletes will participate in these events with parents and fans coming from all over the Commonwealth.

The James I. Moyer Sports Complex hosted over 2,100 softball and baseball teams this year in tournaments, filling over 15,000 hotel rooms in the Roanoke Valley. Major events were: the Chance Crawford Benefit Adult Slow-Pitch Softball Tournament, the ISF Senior World Cup, the VHSL Spring Jubilee, the ODAC Softball Conference Championship, the CIAA Softball Conference Championship, the Mountain East Softball Conference Championship and the USA Girls Class A 16U Fast-Pitch Championship. Over 62,000 people attended events at the James I. Moyer Sports Complex during the past year.

The third annual Salem Half Marathon was held on October 13, 2018, attracting 680 runners from all over the Commonwealth and 17 other states. This City-wide event involved over 200 volunteers and many of our City departments. Runners were able to see Salem's downtown, civic center facility, James I. Moyer Sports Complex, neighborhoods and vistas as they ran throughout the City. The Half Marathon also gave back over \$2,000 to local charities and volunteer groups.

The annual Salem Fair held at the Salem Civic Center is the largest fair in the state and celebrated its 31st year on the 14-acre midway from July 3-15, 2018. Attendance at the 13-day event was estimated at nearly 300,000, a slight reduction from the previous year, due to weather and an earlier closing time. Ticket sales for rides were down 3% over the prior year and food vendors were off just a bit as well.

The Salem Red Sox played their tenth season at Salem Memorial Stadium. The 2018-2019 season was the second full season that the team got to enjoy the new bluegrass turf field. A new sound system is scheduled to be installed in the second half of the season, which will provide fans with a more robust experience at the ballpark. With an average annual attendance of over 200,000 fans, the Salem Red Sox games remain a destination for people throughout Southwest Virginia looking for a family-friendly outing.

The City continued work on several major projects in fiscal year 2019. Construction was completed on the pedestrian bridge built next to the Eddy Avenue bridge to separate greenway walkers and bicyclists from vehicle traffic. Funding from Virginia Department of Transportation covered the cost of this greenway improvement. A new pumper fire truck was purchased at a cost of \$572,820. Design work for a new Civic Center roof was completed, with construction starting in the fall of 2019.

The City successfully migrated to a new 800 MHz radio system in May 2019 after two years of work on the project, which was led by the Police Department. The most cost effective option for the City was to become a user of the Roanoke Valley Radio System with Roanoke City, Roanoke County and Franklin County at a cost of \$2.2 million. This new system better serves Salem citizens and provides interoperability throughout the Roanoke Valley including the City of Roanoke, the Counties of Bedford, Franklin and

Pittsylvania and the Town of Vinton. Every radio has a police talk group monitored by dispatch in case of emergency, a special event channel for all Salem City departments and pre-determined radio channels for use in times of disaster or mutual aid requests.

In the Parks and Recreation area, the artificial turf at Spartan Field was replaced in July 2018, providing a safer environment and increasing playability for participants. Permanent soccer lines are sewn into the turf, eliminating the need for painting lines. Lighting upgrades were completed at Oakey's and Civic Center East fields. The lights at both facilities are more energy efficient and have reduced glare factors. The lights can be programmed for specific dates and times, eliminating the need for someone to be on-site to turn off lights after use. The lights can also be controlled on a mobile device. A new mobile stage was purchased, which will be used for most City-sponsored events. Stage set up can now be done by wireless remote.

Several large utility projects are underway. The City is moving forward with an automated meter reading infrastructure project for water and electric, which will result in operational efficiencies for the City. Contract negotiations are ongoing and the project is expected to be completed within 18 months after contract signing. On December 8, 2005, the City and the Virginia Department of Environmental Quality entered into a special order by consent to address issues to alleviate overflows in the sanitary sewer system by reducing rainfall derived inflow and infiltration (RDII). The sewer system rehabilitation project includes pipe bursting, slip lining, manhole rehabilitation and lateral replacement and is primarily within the downtown sewershed. As of June 30, 2019, 73% of the project was completed. The total construction value of all four contracts, including contingency is just under \$5.9 million. The expected completion date for the project is fall 2019.

Engineering work was completed on electric substation upgrades, which will be bid in fiscal year 2020. This multi-year project includes replacement of transformers and switchgear units at three substations as equipment currently in place is nearing end of life. Replacement of the 69 kv oil circuit breakers at two substations is also included. The project is expected to cost \$11.2 million and be completed by June 2021.

Financial Policies and Financial Planning

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

The City's annual budget is based on the financial policies of the City and reflects the balance between anticipated revenues and proposed expenditures. As required by City Code, the City Manager

submits a recommended budget to City Council thirty days prior to the last Council meeting in May of each year for the fiscal year beginning July 1st. After an extensive study process and a public hearing to receive citizen input, the City Council adopts the budget on or before June 30th.

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

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

Independent Audit

Virginia law and the Charter of the City of Salem require that the financial statements of the City be audited by a certified public accountant. Brown, Edwards & Company, L.L.P., has performed an annual audit of the basic financial statements and other supplementary information contained within the City's Comprehensive Annual Financial Report. Their audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns* and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. The report of the independent auditor, which includes their opinion on the financial statements of the City, is contained in the Financial Section of this report. Other auditor's reports are included in the Compliance Section.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) has awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City for its Comprehensive Annual Financial Report for 2018. This represents the thirty-first 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 CAFR, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. We believe this report conforms to the Certificate of Achievement Program requirements and standards and are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James E. Taliaferro, II". The signature is fluid and cursive, with a large initial "J" and a stylized "E".

James E. Taliaferro, II
Interim City Manager

A handwritten signature in black ink, appearing to read "Rosemarie B. Jordan". The signature is cursive, with a large initial "R" and a stylized "J".

Rosemarie B. Jordan
Director of Finance

**CITY OF SALEM, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
JUNE 30, 2019**

MEMBERS OF CITY COUNCIL

| | |
|------------------------|------------|
| Byron R. Foley | Mayor |
| Jane W. Johnson | Vice-Mayor |
| William D. Jones | Member |
| James A. Martin | Member |
| John E. Saunders..... | Member |

ELECTED OFFICERS

| | |
|----------------------------|-------------------------------------|
| Danielle C. Crawford | Treasurer |
| Kristie D. Chittum | Interim Commissioner of the Revenue |
| Thomas E. Bowers | Commonwealth's Attorney |
| Gary Chance Crawford | Clerk of Circuit Court |
| April M. Staton..... | City Sheriff |

GENERAL CITY GOVERNMENT

| | |
|--------------------------------|---|
| James E. Taliaferro, II | Interim City Manager |
| Rosemarie B. Jordan, CPA..... | Director of Finance |
| Stephen M. Yost..... | City Attorney |
| Beth A. Rodgers..... | Director of Human Resources |
| Kari J. Walls | Chief Information Officer |
| Michael D. Crawley | Police Chief |
| John W. Prillaman | Fire Chief |
| Charles E. Van Allman, Jr..... | Director of Community Development |
| Norman M. Tyler, Jr. | Director of Streets and General Maintenance |
| John P. Shaner | Director of Parks and Recreation |
| Ann G. Tripp..... | Library Director |
| Dana M. Oliver | Director of Elections |
| A. K. Briele, III | Director of Electric Department |
| Larado M. Robinson..... | Director of Water and Sewer Department |
| Justin W. Kuzmich..... | Real Estate Assessor |
| Troy D. Loving..... | Building Official and Zoning Administrator |
| Melinda J. Payne..... | Director of Economic Development |
| Wendy S. Delano | Director of Civic Facilities |
| R. Carey Harveycutter, Jr..... | Director of Tourism |
| Mike Stevens..... | Director of Communications |
| Angela A. Sellers..... | Special Projects Director |

MEMBERS OF SCHOOL BOARD

| | |
|---------------------------------|---------------|
| David H. Preston | Chairman |
| Dr. Michael A. Chiglinsky | Vice Chairman |
| Artice M. Ledbetter | Member |
| Dr. Nancy A. Bradley..... | Member |
| John A. (Andy) Raines | Member |

SCHOOL ADMINISTRATION

| | |
|-------------------------------|---|
| Dr. H. Alan Seibert | Superintendent of Schools |
| Dr. Forest I. Jones..... | Director of Administrative Services |
| Rosemarie B. Jordan, CPA..... | Director of Finance |
| Mandy C. Hall..... | Director of Business |
| Jennifer P. Dean | Director of Instructional Technology and Accountability |
| Curtis N. Hicks | Assistant Superintendent |
| Kirstine M. Barber | Director of Human Resources |
| Dr. Randy L. Jennings..... | Director of Student Services |



Government Finance Officers Association

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

Presented to

**City of Salem
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morill

Executive Director/CEO

FINANCIAL SECTION



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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Salem, Virginia (the "City"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, other supplemental schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2019 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 14, 2019

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

The following discussion and analysis of the City of Salem, Virginia's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2019. It should be read in conjunction with the transmittal letter and the City's basic financial statements.

FINANCIAL HIGHLIGHTS

- As of June 30, 2019, the Primary Government had \$155.6 million in total net position, an increase of \$19.7 million from prior year. Unrestricted net position available to fund future expenses was \$21 million or 13.5% of total net position.
- As of June 30, 2019, the governmental activities had \$60.2 million in total net position, which increased \$11.2 million from prior year. Unrestricted net position (deficit) was \$(21.6) million or (35.9%) of total net position.
- As of June 30, 2019, the business-type activities had \$95.4 million in total net position, an increase of \$8.5 million from prior year. Unrestricted net position available to fund future expenses was \$42.6 million or 44.6% of total net position.
- As of June 30, 2019, the General Fund had \$40.2 million in total fund balance, which increased by \$5.8 million from prior year. Unassigned fund balance was \$32.7 million or 81.2% of total fund balance.
- The City issued \$5,025,000 in general obligation bonds in February 2019 to fund a variety of capital improvements including the 911 radio system upgrade, Spartan Field turf replacement, lighting upgrades at Oakey's and Civic Center fields, Civic Center roof replacement, a garbage truck, a mobile stage and other equipment.

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

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

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

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

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

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

Fund Financial Statements

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

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

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

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

Fiduciary funds – Resources held for other governments or agencies not part of the City are reported as fiduciary funds. These activities are excluded from the government-wide financial statements because the City cannot use these assets to finance its operations. The accounting used for fiduciary funds is much like that used for proprietary funds. The City reports 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 which 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 Position

The following table presents a condensed summary of net position.

| Summary of Net Position (In Millions) | | | | | | | | |
|--|----------------------------|----------------|-----------------------------|----------------|-----------------------------|-----------------|--------------------|----------------|
| | Governmental Activities | | Business-type Activities | | Total Primary Government | | Component Units | |
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Current and other assets | \$ 52.8 | \$ 45.2 | \$ 64.9 | \$ 60.3 | \$ 117.7 | \$ 105.5 | \$ 21.3 | \$ 17.7 |
| Capital assets, net | 87.4 | 84.3 | 88.0 | 85.7 | 175.4 | 170.0 | 43.1 | 43.2 |
| Total assets | 140.2 | 129.5 | 152.9 | 146.0 | 293.1 | 275.5 | 64.4 | 60.9 |
| Deferred outflows of resources | 3.5 | 3.5 | 1.4 | 1.4 | 4.9 | 4.9 | 5.4 | 4.5 |
| Current and other liabilities | 4.2 | 4.7 | 4.9 | 5.0 | 9.1 | 9.7 | 9.0 | 6.8 |
| Long-term liabilities | 74.8 | 76.6 | 52.4 | 54.3 | 127.2 | 130.9 | 40.2 | 41.5 |
| Total liabilities | 79.0 | 81.3 | 57.3 | 59.3 | 136.3 | 140.6 | 49.2 | 48.3 |
| Deferred inflows of revenues | 4.5 | 2.7 | 1.6 | 1.2 | 6.1 | 3.9 | 5.1 | 5.7 |
| Net investment in capital assets | 75.9 | 75.6 | 52.8 | 49.4 | 128.7 | 125.0 | 42.9 | 43.2 |
| Restricted | 5.9 | 4.2 | - | - | 5.9 | 4.2 | 0.6 | 0.5 |
| Unrestricted | (21.6) | (30.8) | 42.6 | 37.5 | 21.0 | 6.7 | (28.0) | (32.3) |
| Total net position | \$ 60.2 | \$ 49.0 | \$ 95.4 | \$ 86.9 | \$ 155.6 | \$ 135.9 | \$ 15.5 | \$ 11.4 |

The Primary Government net position increased from \$135.9 million to \$155.6 million. Net position of governmental activities increased \$11.2 million and net position of business-type activities increased \$8.5 million. A detailed description of the changes in revenues and expenses that create the differences in net position is discussed in the next section.

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

The Primary Government's unrestricted net position, the portion of net position that can be used to finance the daily operations of the City was \$21 million. Debt totaling \$2.9 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 \$14.3 million of debt issued for school improvements while the School Division recorded the related asset. As such, \$17.2 million is included in governmental activities long-term liabilities, which directly reduced unrestricted net position.

Net position is reported as restricted when constraints on asset use are externally imposed by creditors, grantors, contributors, regulators, or are imposed by law through constitutional provisions or enabling legislation. The City had restricted net position totaling \$5.9 million as of June 30, 2019 for governmental activities. Approximately \$5.3 million in state funding was received, but not yet spent, for highway maintenance. Federal and state judicial administration and public safety grant funding totaling \$506,000 was received, but not yet spent, for fire programs, asset forfeiture, Four for Life and hazardous materials grants. Unspent donations totaling \$42,000 were restricted for law enforcement and public safety programs.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

As of June 30, 2019, component units had \$15.5 million in total net position, an increase of \$4.1 million. Unrestricted net position (deficit) available to fund future expenses was (\$28) million. Net investment in capital assets was \$42.9 million, a decrease of \$0.3 million.

Summary of Changes in Net Position

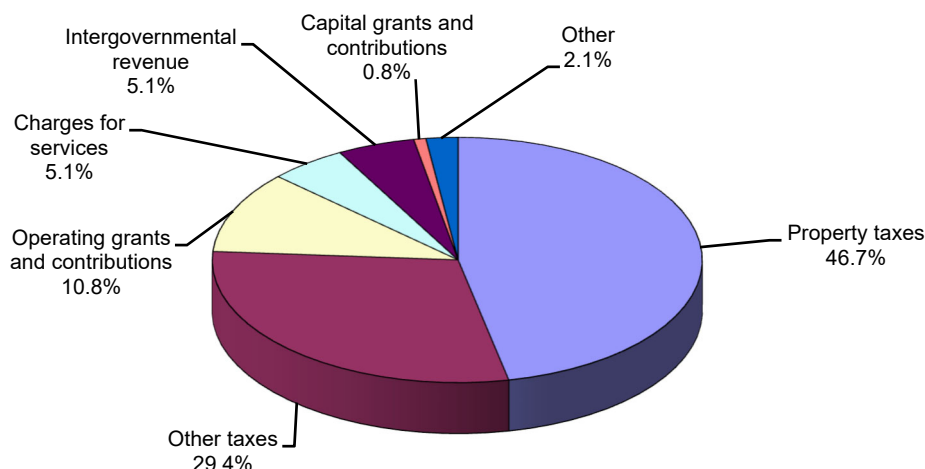
The following table presents a condensed summary of changes in net position.

| Summary of Changes in Net Position (In Millions) | | | | | | | | |
|---|----------------------------|----------------|-----------------------------|----------------|-----------------------------|-----------------|--------------------|----------------|
| | Governmental Activities | | Business-type Activities | | Total Primary Government | | Component Units | |
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Revenues | | | | | | | | |
| <i>Program Revenues:</i> | | | | | | | | |
| Charges for services | \$ 4.0 | \$ 4.1 | \$ 57.4 | \$ 58.2 | \$ 61.4 | \$ 62.3 | \$ 2.0 | \$ 2.0 |
| Operating grants and contributions | 8.5 | 8.2 | - | - | 8.5 | 8.2 | 9.8 | 9.5 |
| Capital grants and contributions | 0.6 | 1.4 | - | 0.2 | 0.6 | 1.6 | 0.1 | 0.1 |
| <i>General Revenues:</i> | | | | | | | | |
| Property taxes | 36.8 | 35.7 | - | - | 36.8 | 35.7 | - | - |
| Local sales and use tax | 7.3 | 7.0 | - | - | 7.3 | 7.0 | - | - |
| Business license tax | 5.6 | 5.3 | - | - | 5.6 | 5.3 | - | - |
| Meals tax | 5.1 | 4.8 | - | - | 5.1 | 4.8 | - | - |
| Utility taxes | 1.2 | 1.2 | - | - | 1.2 | 1.2 | - | - |
| Other taxes | 4.0 | 4.0 | - | - | 4.0 | 4.0 | - | - |
| Intergovernmental revenue | 4.0 | 4.0 | - | - | 4.0 | 4.0 | - | - |
| Investment earnings | 1.0 | 0.8 | 0.2 | 0.1 | 1.2 | 0.9 | - | - |
| Payments from City of Salem | - | - | - | - | - | - | 21.5 | 21.1 |
| State aid | - | - | - | - | - | - | 14.9 | 14.2 |
| Other | 0.7 | 0.6 | - | - | 0.7 | 0.6 | 0.1 | 0.1 |
| Total revenues | 78.8 | 77.1 | 57.6 | 58.5 | 136.4 | 135.6 | 48.4 | 47.0 |
| Expenses | | | | | | | | |
| General government | \$ 6.0 | \$ 6.4 | \$ - | \$ - | \$ 6.0 | \$ 6.4 | \$ - | \$ - |
| Judicial administration | 2.0 | 2.0 | - | - | 2.0 | 2.0 | - | - |
| Public safety | 16.0 | 15.8 | - | - | 16.0 | 15.8 | - | - |
| Public works | 9.4 | 11.6 | - | - | 9.4 | 11.6 | - | - |
| Health and welfare | 4.0 | 3.3 | - | - | 4.0 | 3.3 | - | - |
| Education | 21.0 | 20.2 | - | - | 21.0 | 20.2 | 43.8 | 44.3 |
| Parks, recreation and cultural | 6.3 | 6.1 | - | - | 6.3 | 6.1 | - | - |
| Community development | 3.2 | 3.4 | - | - | 3.2 | 3.4 | 0.5 | 0.9 |
| Interest and other fiscal charges | 1.0 | 1.0 | - | - | 1.0 | 1.0 | - | - |
| Electric | - | - | 33.0 | 31.4 | 33.0 | 31.4 | - | - |
| Water and sewage | - | - | 9.5 | 9.2 | 9.5 | 9.2 | - | - |
| Civic center | - | - | 4.3 | 4.7 | 4.3 | 4.7 | - | - |
| Catering and concessions | - | - | 1.0 | 1.0 | 1.0 | 1.0 | - | - |
| Total expenses | 68.9 | 69.8 | 47.8 | 46.3 | 116.7 | 116.1 | 44.3 | 45.2 |
| Excess before transfers | 9.9 | 7.3 | 9.8 | 12.2 | 19.7 | 19.5 | 4.1 | 1.8 |
| Transfers | 1.3 | 2.0 | (1.3) | (2.0) | - | - | - | - |
| Increase in net position | 11.2 | 9.3 | 8.5 | 10.2 | 19.7 | 19.5 | 4.1 | 1.8 |
| Net position, beginning | 49.0 | 39.7 | 86.9 | 76.7 | 135.9 | 116.4 | 11.4 | 9.6 |
| Net position, ending | \$ 60.2 | \$ 49.0 | \$ 95.4 | \$ 86.9 | \$ 155.6 | \$ 135.9 | \$ 15.5 | \$ 11.4 |

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Governmental Activities – Revenues

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



Property taxes, which were 46.7% of total governmental activities revenue, include real estate tax, the local portion of personal property tax, machinery and tools tax and public service corporation taxes. Property taxes in total increased \$1.1 million or 3.2% from the previous year. Current year real estate tax revenue was up approximately \$662,000 or 2.7% from the prior year due to higher assessments. Regular vehicle assessments also increased from the previous year, resulting in growth of \$236,000 or 3.3% in current year personal property tax revenue. Delinquent real estate and personal property taxes were higher in fiscal year 2019. Machinery and tools tax revenue was down from the previous year, partially offsetting increases in other property taxes.

Operating grants and contributions, which were 10.8% of total governmental activities revenue, increased \$259,000 or 3.2%. In fiscal year 2019, expenses of the Children's Services Act program were higher than the previous year resulting in an increase in revenue from the State for their share of these costs. The increase in expenses is reflected in the health and welfare function. A decrease in public safety grants partially offsets this increase.

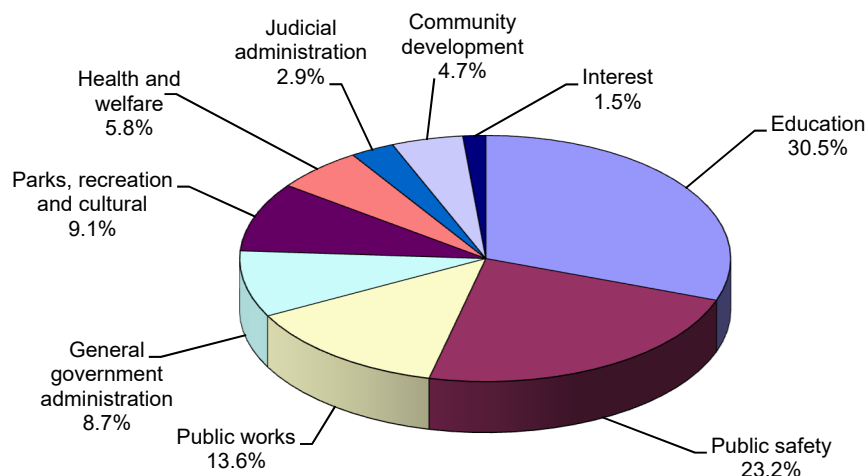
Capital grants and contributions, which were 0.8% of total governmental activities revenue, decreased \$837,000. In the previous year, a hazardous materials emergency response vehicle and trailer valued at \$275,000 were donated to the Fire Department by the Virginia Department of Emergency Management. More activity took place on grant-funded projects during fiscal year 2018 resulting in a higher amount of capital grant revenue in the previous year. In the parks, recreation and cultural function, grant revenue totaling \$630,000 was received in the prior year for the Eddy Street bridge project while only \$447,000 was received in fiscal year 2019. In addition, Salem Red Sox contributed \$101,000 to the turf replacement project at Salem Memorial Park in fiscal year 2018. Grant revenue totaling \$187,000 was received in the public works function for the Bicycle and Pedestrian Safety Improvement Program in the previous year, which was higher than the \$65,000 received in fiscal year 2019.

Local sales and use taxes increased \$281,000 or 4%. Business license and meals taxes were also up 5.3% and 5.9%, respectively. Utility taxes and intergovernmental revenue not restricted remained fairly level with the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Governmental Activities – Expenses

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



Public works expenses were 13.6% of total governmental activities expenses and included engineering, refuse collection and disposal, building maintenance, street paving, engineering and street maintenance. Expenses were down \$2.2 million or 18.8% due to lower highway maintenance spending. In the previous fiscal year, \$2.3 million was spent on paving while only \$25,000 was spent in the current year.

Education expenses totaling \$21 million, or 30.5% of governmental activities, represented the largest allocation of resources. Funding of \$20.4 million was allocated to the School Division to cover operating costs, an increase of \$742,000 or 3.8%. Meals tax revenue is shared with the School Division and \$651,000 was transferred in fiscal year 2019. The amount of meals tax provided to the School Division was \$114,000 or 21.2% higher than the previous year.

Health and welfare expenses, which were 5.8% of total governmental activities expenses, increased \$696,000 or 21%. As previously mentioned, expenses of the Children's Services Act program were higher due to a larger number of children requiring care and the need for more intensive services. The City is required to provide an average local match of 35% while the State provides remaining funding for these costs.

General government expenses were 8.7% of total governmental activities and included administrative departments such as the City Manager's Office, City Garage, Technology Systems and Finance. Expenses were down \$390,000 or 6.1%. Depreciation expense was \$100,000 lower than the prior year as several technology assets were fully depreciated. Pension and OPEB expense were also lower than the prior year.

Business-type Activities

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

Component Units

Payments from the City of Salem totaled \$21.5 million, an increase of \$453,000 or 2.2%. Funding from the City to the Economic Development Authority totaled \$509,000 and decreased from the previous year due to a lower amount of funding required for incentive payments in fiscal year 2019. Payments to the School Division totaled \$21 million and were up \$856,000 or 4.2% from the previous year. Operating support totaled \$20.4 million, an increase of 3.8%. Meals tax revenue dedicated to school capital projects totaled \$651,000, which was up \$114,000 or 21.2% from the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

State aid provided to the School Division was up \$669,000 or 4.7% from the prior year. Basic aid increased \$406,000 or 3.8% due to higher than expected student enrollment. In addition, sales tax grew \$263,000 or 7.3%.

The School Division incurred expenses of \$43.8 million for the year ended June 30, 2019, a decrease of \$506,000 or 1.1% from prior year. Expenses of the Economic Development Authority totaled \$465,000 and declined \$448,000. Required incentive payments were lower than the previous year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

As of June 30, 2019, the governmental funds had \$42.9 million in total fund balance, an increase of \$7 million from prior year. Unassigned fund balances available to fund future expenditures were \$32.7 million or 76.1% of total fund balance. Unassigned fund balance, which contains all amounts not included in other classifications, is available to pay for future years' capital expenditures and provide for unforeseen circumstances. Restricted fund balance totaled \$7.9 million and included \$2 million of unspent bond proceeds and \$5.9 million that can be spent only for specific purposes stipulated by grantors and donors. Assigned fund balance totaled \$1.4 million and represents amounts set aside to liquidate encumbrances. Committed fund balance totaled \$110,000 and represents funds appropriated for the E-summons program and stormwater management.

General Fund

The General Fund is the chief operating fund of the City. As of June 30, 2019, the General Fund had \$40.2 million in total fund balance, which increased \$5.8 million from the prior year. Unassigned fund balance available to fund future expenditures was \$32.7 million or 81.2% of total fund balance and increased \$3.9 million from the previous year. As a measure of the General Fund's liquidity, it may be useful to compare both total fund balance and unassigned fund balance to total fund expenditures. Total fund balance to total fund expenditures increased from 51.3% to 57.9%. Unassigned fund balance to total fund expenditures increased from 43% to 47.1%.

Property taxes, which were 47.7% of total General Fund revenue, increased \$937,000 or 2.6% from the prior year. Current year real estate tax revenue was up \$599,000 or 2.5% due to higher assessments. Current year personal property tax revenue was up \$209,000 or 3%. Assessments for regular vehicles. Increased and the percentage of tax collected was higher than the previous year. Collection of delinquent real estate and personal property taxes was up from the prior year, which also contributed to an increase in penalties and interest revenue. A decrease of \$146,000 or 4.7% in machinery and tools tax revenue partially offset these increases.

Other local taxes, which comprised 29.8% of total General Fund revenue increased \$884,000 or 4% from the previous year. Sales tax was up \$281,000 or 4%. Meals and lodging taxes increased 5.9% and 7.8%, respectively. Business license tax, which is based on gross receipts of businesses, was up 5.3%. Recordation taxes were down and cigarette tax revenue decreased for the third consecutive year.

Revenue from use of money and property increased \$244,000 or 24.1% due to higher interest earnings. The interest rate environment was more favorable than the previous year, with interest rates rising during fiscal year 2019. In addition, the City invested excess funds with Local Government Investment Pool and a money market account, which resulted in a higher return on investment. The City's average cash balances were higher than the previous year, which also contributed to the increase in interest revenue.

Public works expenditures, which were 11.9% of total General Fund expenditures, decreased \$1.5 million or 15.4% from the prior year largely due to decreased expenditure of highway maintenance funding. In fiscal year 2018, \$2.3 million was spent on paving while only \$25,000 was spent on paving in fiscal year 2019. This decrease was partially offset by an increase in expenditures for traffic signals.

Community Development expenditures were \$1.2 million or 37.2% higher than the previous year. In fiscal year 2019, the City purchased two pieces of property at a total cost of \$1.5 million. Lower incentive

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

payments resulted in a reduced payment to the Economic Development Authority in fiscal year 2019, partially offsetting this increase.

Education expenditures, which comprise 30.3% of total General Fund expenditures, were up \$856,000 or 4.2%. Of the \$21 million in expenditures, \$20.4 million represented local operating support provided to the School Division and \$651,000 was the transfer of meals tax collected by the City and dedicated to school capital projects. Local operating support was \$742,000 higher in fiscal year 2019. In addition, meals tax revenue increased in fiscal year 2019, resulting in a higher share for the Schools.

Health and Welfare expenditures were \$675,000 or 21.1% higher than the previous year. Expenditures of the Children's Services Act program were up due to an increase in the number of children requiring services and more children requiring a higher level of care. Costs for foster care and special education private day placements both increased.

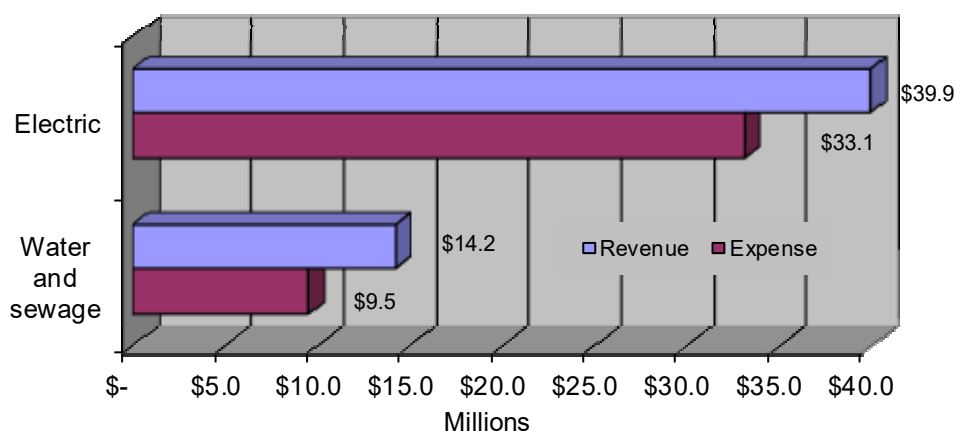
Transfers out were up 15.7% or \$845,000 due to funding transferred to the Civic Center to cover equipment purchases and repair costs. Transfers to Catering were higher as more funding was needed to cover an operating deficit.

Capital Projects Fund

During fiscal year 2019, Capital Projects fund expenditures were almost \$5 million, which was \$1.7 million higher than the previous year. Bonds totaling \$5,025,000 were issued in fiscal year 2019 to fund improvements and purchase equipment budgeted in the Capital Projects Fund. Bond proceeds were used to pay for several projects in fiscal year 2019 including the public safety radio upgrade, Spartan Field turf replacement, Oakey's and Civic Center East field lighting replacement, a new mobile stage and street department equipment. Grant funds totaling \$454,000 paid for construction of the pedestrian bridge at Eddy Avenue.

Proprietary Funds

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



Electric Fund

As of June 30, 2019, the Electric fund had \$55 million in total net position, which increased by \$3.5 million from the prior year. Net investment in capital assets was \$17.4 million or 31.7% of total net position. Unrestricted net position available to fund future expenses was \$37.6 million or 68.3% of total net position.

For fiscal year 2019, operating revenue was \$39.7 million and decreased \$434,000 or 1.1%. Charges for services were down 1.1% due to a slight decline in consumption. Operating expenses were \$32.5 million and were \$1.8 million higher than the prior year largely due to an increase in purchased power costs. Purchased power costs increased \$1.7 million or 6.8%. The City purchases power for resale through AEP. Purchased power costs consist of several components. Rates are recalculated annually based on the supplier's cost. In accordance with the contract, AEP is allowed to charge back to the City environmental and other costs as approved by the Federal Energy Regulatory Commission (FERC). These costs relate

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

to AEP's overall transmission and power production costs and are allocated to the City. They are not a direct result of activities in Salem. The true-up of charges is done annually and the settle up in fiscal year 2019 was a larger credit than the fiscal year 2018 true-up. However, transmission costs, which are a component of purchased power costs, increased \$1.2 million in fiscal year 2019 due to a large transmission cost allocation adjustment from PJM transmission owners, which reduced transmission costs in the prior year.

Water and Sewage Fund

As of June 30, 2019, the Water and Sewage fund had \$40.8 million in total net position, an increase of \$4.5 million from prior year. Net investment in capital assets was \$31.9 million or 78.3% of total net position. Unrestricted net position available to fund future expenses was \$8.9 million or 21.7% of total net position.

For fiscal year 2019, operating revenue was \$14.2 million, an increase of \$156,000 or 1.1%. Charges for services were up slightly, due to a water rate increase effective January 1, 2019. Operating expenses were \$9.1 million, an increase of \$404,000 or 4.7% from the prior year. Treatment of sewage costs were up \$522,000 or 31.9% higher than the previous year. The gallons of sewage treated by the Western Virginia Water Authority (WVWA) was up 46% due to higher amounts of rainfall. In addition, the City's share of the regional inflow and infiltration allocation was higher in fiscal year 2019.

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 2019 (In Millions)

| | Original Budget | Budget As Amended | Actual |
|---------------------|--------------------|----------------------|---------|
| Revenues | \$ 74.7 | \$ 75.7 | \$ 78.1 |
| Expenditures | (71.7) | (75.8) | (69.4) |
| Transfers in | 3.3 | 3.3 | 3.3 |
| Transfers out | (6.3) | (6.2) | (6.2) |
| Use of fund balance | \$ - | \$ (3.0) | \$ 5.8 |

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, 2018.
- To re-appropriate grants, donations and other revenues authorized in fiscal year 2018 or earlier, but not expended or encumbered as of June 30, 2019.
- To appropriate grants, donations and other revenues accepted or adjusted in fiscal year 2019 when official notice of approval was received.
- To appropriate unassigned General Fund balance to capital projects.

The Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual – General Fund is shown on page 39. Property tax revenue exceeded budget for several reasons. Assessed values of personal property increased more than anticipated while machinery and tools tax assessments declined more than expected. Because the City assesses and bills personal property in late spring, no current assessment data is available at the time revenue estimates are developed for the subsequent fiscal year. The Finance Department works with other City departments to determine a reasonable revenue estimate based on the information that is available. Delinquent tax revenue exceeded estimates but delinquent tax revenues are budgeted conservatively because collections are unpredictable.

Other local taxes revenue exceeded the final budget by 3.2% due to sales, business license and meals taxes. Revenue from use of money and property exceeded budget by \$371,000 due to higher than budgeted interest earnings. The interest rate environment changed during fiscal year 2019, resulting in

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

higher rates paid on investments. In addition, the City invested excess funds in the Local Government Investment Pool, which provided a greater rate of return.

Public Works expenditures were under budget by \$3.1 million. Highway maintenance funding totaling \$1.3 million was encumbered, but not spent as of June 30, 2019. In addition, highway maintenance spending was under budget due to no paving being done in fiscal year 2019. Unspent highway maintenance funding is available for spending in the subsequent year. Salary and fringe benefit costs of the Public Safety function were lower than budgeted due to positions being vacant. In the General Government function, expenditures of the Technology Systems department were lower than budgeted, largely in the software maintenance and salary/fringe benefit accounts. In the Non-departmental category, \$527,000 was budgeted as a reserve for fund balance replenishment and \$177,000 of contingency was not expended in fiscal year 2019.

CAPITAL ASSETS

The City's total Primary Government capital assets, net of accumulated depreciation, increased 3.2% from \$170 million to \$175.4 million. This investment includes land, construction in progress, machinery and equipment, buildings and improvements, leasehold 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 7 of the financial statements.

Capital Assets, Net of Depreciation (In Millions)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | | Component Unit | |
|-------------------------------|----------------------------|----------------|-----------------------------|----------------|-----------------------------|-----------------|-------------------|----------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Land | \$ 6.5 | \$ 5.7 | \$ 1.5 | \$ 1.5 | \$ 8.0 | \$ 7.2 | \$ 1.1 | \$ 1.1 |
| Construction in progress | 1.4 | 2.7 | 7.6 | 2.3 | 9.0 | 5.0 | 0.7 | 0.2 |
| Machinery and equipment | 7.6 | 5.1 | 2.9 | 2.9 | 10.5 | 8.0 | 2.8 | 2.6 |
| Buildings and improvements | 22.0 | 20.8 | 15.4 | 16.1 | 37.4 | 36.9 | 38.5 | 39.3 |
| Public domain infrastructure | 49.9 | 50.0 | - | - | 49.9 | 50.0 | - | - |
| Distribution and transmission | - | - | 14.5 | 15.1 | 14.5 | 15.1 | - | - |
| Utility plant | - | - | 25.6 | 26.4 | 25.6 | 26.4 | - | - |
| Sewage treatment contract | - | - | 20.5 | 21.4 | 20.5 | 21.4 | - | - |
| Total | <u>\$ 87.4</u> | <u>\$ 84.3</u> | <u>\$ 88.0</u> | <u>\$ 85.7</u> | <u>\$ 175.4</u> | <u>\$ 170.0</u> | <u>\$ 43.1</u> | <u>\$ 43.2</u> |

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

- The new public safety radio system became operational in May 2019. \$2.2 million was expended for this project.
- Construction of the pedestrian bridge at Eddy Avenue was completed. Capitalized costs totaled \$1.2 million and were funded by grants from the Virginia Department of Transportation.
- The renovation of the Courthouse front entrance was completed in fiscal year 2019 at a total cost of \$758,000.
- Properties at 508 and 516 East Main Street and 2102 West Main Street were purchased at a total cost of \$1.5 million.
- A new pumper fire truck was purchased at a cost of \$573,000.
- Field turf was replaced at Spartan Field at a cost of \$506,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

- The Electric Department purchased a new Freightliner Bucket Truck in fiscal year 2019 at a cost of \$230,000.
- The Civic Center purchased a new stage at a cost of \$150,466.
- Work on the sanitary sewer system continued with \$4.4 million in costs incurred in fiscal year 2019. Total project costs of \$5.2 million were included in the Water and Sewer Fund construction in progress balance as of June 30, 2019. Rehabilitation of the sanitary sewer system includes pipe bursting, slip lining, manhole rehabilitation and lateral replacement to reduce rainfall derived inflow and infiltration.
- The Electric Department completed design work totaling \$311,507 on the substation equipment replacement project, which increased the construction in progress balance. This project is expected to cost \$11.2 million.

LONG-TERM DEBT

At June 30, 2019, the City's long-term liabilities, excluding capital lease obligations, compensated absences, net pension liabilities, net OPEB liabilities, bond premiums, and bond discounts, totaled \$73.8 million. This amount was comprised of \$33 million related to governmental activities (including \$14.3 million for debt held on behalf of the School Division and \$1 million recorded as a receivable from Roanoke Valley Resource Authority) and \$40.8 million related to business-type activities. The City made \$7.1 million in principal payments and amortized \$66,468 in discounts and premiums.

Total debt increased \$1.2 million during the fiscal year. On February 22, 2019, the City issued \$5,025,000 in tax-exempt general obligation improvement bonds series 2019 to finance the cost of various capital improvement projects, including but not limited to a radio system upgrade, Spartan Field turf replacement, Lighting upgrades and Oakley's and Civic Center East fields, Civic Center roof replacement, a mobile stage and acquisition of equipment and vehicles. Detailed information regarding these changes in long-term debt is disclosed in Note 8 to the financial statements.

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

The City Charter 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. Additionally, in accordance with its contractual agreement with Roanoke Valley Resource Authority, the City will receive funding from RVRA toward \$1 million of general obligation debt. The City's tax-supported debt of \$31.9 million is below the legal debt limit of \$219.8 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 capital lease obligations, compensated absences, net OPEB liabilities, and net pension liabilities, as its own. In addition to bonded debt, the City's long-term obligations include capital lease obligations, compensated absences, net OPEB liabilities, and net pension liabilities. Additional information concerning the City's long-term liabilities is presented in Note 9 of the financial statements and Table 9 of the statistical section.

Interest and other fiscal charges for fiscal year 2019 were \$1 million or 1.5% of total governmental activities expenses.

FACTORS INFLUENCING FUTURE BUDGETS

Current economic conditions continue to trend positively. Salem's unemployment rate decreased from 3.4% to 2.9%, which is level with the state unemployment rate. The City's unemployment rate stayed lower than the national unemployment rate of 3.8%. The health care industry remains a major employer in Salem, as does the manufacturing industry. The City continues to see on-going redevelopment in and around the

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

downtown area. Several blighted properties have been redeveloped in the past few years or have renovations in process.

General Fund revenues budgeted for fiscal year 2020 reflect an increase of 5.3%, due to growth in the property and other local taxes and use of money and property categories. The General Fund budget includes \$2 million for capital purchases, which is an increase from the \$1 million budgeted for capital in fiscal year 2019. Employees received a 3% raise effective July 1, 2019.

The City issued bonds totaling \$5,025,000 in fiscal year 2019 to fund a new radio system, field turf replacement at Spartan Field, lighting at Oakey's and Civic Center East Fields, Civic Center roof replacement and other much-needed equipment. However, the long-lasting recession and slow recovery forced the City to delay significant equipment replacements due to lack of funding. The City needs to continue to make a substantial investment in equipment and other capital, particularly in the public works area. Funding for capital needs and equipment replacement will continue to put pressure on future budgets.

Electric consumption is expected to increase 1% and water consumption is expected to remain flat in fiscal year 2020. No rate increase was necessary for electric or sewer, but a 2% rate increase for water will be effective January 1, 2020 based on the five-year rate plan.

A substantial renovation and expansion of Salem High School is underway with design work to be completed during fiscal year 2020. The school originally opened for the 1978 school year and houses almost 1,200 students. A \$32 million borrowing is planned for early 2020. Because the City assumes debt issued on behalf of the School Division, City Council approved increases in real estate and personal property tax rates and the monthly tote fee effective July 1, 2019 in order to generate enough revenue to pay debt service costs for this borrowing.

The City and School Division continue to be affected by issues at the federal and state level such as:

- Legislative actions at the federal level
- Rising health care costs
- Potential State budget reductions
- Projected increases in retirement contribution rates assessed by the Virginia Retirement System

REQUESTS FOR INFORMATION

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

Additional information on the Component Unit can be obtained from the Director of Business, Salem Public Schools, 510 South College Avenue, Salem, Virginia 24153, or visit the School's website at www.salem.k12.va.us.

BASIC FINANCIAL STATEMENTS



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

CITY OF SALEM, VIRGINIA
STATEMENT OF NET POSITION
JUNE 30, 2019

| | Primary Government | | | Component Units |
|---|------------------------------------|-------------------------------------|-----------------------|----------------------------|
| | Governmental Activities | Business-type Activities | Total | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 41,160,408 | \$ 47,153,414 | \$ 88,313,822 | \$ 16,073,236 |
| Receivables, net | 2,789,632 | 7,275,461 | 10,065,093 | 3,360,251 |
| Due from component unit | - | 3,310,037 | 3,310,037 | - |
| Due from other governmental units | 5,960,762 | - | 5,960,762 | 1,216,892 |
| Net pension asset | - | - | - | 505,064 |
| Inventories | 615,438 | 1,802,493 | 2,417,931 | 56,438 |
| Prepaid items | 246,999 | 106,302 | 353,301 | 101,494 |
| <i>Restricted assets:</i> | | | | |
| Cash and cash equivalents | 2,021,997 | 5,240,574 | 7,262,571 | - |
| <i>Capital assets:</i> | | | | |
| Nondepreciable | 7,871,664 | 9,193,105 | 17,064,769 | 1,789,457 |
| Depreciable, net | 79,514,826 | 78,817,125 | 158,331,951 | 41,312,170 |
| Total assets | <u>140,181,726</u> | <u>152,898,511</u> | <u>293,080,237</u> | <u>64,415,002</u> |
| DEFERRED OUTFLOWS OF RESOURCES | <u>3,527,190</u> | <u>1,376,636</u> | <u>4,903,826</u> | <u>5,346,224</u> |
| LIABILITIES | | | | |
| Accounts payable and accrued liabilities | 2,022,881 | 2,988,782 | 5,011,663 | 678,135 |
| Accrued payroll and related liabilities | 1,365,630 | 416,346 | 1,781,976 | 4,463,242 |
| Accrued interest | 324,388 | 342,400 | 666,788 | 7,106 |
| Self-insurance claims liability | 370,974 | - | 370,974 | 565,666 |
| Due to primary government | - | - | - | 3,273,104 |
| Due to component unit | 36,933 | - | 36,933 | - |
| Unearned revenues | 83,397 | 216,904 | 300,301 | 34,578 |
| Customer security deposits | - | 982,408 | 982,408 | - |
| <i>Long-term liabilities due in less than one year:</i> | | | | |
| Bonds payable | 2,922,851 | 3,701,339 | 6,624,190 | - |
| Capital lease obligation | 80,065 | - | 80,065 | 95,293 |
| Compensated absences | 1,303,772 | 474,333 | 1,778,105 | 351,406 |
| <i>Long-term liabilities due in more than one year:</i> | | | | |
| Bonds payable | 29,987,187 | 37,079,538 | 67,066,725 | - |
| Capital lease obligation | 41,402 | - | 41,402 | 99,919 |
| Compensated absences | 523,456 | 139,265 | 662,721 | 404,074 |
| Net pension liability | 27,271,632 | 7,226,712 | 34,498,344 | 33,092,000 |
| Net OPEB liability | 12,696,942 | 3,740,506 | 16,437,448 | 6,150,083 |
| Total liabilities | <u>79,031,510</u> | <u>57,308,533</u> | <u>136,340,043</u> | <u>49,214,606</u> |
| DEFERRED INFLOWS OF RESOURCES | <u>4,487,310</u> | <u>1,554,809</u> | <u>6,042,119</u> | <u>5,066,418</u> |
| NET POSITION | | | | |
| Net investment in capital assets | 75,906,865 | 52,850,038 | 128,756,903 | 42,906,415 |
| Restricted for: | | | | |
| Grant programs | 547,642 | - | 547,642 | - |
| Highway maintenance | 5,321,220 | - | 5,321,220 | - |
| Capital projects | - | - | - | 630,872 |
| Unrestricted (deficit) | (21,585,631) | 42,561,767 | 20,976,136 | (28,057,085) |
| Total net position | <u>\$ 60,190,096</u> | <u>\$ 95,411,805</u> | <u>\$ 155,601,901</u> | <u>\$ 15,480,202</u> |

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

**CITY OF SALEM, VIRGINIA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

| Functions/Programs | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Position | | |
|-----------------------------------|-----------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | Component Units |
| | | | | | Governmental Activities | Business-type Activities | |
| Primary Government | | | | | | | |
| <i>Governmental activities:</i> | | | | | | | |
| General government | \$ 5,999,310 | \$ 283,181 | \$ 264,724 | \$ - | \$ (5,451,405) | \$ (5,451,405) | |
| Judicial administration | 2,019,802 | 207,548 | 1,121,861 | - | (690,393) | (690,393) | |
| Public safety | 15,953,011 | 1,487,180 | 1,032,181 | - | (13,433,650) | (13,433,650) | |
| Public works | 9,434,930 | 1,488,934 | 4,281,648 | 70,140 | (3,594,208) | (3,594,208) | |
| Health and welfare | 4,014,354 | - | 1,597,467 | - | (2,416,887) | (2,416,887) | |
| Education | 21,032,249 | - | - | - | (21,032,249) | (21,032,249) | |
| Parks, recreation and cultural | 6,300,706 | 490,905 | 169,083 | 452,982 | (5,187,736) | (5,187,736) | |
| Community development | 3,173,232 | - | - | 43,244 | (3,129,988) | (3,129,988) | |
| Interest and other fiscal charges | 1,008,095 | - | - | - | (1,008,095) | (1,008,095) | |
| Total governmental activities | 68,935,689 | 3,957,748 | 8,466,964 | 566,366 | (55,944,611) | (55,944,611) | |
| <i>Business-type activities:</i> | | | | | | | |
| Electric | 33,022,574 | 39,719,859 | - | - | | \$ 6,697,285 | 6,697,285 |
| Water and sewage | 9,538,640 | 14,165,379 | - | - | | 4,626,739 | 4,626,739 |
| Civic Center | 4,291,121 | 2,745,582 | - | - | | (1,545,539) | (1,545,539) |
| Catering and concessions | 937,758 | 778,605 | - | - | | (159,153) | (159,153) |
| Total business-type activities | 47,790,093 | 57,409,425 | - | - | | 9,619,332 | 9,619,332 |
| Total primary government | \$ 116,725,782 | \$ 61,367,173 | \$ 8,466,964 | \$ 566,366 | \$ (55,944,611) | \$ 9,619,332 | \$ (46,325,279) |
| Component Units | \$ 44,275,951 | \$ 2,011,976 | \$ 9,818,437 | \$ 17,438 | | | \$ (32,426,646) |

General revenues:

| | | | | | | | |
|--|----------------------|----------------------|----------------------|----------------------|-----------------------|-----------------------|----------------------|
| Property taxes | 36,825,133 | - | - | - | 36,825,133 | - | - |
| Local sales and use taxes | 7,296,272 | - | - | - | 7,296,272 | - | - |
| Business license tax | 5,615,337 | - | - | - | 5,615,337 | - | - |
| Meals tax | 5,085,168 | - | - | - | 5,085,168 | - | - |
| Utility taxes | 1,203,020 | - | - | - | 1,203,020 | - | - |
| Other taxes | 4,042,474 | - | - | - | 4,042,474 | - | - |
| Intergovernmental revenue not restricted | 3,951,338 | - | - | - | 3,951,338 | - | - |
| Unrestricted investment earnings | 994,037 | - | - | - | 994,037 | 189,302 | - |
| Gain on sale of capital assets | 44,471 | - | - | - | 44,471 | - | - |
| Payments from City of Salem | - | - | - | - | - | - | 21,534,995 |
| State aid | - | - | - | - | - | - | 14,891,728 |
| Other | 757,329 | - | - | - | 757,329 | - | 121,136 |
| Transfers | 1,332,706 | - | - | - | - | - | - |
| Total general revenues and transfers | 67,147,285 | - | - | - | (1,332,706) | - | - |
| Change in net position | 11,202,674 | - | - | - | (1,143,404) | 66,003,881 | 36,548,359 |
| Net position, beginning | 48,987,422 | - | - | - | 8,475,928 | 19,678,602 | 4,120,259 |
| Net position, ending | \$ 60,190,096 | \$ 95,411,805 | \$ 95,411,805 | \$ 95,411,805 | \$ 155,601,901 | \$ 155,601,901 | \$ 15,480,202 |

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

**CITY OF SALEM, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019**

| | General | Debt Service | Capital Projects | Total Governmental Funds |
|--|----------------------|-----------------|---------------------|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 36,370,780 | \$ - | \$ 592,015 | \$ 36,962,795 |
| Cash and cash equivalents, restricted | - | - | 2,021,997 | 2,021,997 |
| Receivables, net | 2,747,541 | - | - | 2,747,541 |
| Due from other governmental units | 4,797,652 | - | 165,028 | 4,962,680 |
| Inventories | 615,438 | - | - | 615,438 |
| Prepaid items | 246,999 | - | - | 246,999 |
| Total assets | <u>\$ 44,778,410</u> | <u>\$ -</u> | <u>\$ 2,779,040</u> | <u>\$ 47,557,450</u> |
| LIABILITIES | | | | |
| Accounts payable and accrued liabilities | \$ 1,926,400 | \$ - | \$ 58,256 | \$ 1,984,656 |
| Accrued payroll and related liabilities | 1,356,830 | - | - | 1,356,830 |
| Due to component unit | 36,933 | - | - | 36,933 |
| Unearned revenues | 41,635 | - | - | 41,635 |
| Total liabilities | <u>3,361,798</u> | <u>-</u> | <u>58,256</u> | <u>3,420,054</u> |
| DEFERRED INFLOWS OF RESOURCES | <u>1,225,579</u> | <u>-</u> | <u>-</u> | <u>1,225,579</u> |
| FUND BALANCES | | | | |
| Nonspendable | 862,437 | - | - | 862,437 |
| Restricted | 5,868,862 | - | 1,983,825 | 7,852,687 |
| Committed | 110,092 | - | - | 110,092 |
| Assigned | 697,043 | - | 736,959 | 1,434,002 |
| Unassigned | 32,652,599 | - | - | 32,652,599 |
| Total fund balances | <u>40,191,033</u> | <u>-</u> | <u>2,720,784</u> | <u>42,911,817</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 44,778,410</u> | <u>\$ -</u> | <u>\$ 2,779,040</u> | <u>\$ 47,557,450</u> |

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

CITY OF SALEM, VIRGINIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS' BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2019

| | |
|--|-----------------------------|
| Total fund balance of governmental funds | \$ 42,911,817 |
| Capital assets used in governmental activities are not considered current financial resources and, therefore, are not reported in the governmental funds. | 87,386,490 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. | |
| Deferred inflows of resources for unavailable revenues | 1,142,092 |
| Receivable from Roanoke Valley Resource Authority | 998,082 |
| For debt refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred outflow of resources or a deferred inflow of resources. | |
| Deferred amounts on refunding | 310,144 |
| Long-term liabilities related to governmental fund activities are not due and payable in the current period and, therefore, are not reported in the governmental funds. | |
| Bonds payable | (32,959,027) |
| Bond discounts | 48,989 |
| Accrued interest | (324,388) |
| Capital lease obligation | (121,467) |
| Compensated absences | (1,824,111) |
| Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds. | |
| Deferred outflows of resources related to pension | 3,007,497 |
| Deferred inflows of resources related to pension | (1,160,631) |
| Net pension liability | (27,048,114) |
| Financial statement elements related to OPEB are applicable to future periods and, therefore, are not reported in the governmental funds. | |
| Deferred outflows of resources related to OPEB | 193,589 |
| Deferred inflows of resources related to OPEB | (3,230,240) |
| Net OPEB liability | (12,667,075) |
| The internal service fund is used by management to charge the costs of health insurance to individual funds. The assets, liabilities and net position of the internal service fund are included with governmental activities in the Statement of Net Position. | 3,526,449 |
| Net position of governmental activities | <u><u>\$ 60,190,096</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, 2019

| | General | Debt Service | Capital Projects | Total Governmental Funds |
|--|----------------------|--------------------|---------------------|--------------------------------|
| REVENUES | | | | |
| Property taxes | \$ 37,162,188 | \$ - | \$ - | \$ 37,162,188 |
| Other local taxes | 23,242,271 | - | - | 23,242,271 |
| Permits, fees and licenses | 343,811 | - | - | 343,811 |
| Fines and forfeitures | 109,705 | - | - | 109,705 |
| Revenue from use of money and property | 1,259,323 | - | 34,126 | 1,293,449 |
| Charges for services | 3,212,585 | - | - | 3,212,585 |
| Other | 245,381 | - | 5,000 | 250,381 |
| Intergovernmental | 12,369,069 | 235,422 | 561,366 | 13,165,857 |
| Total revenues | <u>77,944,333</u> | <u>235,422</u> | <u>600,492</u> | <u>78,780,247</u> |
| EXPENDITURES | | | | |
| <i>Current:</i> | | | | |
| General government | 6,152,838 | - | - | 6,152,838 |
| Judicial administration | 2,092,625 | - | - | 2,092,625 |
| Public safety | 16,112,960 | - | - | 16,112,960 |
| Public works | 8,289,463 | - | - | 8,289,463 |
| Health and welfare | 3,877,830 | - | - | 3,877,830 |
| Education | 21,026,377 | - | - | 21,026,377 |
| Parks, recreation and cultural | 5,225,517 | - | - | 5,225,517 |
| Community development | 4,582,992 | - | - | 4,582,992 |
| Non-departmental | 2,018,406 | - | - | 2,018,406 |
| Capital projects | - | - | 4,886,835 | 4,886,835 |
| <i>Debt service:</i> | | | | |
| Principal retirement | - | 3,056,511 | - | 3,056,511 |
| Interest | - | 831,282 | - | 831,282 |
| Bond issuance costs | - | - | 73,849 | 73,849 |
| Total expenditures | <u>69,379,008</u> | <u>3,887,793</u> | <u>4,960,684</u> | <u>78,227,485</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>8,565,325</u> | <u>(3,652,371)</u> | <u>(4,360,192)</u> | <u>552,762</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Issuance of long-term debt | - | - | 5,025,000 | 5,025,000 |
| Proceeds from sale of capital assets | 41,167 | - | - | 41,167 |
| Insurance recoveries | 66,682 | - | - | 66,682 |
| Transfers in | 3,331,193 | 3,652,371 | 568,687 | 7,552,251 |
| Transfers out | (6,219,545) | - | - | (6,219,545) |
| Total other financing sources (uses), net | <u>(2,780,503)</u> | <u>3,652,371</u> | <u>5,593,687</u> | <u>6,465,555</u> |
| Net change in fund balances | <u>5,784,822</u> | <u>-</u> | <u>1,233,495</u> | <u>7,018,317</u> |
| Fund balances, beginning | <u>34,406,211</u> | <u>-</u> | <u>1,487,289</u> | <u>35,893,500</u> |
| Fund balances, ending | <u>\$ 40,191,033</u> | <u>\$ -</u> | <u>\$ 2,720,784</u> | <u>\$ 42,911,817</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, 2019

| | |
|---|-----------------------------|
| Net changes in fund balances of governmental funds | \$ 7,018,317 |
| 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 | 7,980,372 |
| Depreciation expense | (4,465,106) |
| The net effect of various transactions involving capital assets (gains and losses on transfers and disposition of assets) do not provide or use current financial resources and are not reported as revenues or expenditures in the governmental funds. | |
| | (396,811) |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in governmental funds. | |
| | 158,387 |
| Revenues in governmental funds that were subject to accrual in the prior year are additions to beginning net position and, therefore, are not reported as revenues in the Statement of Activities. | |
| Net principal reimbursed by Roanoke Valley Resource Authority | (211,797) |
| Issuance of debt and other obligations provides current financial resources to governmental funds but increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Position. Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, but these amounts are deferred and amortized in the Statement of Activities. | |
| Bond proceeds | (5,025,000) |
| Principal payments | 3,056,511 |
| Amortization of current year bond premiums | 32,265 |
| Amortization of current year deferred amounts on refunding | (65,168) |
| 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 | (22,298) |
| Change in compensated absences | (11,188) |
| Governmental funds report employer pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense. | |
| Employer pension contributions | 2,795,061 |
| Pension expense | (1,495,822) |
| Governmental funds report employer OPEB contributions as expenditures. However, in the Statement of Activities, the cost of OPEB benefits earned is reported as OPEB expense. | |
| Employer OPEB contributions | 1,435,657 |
| OPEB expense | (667,579) |
| The internal service fund is used by management to charge the costs of health insurance to individual funds. The change in net position of the internal service fund is reported with governmental activities. | |
| | 1,086,873 |
| Change in net position of governmental activities | <u><u>\$ 11,202,674</u></u> |

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

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2019

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|--------------------|-----------------------|---------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Property taxes | \$ 36,320,600 | \$ 36,320,600 | \$ 37,162,188 | \$ 841,588 |
| Other local taxes | 22,391,465 | 22,513,189 | 23,242,271 | 729,082 |
| Permits, fees and licenses | 267,950 | 267,950 | 343,811 | 75,861 |
| Fines and forfeitures | 129,000 | 129,000 | 109,705 | (19,295) |
| Revenue from use of money and property | 548,475 | 888,617 | 1,259,323 | 370,706 |
| Charges for services | 3,072,974 | 3,091,050 | 3,212,585 | 121,535 |
| Other | 132,000 | 132,000 | 245,381 | 113,381 |
| Intergovernmental | 11,828,111 | 12,312,216 | 12,369,069 | 56,853 |
| Total revenues | <u>74,690,575</u> | <u>75,654,622</u> | <u>77,944,333</u> | <u>2,289,711</u> |
| EXPENDITURES | | | | |
| General government | 6,470,891 | 7,013,099 | 6,152,838 | 860,261 |
| Judicial administration | 2,134,617 | 2,207,754 | 2,092,625 | 115,129 |
| Public safety | 17,019,524 | 17,082,054 | 16,112,960 | 969,094 |
| Public works | 10,352,152 | 11,416,409 | 8,289,463 | 3,126,946 |
| Health and welfare | 3,214,555 | 4,011,190 | 3,877,830 | 133,360 |
| Education | 20,375,621 | 21,026,378 | 21,026,377 | 1 |
| Parks, recreation and cultural | 5,306,772 | 5,547,362 | 5,225,517 | 321,845 |
| Community development | 3,050,331 | 4,677,279 | 4,582,992 | 94,287 |
| Non-departmental | 3,809,225 | 2,778,356 | 2,018,406 | 759,950 |
| Total expenditures | <u>71,733,688</u> | <u>75,759,881</u> | <u>69,379,008</u> | <u>6,380,873</u> |
| Excess of revenues over expenditures | <u>2,956,887</u> | <u>(105,259)</u> | <u>8,565,325</u> | <u>8,670,584</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from sale of capital assets | - | - | 41,167 | 41,167 |
| Insurance recoveries | - | - | 66,682 | 66,682 |
| Transfers in | 3,323,000 | 3,323,000 | 3,331,193 | 8,193 |
| Transfers out | (6,279,887) | (6,220,027) | (6,219,545) | 482 |
| Total other financing uses, net | <u>(2,956,887)</u> | <u>(2,897,027)</u> | <u>(2,780,503)</u> | <u>116,524</u> |
| Net change in fund balances | <u>\$ -</u> | <u>\$ (3,002,286)</u> | <u>\$ 5,784,822</u> | <u>\$ 8,787,108</u> |

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

**CITY OF SALEM, VIRGINIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2019**

| | Enterprise Funds | | | | Internal Service Fund |
|--|------------------|------------------|----------------------------|---------------|-----------------------|
| | Electric | Water and Sewage | Nonmajor Proprietary Funds | Total | |
| ASSETS | | | | | |
| <i>Current assets:</i> | | | | | |
| Cash and cash equivalents | \$ 32,888,125 | \$ 14,250,414 | \$ 14,875 | \$ 47,153,414 | \$ 4,197,613 |
| Cash and cash equivalents, restricted | 2,620,287 | 2,620,287 | - | 5,240,574 | - |
| Receivables, net | 5,155,718 | 1,788,994 | 63,977 | 7,008,689 | 42,091 |
| Due from other funds | 1,415,000 | - | - | 1,415,000 | - |
| Due from component unit | 3,310,037 | - | - | 3,310,037 | - |
| Inventories | 1,517,124 | 257,480 | 27,889 | 1,802,493 | - |
| Prepaid items | - | 1,036 | 105,266 | 106,302 | - |
| Total current assets | 46,906,291 | 18,918,211 | 212,007 | 66,036,509 | 4,239,704 |
| <i>Noncurrent assets:</i> | | | | | |
| Receivables, net | 266,772 | - | - | 266,772 | - |
| Total noncurrent assets | 266,772 | - | - | 266,772 | - |
| <i>Capital assets:</i> | | | | | |
| Nondepreciable | 2,371,163 | 6,618,741 | 203,201 | 9,193,105 | - |
| Depreciable, net | 27,585,200 | 47,957,828 | 3,274,097 | 78,817,125 | - |
| Total capital assets | 29,956,363 | 54,576,569 | 3,477,298 | 88,010,230 | - |
| Total noncurrent assets | 30,223,135 | 54,576,569 | 3,477,298 | 88,277,002 | - |
| Total assets | 77,129,426 | 73,494,780 | 3,689,305 | 154,313,511 | 4,239,704 |
| DEFERRED OUTFLOWS OF RESOURCES | 818,899 | 376,152 | 181,585 | 1,376,636 | 15,960 |
| LIABILITIES AND DEFERRED INFLOWS | | | | | |
| <i>Current liabilities:</i> | | | | | |
| Accounts payable and accrued liabilities | 1,522,305 | 1,363,200 | 103,277 | 2,988,782 | 38,225 |
| Accrued payroll and related liabilities | 147,794 | 157,478 | 111,074 | 416,346 | 8,800 |
| Accrued interest | 111,782 | 230,618 | - | 342,400 | - |
| Self-insurance claims liability | - | - | - | - | 370,974 |
| Due to other funds | - | - | 1,415,000 | 1,415,000 | - |
| Unearned revenues | 18,100 | - | 198,804 | 216,904 | 41,762 |
| Customer security deposits | 982,408 | - | - | 982,408 | - |
| Bonds payable | 1,250,097 | 2,451,242 | - | 3,701,339 | - |
| Compensated absences | 227,174 | 174,782 | 72,377 | 474,333 | 3,117 |
| Total current liabilities | 4,259,660 | 4,377,320 | 1,900,532 | 10,537,512 | 462,878 |
| <i>Noncurrent liabilities:</i> | | | | | |
| Bonds payable | 14,385,397 | 22,694,141 | - | 37,079,538 | - |
| Compensated absences | 72,198 | 5,700 | 61,367 | 139,265 | - |
| Net pension liability | 2,766,322 | 2,988,654 | 1,471,736 | 7,226,712 | 223,518 |
| Net OPEB liability | 1,099,495 | 2,031,554 | 609,457 | 3,740,506 | 29,867 |
| Total noncurrent liabilities | 18,323,412 | 27,720,049 | 2,142,560 | 48,186,021 | 253,385 |
| Total liabilities | 22,583,072 | 32,097,369 | 4,043,092 | 58,723,533 | 716,263 |
| DEFERRED INFLOWS OF RESOURCES | 386,570 | 939,262 | 228,977 | 1,554,809 | 12,952 |
| NET POSITION | | | | | |
| Net investment in capital assets | 17,407,699 | 31,965,041 | 3,477,298 | 52,850,038 | - |
| Unrestricted (deficit) | 37,570,984 | 8,869,260 | (3,878,477) | 42,561,767 | 3,526,449 |
| Total net position | \$ 54,978,683 | \$ 40,834,301 | \$ (401,179) | \$ 95,411,805 | \$ 3,526,449 |

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

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2019

| | Enterprise Funds | | | | Internal Service Fund |
|---|----------------------|----------------------|----------------------------|----------------------|-----------------------|
| | Electric | Water and Sewage | Nonmajor Proprietary Funds | Total | |
| OPERATING REVENUES | | | | | |
| Charges for services | \$ 39,259,474 | \$ 13,693,118 | \$ 3,478,258 | \$ 56,430,850 | \$ 5,786,203 |
| Connections and transfers | 24,232 | 127,330 | - | 151,562 | - |
| Penalties | 165,148 | 155,418 | - | 320,566 | - |
| Pole rentals | 181,089 | - | - | 181,089 | - |
| Commissions | - | - | 11,718 | 11,718 | - |
| Other | 89,916 | 189,513 | 34,211 | 313,640 | 217,974 |
| Total operating revenues | <u>39,719,859</u> | <u>14,165,379</u> | <u>3,524,187</u> | <u>57,409,425</u> | <u>6,004,177</u> |
| OPERATING EXPENSES | | | | | |
| Salaries | - | 1,821,374 | 1,395,397 | 3,216,771 | 107,535 |
| Fringe benefits | - | 655,152 | 376,412 | 1,031,564 | 28,988 |
| Show expenses | - | - | 2,041,745 | 2,041,745 | - |
| Maintenance | 319 | 642,051 | 189,048 | 831,418 | 6,177 |
| Billing and collection | 502,744 | 479,217 | - | 981,961 | - |
| Professional services | 22,088 | 99,601 | 16,450 | 138,139 | 281,660 |
| Insurance | 19,073 | 54,779 | 19,854 | 93,706 | - |
| Purchased power | 26,676,525 | - | - | 26,676,525 | - |
| Distribution - operations | 938,892 | - | - | 938,892 | - |
| Distribution - maintenance | 1,936,432 | - | - | 1,936,432 | - |
| Administration | 635,156 | 348,225 | 103,886 | 1,087,267 | 4,220 |
| Travel and training | 11,233 | 14,056 | 5,348 | 30,637 | - |
| Materials and supplies | - | 183,229 | 282,620 | 465,849 | 2,956 |
| Expendable equipment and small tools | 114,172 | 45,128 | 5,919 | 165,219 | - |
| Utilities | - | 436,916 | 330,855 | 767,771 | 5,593 |
| Miscellaneous | 185,523 | 2,234 | 86 | 187,843 | 2,178 |
| Depreciation | 1,494,223 | 2,116,323 | 286,981 | 3,897,527 | - |
| Treatment of sewage | - | 2,160,691 | - | 2,160,691 | - |
| Commissions | - | - | 177,865 | 177,865 | - |
| Claims | - | - | - | - | 4,512,184 |
| Total operating expenses | <u>32,536,380</u> | <u>9,058,976</u> | <u>5,232,466</u> | <u>46,827,822</u> | <u>4,951,491</u> |
| Operating income (loss) | <u>7,183,479</u> | <u>5,106,403</u> | <u>(1,708,279)</u> | <u>10,581,603</u> | <u>1,052,686</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | | |
| Interest income | 125,845 | 63,457 | - | 189,302 | 34,187 |
| Interest expense | (511,669) | (479,664) | - | (991,333) | - |
| Loss on sale of capital assets | (2,431) | - | (3,295) | (5,726) | - |
| Miscellaneous | 27,906 | - | 6,882 | 34,788 | - |
| Net nonoperating revenues (expenses) | <u>(360,349)</u> | <u>(416,207)</u> | <u>3,587</u> | <u>(772,969)</u> | <u>34,187</u> |
| Income (loss) before transfers | <u>6,823,130</u> | <u>4,690,196</u> | <u>(1,704,692)</u> | <u>9,808,634</u> | <u>1,086,873</u> |
| Transfers in | - | - | 2,196,687 | 2,196,687 | - |
| Transfers out | <u>(3,308,200)</u> | <u>(199,193)</u> | <u>(22,000)</u> | <u>(3,529,393)</u> | <u>-</u> |
| Change in net position | <u>3,514,930</u> | <u>4,491,003</u> | <u>469,995</u> | <u>8,475,928</u> | <u>1,086,873</u> |
| Net position, beginning | <u>51,463,753</u> | <u>36,343,298</u> | <u>(871,174)</u> | <u>86,935,877</u> | <u>2,439,576</u> |
| Net position, ending | <u>\$ 54,978,683</u> | <u>\$ 40,834,301</u> | <u>\$ (401,179)</u> | <u>\$ 95,411,805</u> | <u>\$ 3,526,449</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, 2019**

| | Enterprise Funds | | | | Internal Service Fund |
|--|------------------|---------------------|----------------------------------|---------------|-----------------------------|
| | Electric | Water and Sewage | Nonmajor Proprietary Funds | Total | |
| OPERATING ACTIVITIES | | | | | |
| Receipts from customers | \$ 40,763,733 | \$ 14,054,852 | \$ 3,532,349 | \$ 58,350,934 | \$ 5,785,584 |
| Payments to suppliers | (29,595,188) | (4,530,744) | (3,227,624) | (37,353,556) | (291,404) |
| Payments to employees | (2,708,939) | (2,696,940) | (1,858,400) | (7,264,279) | (143,451) |
| Payments for claims | - | - | - | - | (4,475,068) |
| Other receipts | 89,916 | 189,513 | 34,211 | 313,640 | 217,974 |
| Nonoperating revenue | 27,906 | - | 6,882 | 34,788 | - |
| Net cash provided by (used in) operating activities | 8,577,428 | 7,016,681 | (1,512,582) | 14,081,527 | 1,093,635 |
| NONCAPITAL FINANCING ACTIVITIES | | | | | |
| Interfund loan | 445,000 | - | (445,000) | - | - |
| Component unit loan | (2,753,259) | - | - | (2,753,259) | - |
| Transfers in | - | - | 2,174,687 | 2,174,687 | - |
| Transfers out | (3,308,200) | (199,193) | - | (3,507,393) | - |
| Net cash provided by (used in) noncapital financing activities | (5,616,459) | (199,193) | 1,729,687 | (4,085,965) | - |
| CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | |
| Purchases of capital assets | (1,247,837) | (3,858,470) | (212,081) | (5,318,388) | - |
| Proceeds from capital debt | - | 3,231,316 | - | 3,231,316 | - |
| Principal paid on capital debt | (1,220,001) | (2,865,875) | - | (4,085,876) | - |
| Interest paid on capital debt | (481,641) | (591,832) | - | (1,073,473) | - |
| Net cash used in capital and related financing activities | (2,949,479) | (4,084,861) | (212,081) | (7,246,421) | - |
| INVESTING ACTIVITIES | | | | | |
| Interest received | 125,845 | 63,457 | - | 189,302 | 34,187 |
| Net cash provided by investing activities | 125,845 | 63,457 | - | 189,302 | 34,187 |
| Net increase in cash and cash equivalents | 137,335 | 2,796,084 | 5,024 | 2,938,443 | 1,127,822 |
| Cash and cash equivalents, beginning | 35,371,077 | 14,074,617 | 9,851 | 49,455,545 | 3,069,791 |
| Cash and cash equivalents, ending | \$ 35,508,412 | \$ 16,870,701 | \$ 14,875 | \$ 52,393,988 | \$ 4,197,613 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR IS COMPRISED OF THE FOLLOWING: | | | | | |
| Cash and cash equivalents | \$ 32,888,125 | \$ 14,250,414 | \$ 14,875 | \$ 47,153,414 | \$ 4,197,613 |
| Cash and cash equivalents, restricted | 2,620,287 | 2,620,287 | - | 5,240,574 | - |
| Total | \$ 35,508,412 | \$ 16,870,701 | \$ 14,875 | \$ 52,393,988 | \$ 4,197,613 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | | | | | |
| Operating income (loss) | \$ 7,183,479 | \$ 5,106,403 | \$ (1,708,279) | \$ 10,581,603 | \$ 1,052,686 |
| <i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i> | | | | | |
| Depreciation | 1,494,223 | 2,116,323 | 286,981 | 3,897,527 | - |
| Nonoperating revenue | 27,906 | - | 6,882 | 34,788 | - |
| Pension expense, net of employer contributions | 65,566 | 278,842 | 73,381 | 417,789 | (523) |
| OPEB expense, net of employer contributions | (281,279) | (528,430) | (182,009) | (991,718) | (5,833) |
| <i>Decrease (increase) in assets:</i> | | | | | |
| Receivables, net | 1,088,347 | 90,626 | 3,810 | 1,182,783 | (3,714) |
| Inventories | (65,941) | 13,098 | 128 | (52,715) | - |
| Prepaid items | - | (196) | (26,274) | (26,470) | 61,199 |
| <i>Increase (decrease) in liabilities:</i> | | | | | |
| Accounts payable and accrued liabilities | (998,197) | (77,519) | (27,802) | (1,103,518) | 11,142 |
| Accrued payroll and related liabilities | 19,620 | 32,206 | 29,433 | 81,259 | 516 |
| Self-insurance claims liability | - | - | - | - | (24,083) |
| Unearned revenues | 3,600 | (11,640) | 38,563 | 30,523 | 3,095 |
| Customer security deposits payable | 41,843 | - | - | 41,843 | - |
| Compensated absences | (1,739) | (3,032) | (7,396) | (12,167) | (850) |
| Net cash provided by (used in) operating activities | \$ 8,577,428 | \$ 7,016,681 | \$ (1,512,582) | \$ 14,081,527 | \$ 1,093,635 |
| <i>Noncash investing, capital, and financing activities</i> | | | | | |
| Capital assets financed with accounts payable | \$ 49,323 | \$ 901,747 | \$ 2,200 | \$ 953,270 | \$ - |

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

**CITY OF SALEM, VIRGINIA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2019**

| | Agency Funds | OPEB Trust Fund |
|---|---------------------|---------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 2,056,321 | \$ - |
| Investments held by trustee, fair value of pooled funds | - | 7,142,728 |
| Receivables, net | 1,087 | - |
| Due from Commonwealth of Virginia | 61,605 | - |
| Total assets | <u>2,119,013</u> | <u>7,142,728</u> |
| LIABILITIES | | |
| Accounts payable | 49,976 | - |
| Liability to agency | 2,069,037 | - |
| Total liabilities | <u>\$ 2,119,013</u> | <u>-</u> |
| NET POSITION | | |
| Net position restricted for OPEB | | <u>\$ 7,142,728</u> |

**CITY OF SALEM, VIRGINIA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2019**

| | OPEB Trust Fund |
|--|---------------------|
| ADDITIONS | |
| Employer contributions - City | \$ 1,698,429 |
| Employer contributions - Agency entities | 90,024 |
| <i>Investment Income</i> | |
| Increase in fair value of investments | 303,118 |
| Total additions | <u>2,091,571</u> |
| DEDUCTIONS | |
| Retirement benefits - City | (1,461,997) |
| Retirement benefits - Agency entities | (72,426) |
| Administrative expenses | (7,604) |
| Total deductions | <u>(1,542,027)</u> |
| Net increase in plan net position | <u>549,544</u> |
| Net position held in trust for other postemployment benefits, beginning | 6,593,184 |
| Net position held in trust for other postemployment benefits, ending | <u>\$ 7,142,728</u> |

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

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF NET POSITION
COMPONENT UNITS
JUNE 30, 2019

| | School Division | Economic Development Authority | Total |
|---|----------------------|--------------------------------------|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 16,065,005 | \$ 8,231 | \$ 16,073,236 |
| Receivables, net | 50,214 | 3,310,037 | 3,360,251 |
| Due from other governmental units | 1,216,892 | - | 1,216,892 |
| Net pension asset | 505,064 | - | 505,064 |
| Inventories | 56,438 | - | 56,438 |
| Prepaid items | 101,494 | - | 101,494 |
| <i>Capital assets:</i> | | | |
| Nondepreciable | 1,789,457 | - | 1,789,457 |
| Depreciable, net | 41,312,170 | - | 41,312,170 |
| Total assets | <u>61,096,734</u> | <u>3,318,268</u> | <u>64,415,002</u> |
| DEFERRED OUTFLOWS OF RESOURCES | <u>5,346,224</u> | <u>-</u> | <u>5,346,224</u> |
| LIABILITIES | | | |
| Accounts payable and accrued liabilities | 678,135 | - | 678,135 |
| Accrued payroll and related liabilities | 4,463,242 | - | 4,463,242 |
| Accrued interest | 7,106 | - | 7,106 |
| Self-insurance claims liability | 565,666 | - | 565,666 |
| Due to primary government | - | 3,273,104 | 3,273,104 |
| Unearned revenues | 34,578 | - | 34,578 |
| <i>Long-term liabilities due in less than one year:</i> | | | |
| Capital lease obligation | 95,293 | - | 95,293 |
| Compensated absences | 351,406 | - | 351,406 |
| <i>Long-term liabilities due in more than one year:</i> | | | |
| Capital lease obligation | 99,919 | - | 99,919 |
| Compensated absences | 404,074 | - | 404,074 |
| Net pension liability | 33,092,000 | - | 33,092,000 |
| Net OPEB liability | 6,150,083 | - | 6,150,083 |
| Total liabilities | <u>45,941,502</u> | <u>3,273,104</u> | <u>49,214,606</u> |
| DEFERRED INFLOWS OF RESOURCES | <u>5,066,418</u> | <u>-</u> | <u>5,066,418</u> |
| NET POSITION | | | |
| Net investment in capital assets | 42,906,415 | - | 42,906,415 |
| Restricted for: | | | |
| Capital projects | 630,872 | - | 630,872 |
| Unrestricted (deficit) | (28,102,249) | 45,164 | (28,057,085) |
| Total net position | <u>\$ 15,435,038</u> | <u>\$ 45,164</u> | <u>\$ 15,480,202</u> |

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

**CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
YEAR ENDED JUNE 30, 2019**

| Functions/Programs | Program Revenues | | | | Primary Government | | | Net (Expense) Revenue and Changes in Net Position |
|--------------------------------|----------------------|----------------------|--------------------------|----------------------------------|------------------------|-----------------------|------------------------|---|
| | Expenses | Charges for Services | Operating | | School Division | Economic | | |
| | | | Grants and Contributions | Capital Grants and Contributions | | Development Authority | Total Component Units | |
| School Division | \$ 43,811,080 | \$ 2,011,976 | \$ 9,818,437 | \$ 17,438 | \$ (31,963,229) | \$ - | \$ (31,963,229) | |
| Economic Development Authority | 464,871 | - | - | - | - | (464,871) | (464,871) | |
| Total component units | \$ 44,275,951 | \$ 2,011,976 | \$ 9,818,437 | \$ 17,438 | \$ (31,963,229) | \$ (464,871) | \$ (32,428,100) | |
| General revenues: | | | | | | | | |
| Payments from City of Salem | | | | | 21,026,377 | 508,618 | 21,534,995 | |
| State aid | | | | | 14,891,728 | - | 14,891,728 | |
| Other | | | | | 121,636 | - | 121,636 | |
| Total general revenues | | | | | 36,039,741 | 508,618 | 36,548,359 | |
| Change in net position | | | | | 4,076,512 | 43,747 | 4,120,259 | |
| Net position, beginning | | | | | 11,358,526 | 1,417 | 11,359,943 | |
| Net position, ending | | | | | \$ 15,435,038 | \$ 45,164 | \$ 15,480,202 | |

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

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

1. Summary of Significant Accounting Policies

The Financial Reporting Entity

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

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

Discretely Presented Component Units

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

The City of Salem School Division (School Division) is a legally separate entity which operates four elementary schools, a middle school 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 \$20,375,621 of operating support and \$650,756 of capital support to the School Division and made debt service payments of \$2,011,584 on behalf of the School Division.

The Economic Development Authority of the City of Salem (Economic Development Authority) is a legally separate entity, which operates under the direction of City Council. The City provides financial resources to the Economic Development Authority, which it then uses for economic development incentives for local businesses. Based on these facts, the City reports the Economic Development Authority as a discretely presented component unit. During the current year, the City provided \$508,618 in operating support to the Economic Development Authority.

Government-wide Financial Statements

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

1. Summary of Significant Accounting Policies (Continued)

Government-wide Financial Statements (Continued)

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

Fund Financial Statements

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

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

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

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

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

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

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

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

1. Summary of Significant Accounting Policies (Continued)

Fund Financial Statements (Continued)

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 Cardinal Criminal Justice Academy and Court-Community Corrections Program. Since these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the City, these funds are not incorporated into the government-wide financial statements.

Measurement Focus and Basis of Accounting

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

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

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

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

Proprietary fund financial statements are reported using the *economic financial resources measurement focus* and the *accrual basis of accounting*. These statements distinguish *operating* from *nonoperating* revenues and expenses. Operating revenues and expenses generally result from providing goods and services in connection with a 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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

Fiduciary Fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, with the exception of agency funds which have no measurement focus but employ the *accrual basis of accounting* for purposes of asset and liability recognition.

Budgets and Budgetary Accounting

The City's budget is presented and adopted in accordance with accounting principles generally accepted in the United States of America (GAAP). 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. A public hearing is conducted to obtain citizen comments. Prior to June 30, the budgets are legally adopted through passage of an appropriation ordinance by City Council.

Projects – 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 within the same fund. City Council must approve budget amendments between funds and any budget amendments increasing or decreasing appropriations. During the year, City Council approved \$3,966,333 of additional appropriations primarily for grants, capital outlay, unforeseen operating expenditures and the reappropriation of fund balances for encumbrances.

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

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded in order to reserve the applicable appropriation, is employed as an extension of formal budgetary integration in the General and Capital Projects Funds. Encumbrances outstanding at year-end are reported as part of the restricted, committed, or assigned fund balances since they do not constitute expenditures or liabilities. These encumbrances are subject to reappropriation by City Council in the subsequent fiscal year. Significant encumbrances as of June 30, 2019 total \$1,674,461 in the General Fund and \$1,491,323 in the Capital Projects Fund.

Deposits and Investments

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

1. Summary of Significant Accounting Policies (Continued)

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 2019 was \$1.18 per \$100 of assessed value.

The City levies personal property taxes on motor vehicles and business and other tangible personal property each year as of January 1. Personal property taxes are due the following May 31 and are considered delinquent after the due date. Personal property taxes do not create a lien on property; however, a penalty of 10% of delinquent personal property tax or \$10, whichever is greater, is due for late payment. Interest on delinquent taxes is accrued monthly at a rate of 0.83%, or 10% annually. Personal property transactions during the year are taxed on a prorated basis. The tax rate for personal property for 2019 was \$3.25 per \$100 of assessed value. The tax rate for machinery and tools for 2019 was \$3.20 per \$100 of assessed value.

Interfund Balances

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

Inventory

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

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

Prepaid Items

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

1. Summary of Significant Accounting Policies (Continued)

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. Proprietary fund capital assets are reported in the applicable fund financial statements. Capital assets are defined by the City 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 acquisition 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 cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are completed.

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

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

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

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

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Pension and OPEB contributions made subsequent to the measurement date qualify for reporting in this category in the proprietary funds and government-wide Statement of Net Position and will be applied to the net pension liability in the next fiscal year.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

1. Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources (Continued)

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenue qualifies for reporting in this category in the governmental funds. The governmental funds report unavailable revenue from property taxes and charges for services and fees. These amounts only arise under a modified accrual basis of accounting and are deferred and recognized as an inflow of resources in the period that the amounts become available. Property taxes collected in advance also qualify for reporting in this category in the governmental funds and government-wide Statement of Net Position. These amounts are deferred and recognized as an inflow of resources when the taxes are levied.

The proprietary funds and government-wide Statement of Net Position defer amounts related to pension and OPEB as a deferred inflow or outflow, as appropriate. Deferred amounts for pension result from differences between expected and actual experience of the pension plan, changes in actuarial assumptions, and the net difference between projected and actual earnings on pension plan investments. Deferred amounts for OPEB result from the differences between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in actuarial assumptions and changes in proportion. Experience differences and changes in assumptions and proportions are deferred and amortized over the remaining service life of all participants. Earnings differences are deferred and amortized over a closed five-year period.

The proprietary funds and government-wide Statement of Net Position also include deferred gains and losses on refunding of debt as a deferred inflow or outflow, respectively. A deferred gain or loss on refunding of debt results from the difference in the carrying amount of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

Surety Bond Payable

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

Unearned Revenues

Unearned revenues arise when assets are recognized before revenue recognition criteria can be satisfied and also when assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period. Grants and entitlements received before the eligibility requirements are met have been recorded as unearned revenue. Unearned revenues primarily consist of retiree health insurance premiums billed in advance, advertising, event deposits, and rentals.

Long-Term Obligations

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

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

1. Summary of Significant Accounting Policies (Continued)

Long-Term Obligations (Continued)

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

Compensated Absences

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

Pensions

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

Other Postemployment Benefits – Retiree Health Plan

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

Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

1. Summary of Significant Accounting Policies (Continued)

Net Position

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

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

Net investment in capital assets for governmental activities excludes \$14,290,086 of School Division debt, \$2,933,857 of Civic Center debt, and \$998,082 of Roanoke Valley Resource Authority (RVRA) debt reported by the City because the related assets are reported by the School Division, Civic Center, and RVRA, respectively. Noncapital debt of \$1,035,886, \$12,324 and \$237,844 is also excluded from the net investment in capital assets for governmental activities, the Electric Fund, and the Water and Sewage Fund, 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 (City Council) or by an official or body to which the governing body designates the authority.
- **Unassigned** – Amounts that are available for any purpose; positive amounts are reported only in the General Fund.

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

Restricted Amounts

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

1. Summary of Significant Accounting Policies (Continued)

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

Estimates

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

2. Deposits and Investments

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

Restricted cash and cash equivalents consist of unspent bond proceeds in the City Capital Projects Fund, Electric Fund, and Water and Sewage Fund.

Deposits

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

Investments

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

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

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

2. Deposits and Investments (Continued)

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

| | Primary Government | Component Units | Total |
|---------------------------------------|-------------------------------|----------------------------|-----------------------|
| Cash and cash equivalents | \$ 88,313,822 | \$ 16,073,236 | \$ 104,387,058 |
| Cash and cash equivalents, restricted | 7,262,571 | - | 7,262,571 |
| | <u>\$ 95,576,393</u> | <u>\$ 16,073,236</u> | <u>\$ 111,649,629</u> |

As of June 30, 2019, the City's deposits and investments consisted of the following:

| Investment Type | Fair Value | S&P Credit Rating |
|---|---------------------------|----------------------|
| Primary Government | | |
| Demand & time deposits | \$ 257,540 | unrated |
| Cash on hand | 7,985 | unrated |
| Government money market funds | 27,613,264 | AAAm |
| Local Government Investment Pool (LGIP) | 60,434,783 | AAAm |
| VA State Non-Arbitrage Program (SNAP) | 7,262,821 | AAAm |
| Total primary government | <u>95,576,393</u> | |
| Component Units | | |
| Demand & time deposits | 13,231 | unrated |
| Cash on hand | 515 | unrated |
| Government money market funds | 11,059,490 | AAAm |
| Local Government Investment Pool (LGIP) | 5,000,000 | AAAm |
| Total component units | <u>16,073,236</u> | |
| Grand Total | <u>\$ 111,649,629</u> | |

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

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). 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.

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.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

2. Deposits and Investments (Continued)

Interest Rate Risk

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

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, 2019, all of the City's investments were held in a bank's trust department in the City's name or an affiliated financial institution.

3. Receivables

Receivables are as follows:

| | Governmental Activities | Business-type Activities | | | Component Units |
|---------------------------------|------------------------------------|---------------------------------|-----------------------------|---------------------------------|----------------------------|
| | | Electric | Water and Sewage | Nonmajor Proprietary | |
| Tax receivables | \$ 1,753,929 | \$ - | \$ - | \$ - | \$ - |
| Account receivables | 42,091 | 5,523,758 | 1,822,457 | 69,130 | - |
| Other receivables | 1,608,427 | - | - | - | 3,360,251 |
| Gross receivables | 3,404,447 | 5,523,758 | 1,822,457 | 69,130 | 3,360,251 |
| Allowance for uncollectibles | (614,815) | (101,268) | (33,463) | (5,153) | - |
| Receivables, net | \$ 2,789,632 | \$ 5,422,490 | \$ 1,788,994 | \$ 63,977 | \$ 3,360,251 |

4. Interfund Balances and Transfers

The composition of the interfund balances is as follows:

| Due to (fund) | | Due from (fund) | |
|---------------|----------|------------------------|--------------|
| | | Nonmajor enterprise | Total |
| | Electric | \$ 1,415,000 | \$ 1,415,000 |
| | Total | \$ 1,415,000 | \$ 1,415,000 |

The amount due to the Electric Fund from the nonmajor enterprise funds is a short-term loan to fund operations.

The composition of the interfund transfers is as follows:

| Transfer in (fund) | Transfer out (fund) | | | | |
|---------------------|---------------------|--------------|---------------------|------------------------|--------------|
| | General | Electric | Water and Sewage | Nonmajor enterprise | Total |
| General | \$ - | \$ 3,160,000 | \$ 171,193 | \$ - | \$ 3,331,193 |
| Debt service | 3,652,371 | - | - | - | 3,652,371 |
| Capital projects | 392,487 | 148,200 | 28,000 | - | 568,687 |
| Nonmajor enterprise | 2,174,687 | - | - | 22,000 | 2,196,687 |
| Total | \$ 6,219,545 | \$ 3,308,200 | \$ 199,193 | \$ 22,000 | \$ 9,748,938 |

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

4. Interfund Balances and Transfers (Continued)

Transfers to the General Fund include payments in lieu of taxes. Transfers to the Debt Service Fund include principal and interest payments for general government and school debt. Transfers to the Capital Projects Fund include funding for current projects. Transfers to nonmajor enterprise funds include funding assistance for operating expenses.

5. Due from/to Primary Government and Component Unit

The amount due from a component unit by business-type activities is a loan from the Electric Fund to the Economic Development Authority. The Economic Development Authority used these funds to provide loans to two developers for rehabilitation projects within the City. The balance outstanding as of June 30, 2019 was \$3,310,037. A portion of the loan, \$2,473,947, is being repaid over twenty years with an interest rate of 3.79%. Payment for the remaining balance is due on January 31, 2021, including interest accrued at a rate of 4%.

The amount due to a component unit by governmental activities, which totaled \$36,933 at June 30, 2019, represents operating support for the Economic Development Authority, net of expenses paid by the City on behalf of the Economic Development Authority.

6. Due from Other Governmental Units

Amounts due from other governmental units are as follows:

| | Governmental Activities | Component Units |
|--|------------------------------------|----------------------------|
| Commonwealth of Virginia | | |
| Personal property tax | \$ 2,588,707 | \$ - |
| Local sales tax | 1,229,410 | - |
| Capital projects funding | 165,028 | - |
| Sales tax | - | 469,664 |
| Comprehensive Services Act | 428,320 | - |
| Communications tax | 144,679 | - |
| Other | 389,926 | 2,747 |
| Federal government | | |
| School funds | - | 744,481 |
| Lease payment from General Services Administration | 10,796 | - |
| Other | 5,814 | - |
| Roanoke Valley Resource Authority | 998,082 | - |
| | <u>\$ 5,960,762</u> | <u>\$ 1,216,892</u> |

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

7. Capital Assets

Capital asset activity for the year is as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|----------------------------------|----------------------|--------------|----------------|-------------------|
| Governmental Activities | | | | |
| Capital assets, nondepreciable | | | | |
| Land | \$ 5,675,826 | \$ 842,200 | \$ - | \$ 6,518,026 |
| Construction in progress | 2,661,458 | 2,076,940 | (3,384,760) | 1,353,638 |
| Capital assets, nondepreciable | 8,337,284 | 2,919,140 | (3,384,760) | 7,871,664 |
| Capital assets, depreciable | | | | |
| Machinery and equipment | 21,804,854 | 3,959,407 | (1,191,167) | 24,573,094 |
| Buildings and improvements | 38,982,873 | 2,404,872 | (569,376) | 40,818,369 |
| Leasehold improvements | 42,806 | - | - | 42,806 |
| Public domain infrastructure | 100,265,480 | 2,427,587 | (331,032) | 102,362,035 |
| Capital assets, depreciable | 161,096,013 | 8,791,866 | (2,091,575) | 167,796,304 |
| Accumulated depreciation | | | | |
| Machinery and equipment | (16,736,505) | (1,393,547) | 1,171,027 | (16,959,025) |
| Buildings and improvements | (18,196,602) | (1,014,360) | 349,547 | (18,861,415) |
| Leasehold improvements | (6,183) | (2,854) | - | (9,037) |
| Public domain infrastructure | (50,225,972) | (2,400,219) | 174,190 | (52,452,001) |
| Accumulated depreciation | (85,165,262) | (4,810,980) | 1,694,764 | (88,281,478) |
| Capital assets, depreciable, net | 75,930,751 | 3,980,886 | (396,811) | 79,514,826 |
| Capital assets, net | \$ 84,268,035 | \$ 6,900,026 | \$ (3,781,571) | \$ 87,386,490 |
| Business-type Activities | | | | |
| Capital assets, nondepreciable | | | | |
| Land | \$ 1,547,917 | \$ - | \$ - | \$ 1,547,917 |
| Construction in progress | 2,276,883 | 5,368,305 | - | 7,645,188 |
| Capital assets, nondepreciable | 3,824,800 | 5,368,305 | - | 9,193,105 |
| Capital assets, depreciable | | | | |
| Machinery and equipment | 9,500,603 | 512,331 | (550,270) | 9,462,664 |
| Buildings and improvements | 27,187,687 | - | - | 27,187,687 |
| Distribution and transmission | 37,048,369 | 236,193 | (69,539) | 37,215,023 |
| Utility plant | 78,440,360 | 109,005 | - | 78,549,365 |
| Sewage treatment contract | 31,955,606 | - | - | 31,955,606 |
| Capital assets, depreciable | 184,132,625 | 857,529 | (619,809) | 184,370,345 |
| Accumulated depreciation | | | | |
| Machinery and equipment | (6,635,164) | (526,216) | 546,975 | (6,614,405) |
| Buildings and improvements | (11,085,582) | (735,479) | - | (11,821,061) |
| Distribution and transmission | (21,983,005) | (750,934) | 67,109 | (22,666,830) |
| Utility plant | (51,990,975) | (1,040,238) | - | (53,031,213) |
| Sewage treatment contract | (10,575,051) | (844,660) | - | (11,419,711) |
| Accumulated depreciation | (102,269,777) | (3,897,527) | 614,084 | (105,553,220) |
| Capital assets, depreciable, net | 81,862,848 | (3,039,998) | (5,725) | 78,817,125 |
| Capital assets, net | \$ 85,687,648 | \$ 2,328,307 | \$ (5,725) | \$ 88,010,230 |

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

7. Capital Assets (Continued)

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

| Governmental Activities | | Business-type Activities | |
|--------------------------------|---------------------|---------------------------------|---------------------|
| General government | \$ 420,807 | Electric | \$ 1,494,223 |
| Judicial administration | 35,196 | Water and sewage | 2,116,323 |
| Public safety | 709,780 | Civic Center | 282,646 |
| Public works | 2,415,881 | Catering | 4,335 |
| Parks, recreation and cultural | 875,160 | Total depreciation expense | <u>\$ 3,897,527</u> |
| Community development | 8,282 | | |
| Total depreciation expense | <u>\$ 4,465,106</u> | | |

Current year increases to accumulated depreciation shown in the capital asset table for governmental activities exceeds depreciation expense by \$345,874 because the table includes accumulated depreciation for machinery and equipment transferred to the street department, football stadium, and baseball stadium from the water and sewer department, electric department, and civic center.

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|--------------------|---------------------|----------------------|
| Component Unit - School Division | | | | |
| Capital assets, nondepreciable | | | | |
| Land | \$ 1,123,637 | \$ - | \$ - | \$ 1,123,637 |
| Construction in progress | 241,619 | 1,186,494 | (762,293) | 665,820 |
| Capital assets, nondepreciable | <u>1,365,256</u> | <u>1,186,494</u> | <u>(762,293)</u> | <u>1,789,457</u> |
| Capital assets, depreciable | | | | |
| Furniture and equipment | 8,293,099 | 863,726 | (194,819) | 8,962,006 |
| Buildings and improvements | 69,460,639 | 1,341,838 | (418,321) | 70,384,156 |
| Capital assets, depreciable | <u>77,753,738</u> | <u>2,205,564</u> | <u>(613,140)</u> | <u>79,346,162</u> |
| Accumulated depreciation | | | | |
| Furniture and equipment | (5,702,429) | (691,608) | 193,419 | (6,200,618) |
| Buildings and improvements | (30,243,502) | (1,912,134) | 322,262 | (31,833,374) |
| Accumulated depreciation | <u>(35,945,931)</u> | <u>(2,603,742)</u> | <u>515,681</u> | <u>(38,033,992)</u> |
| Capital assets, depreciable, net | <u>41,807,807</u> | <u>(398,178)</u> | <u>(97,459)</u> | <u>41,312,170</u> |
| Capital assets, net | <u>\$ 43,173,063</u> | <u>\$ 788,316</u> | <u>\$ (859,752)</u> | <u>\$ 43,101,627</u> |

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

8. Deferred Outflows/Inflows of Resources

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

| | Governmental Activities | Business-type Activities | Component Units |
|---------------------------------------|------------------------------------|-------------------------------------|----------------------------|
| Deferred outflows of resources | | | |
| Deferred loss on refunding of debt | \$ 310,144 | \$ 454,219 | \$ - |
| Pension | 3,022,448 | 866,970 | 4,733,007 |
| OPEB | 194,598 | 55,447 | 613,217 |
| Total deferred outflows of resources | <u>\$ 3,527,190</u> | <u>\$ 1,376,636</u> | <u>\$ 5,346,224</u> |
| Deferred inflows of resources | | | |
| Deferred gain on refunding of debt | \$ - | \$ 324,276 | \$ - |
| Property taxes collected in advance | 83,487 | - | - |
| Pension | 1,167,526 | 330,199 | 4,553,224 |
| OPEB | 3,236,297 | 900,334 | 513,194 |
| Total deferred inflows of resources | <u>\$ 4,487,310</u> | <u>\$ 1,554,809</u> | <u>\$ 5,066,418</u> |

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

| | General Fund |
|--|---------------------|
| Deferred inflows of resources | |
| Unavailable revenue - property taxes | \$ 891,233 |
| Property taxes collected in advance | 83,487 |
| Unavailable revenue - charges for services and fees | 250,859 |
| Total deferred inflows of resources | <u>\$ 1,225,579</u> |

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

| | Electric | Water and Sewage | Nonmajor Proprietary Funds | Internal Service Fund |
|---------------------------------------|-------------------|-----------------------------|---|--------------------------------------|
| Deferred outflows of resources | | | | |
| Deferred loss on refunding of debt | \$ 454,219 | \$ - | \$ - | \$ - |
| Pension | 344,191 | 351,931 | 170,848 | 14,951 |
| OPEB | 20,489 | 24,221 | 10,737 | 1,009 |
| Total deferred outflows of resources | <u>\$ 818,899</u> | <u>\$ 376,152</u> | <u>\$ 181,585</u> | <u>\$ 15,960</u> |
| Deferred inflows of resources | | | | |
| Deferred gain on refunding of debt | \$ - | \$ 324,276 | \$ - | \$ - |
| Pension | 127,409 | 136,969 | 65,821 | 6,895 |
| OPEB | 259,161 | 478,017 | 163,156 | 6,057 |
| Total deferred inflows of resources | <u>\$ 386,570</u> | <u>\$ 939,262</u> | <u>\$ 228,977</u> | <u>\$ 12,952</u> |

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

9. 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.

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

| | Beginning Balance | Increases | Decreases | Ending Balance | Due Within One Year |
|--------------------------------|----------------------|----------------------|------------------------|----------------------|------------------------|
| Governmental Activities | | | | | |
| General obligation bonds | \$ 30,913,989 | \$ 5,025,000 | \$ (2,979,962) | \$ 32,959,027 | \$ 2,922,851 |
| Bond premiums | 32,265 | - | (32,265) | - | - |
| Bond discounts | (48,989) | - | - | (48,989) | - |
| Bonds payable | 30,897,265 | 5,025,000 | (3,012,227) | 32,910,038 | 2,922,851 |
| Capital lease obligation | 198,016 | - | (76,549) | 121,467 | 80,065 |
| Compensated absences | 1,816,890 | 1,318,844 | (1,308,506) | 1,827,228 | 1,303,772 |
| Net pension liability | 27,364,678 | 4,080,643 | (4,173,689) | 27,271,632 | - |
| Net OPEB liability | 16,329,266 | 1,037,750 | (4,670,074) | 12,696,942 | - |
| | <u>\$ 76,606,115</u> | <u>\$ 11,462,237</u> | <u>\$ (13,241,045)</u> | <u>\$ 74,827,307</u> | <u>\$ 4,306,688</u> |

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

| | Beginning Balance | Increases | Decreases | Ending Balance | Due Within One Year |
|---------------------------------|----------------------|---------------------|-----------------------|----------------------|------------------------|
| Business-type Activities | | | | | |
| General obligation bonds | \$ 41,635,437 | \$ 3,231,316 | \$ (4,085,876) | \$ 40,780,877 | \$ 3,701,339 |
| Bond premiums | 34,203 | - | (34,203) | - | - |
| Bonds payable | 41,669,640 | 3,231,316 | (4,120,079) | 40,780,877 | 3,701,339 |
| Compensated absences | 625,765 | 462,166 | (474,333) | 613,598 | 474,333 |
| Net pension liability | 7,266,362 | 1,149,683 | (1,189,333) | 7,226,712 | - |
| Net OPEB liability | 4,728,107 | 290,158 | (1,277,759) | 3,740,506 | - |
| | <u>\$ 54,289,874</u> | <u>\$ 5,133,323</u> | <u>\$ (7,061,504)</u> | <u>\$ 52,361,693</u> | <u>\$ 4,175,672</u> |

Component Unit - School Division

| | | | | | |
|-------------------------------|----------------------|---------------------|------------------------|----------------------|-------------------|
| Capital lease obligation | \$ - | \$ 299,980 | \$ (104,768) | \$ 195,212 | \$ 95,293 |
| Compensated absences | 768,739 | 338,147 | (351,406) | 755,480 | 351,406 |
| Net pension liability (asset) | (300,017) | (9,417) | (195,630) | (505,064) | - |
| Net pension liability | 34,284,000 | 7,355,000 | (8,547,000) | 33,092,000 | - |
| Net OPEB liability | 6,429,398 | 895,571 | (1,174,886) | 6,150,083 | - |
| | <u>\$ 41,182,120</u> | <u>\$ 8,879,281</u> | <u>\$ (10,373,690)</u> | <u>\$ 39,687,711</u> | <u>\$ 446,699</u> |

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

9. Long-Term Liabilities (Continued)

Details of long-term indebtedness are as follows:

| | Interest Rates | Issue Date | Maturity Date | Issue Amount | Governmental Activities | Business-type Activities |
|--|-------------------|---------------|------------------|-----------------|----------------------------|-----------------------------|
| General Obligation Bonds | | | | | | |
| 2004 Public Improvement | 3.00% | 04/04 | 07/26 | 11,052,222 | \$ - | \$ 5,022,117 |
| 2010 Taxable Build America | 4.57-6.56% | 12/10 | 02/31 | 2,700,000 | 2,700,000 | - |
| 2010 Public Improvement | 3.00-4.25% | 12/10 | 02/28 | 2,830,000 | 1,775,000 | - |
| 2010 Public Improvement | 3.15% | 09/10 | 03/30 | 3,648,124 | - | 2,390,390 |
| 2011 Refunding | 2.14% | 12/11 | 10/23 | 9,485,000 | 4,491,918 | - |
| 2012 Public Improvement | 2.35% | 12/12 | 08/32 | 9,545,000 | 6,681,500 | - |
| 2013 Public Improvement | 1.25% | 03/13 | 04/35 | 3,058,522 | - | 2,533,860 |
| 2013 Public Improvement | 3.03% | 12/13 | 08/33 | 7,275,000 | 5,450,000 | - |
| 2015 Refunding | 2.907% | 04/15 | 04/31 | 18,813,000 | 1,581,684 | 13,819,316 |
| 2016A Public Improvement | 2.50% | 06/16 | 04/36 | 3,922,176 | 3,275,107 | - |
| 2016B Public Improvement | 2.50% | 06/16 | 04/26 | 6,393,385 | 980,736 | 3,632,356 |
| 2017A Refunding | 2.30% | 01/17 | 01/27 | 12,441,135 | - | 10,147,522 |
| 2018 Public Improvement | 0.00% | 05/18 | 07/39 | 3,235,316 | - | 3,235,316 |
| 2019 Public Improvement | 3.24% | 02/19 | 04/39 | 5,025,000 | 5,025,000 | - |
| General Obligation Bonds - RVRA | | | | | | |
| 2011 Refunding | 2.14% | 12/11 | 10/23 | | 998,082 | - |
| | | | | | 32,959,027 | 40,780,877 |
| | | | | Bond discounts | (48,989) | - |
| | | | | | <u>\$ 32,910,038</u> | <u>\$ 40,780,877</u> |

The annual requirements to amortize bonds payable and related interest are as follows:

| Fiscal Year | Governmental Activities | | | | | |
|-------------|-------------------------|---------------------|-------------------|------------------|--------------------------|---------------------|
| | Governmental Activities | | RVRA | | Business-type Activities | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2020 | \$ 2,714,690 | \$ 902,110 | \$ 208,161 | \$ 19,132 | \$ 3,701,339 | \$ 960,278 |
| 2021 | 2,743,235 | 814,954 | 204,525 | 14,716 | 3,870,048 | 866,865 |
| 2022 | 2,750,293 | 745,324 | 199,980 | 10,388 | 3,956,523 | 771,120 |
| 2023 | 2,758,060 | 675,342 | 195,435 | 6,156 | 4,037,396 | 673,106 |
| 2024 | 2,761,993 | 602,417 | 189,981 | 2,033 | 4,127,380 | 572,973 |
| 2025-2029 | 9,328,732 | 2,125,755 | - | - | 15,643,082 | 1,407,260 |
| 2030-2034 | 7,040,086 | 776,813 | - | - | 4,555,396 | 149,450 |
| 2035-2039 | 1,863,856 | 167,283 | - | - | 808,830 | - |
| 2040-2044 | - | - | - | - | 80,883 | - |
| | <u>\$ 31,960,945</u> | <u>\$ 6,809,998</u> | <u>\$ 998,082</u> | <u>\$ 52,425</u> | <u>\$ 40,780,877</u> | <u>\$ 5,401,052</u> |

On November 1, 2016, the City became a member of the already established Roanoke Valley Resource Authority (RVRA). Per the amended and restated Members and Facilities Use Agreement, the City conveyed title of the City's existing transfer station and all related equipment, property, and site work to RVRA. RVRA agreed to pay the City amounts equal to the remaining debt service on the transfer station building. As of June 30, 2019, the City has \$998,082 in outstanding general obligation debt, which will contractually be repaid by RVRA over the remaining 5 year amortization of the bonds. Further details are presented in note 19.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

9. Long-Term Liabilities (Continued)

The *Constitution of Virginia*, Article VII, Section 10(a), sets forth the City's legal debt limit as ten percent of the assessed valuation of the real estate in the City subject to taxation. As of June 30, 2019, ten percent of the assessed value of real property in the City is \$219,798,601. The City's net debt applicable to the legal debt limit is \$31,911,956, and the legal debt margin is \$187,886,645. Additional information about the City's legal debt margin is available in table 10.

10. Operating Leases

Rental Costs

The City and School Division lease office equipment and infrastructure under several non-cancellable operating lease agreements expiring at various dates through fiscal year 2023. Rent expenditures for the current year were \$53,443 and \$43,310 for the City and School Division, respectively. Scheduled minimum rental payments for the next five years are as follows:

| Year Ending June 30 | City of Salem | School Division |
|------------------------|-------------------|--------------------|
| 2020 | \$ 57,744 | \$ 41,325 |
| 2021 | 54,141 | 11,567 |
| 2022 | 34,497 | 3,425 |
| 2023 | 9,626 | - |
| | <u>\$ 156,008</u> | <u>\$ 56,317</u> |

Rental Revenues

The City leases various City-owned properties and buildings under non-cancelable lease agreements through fiscal year 2027. The net book value of leased assets of \$9.4 million (cost of \$15.4 million less accumulated depreciation of \$6.0 million) is included in capital assets in the government-wide financial statements. Rent revenues for the current year were \$193,069. Certain leases contain provisions for future increased revenues based upon changes in the Cost of Living Index.

Scheduled minimum rent revenues for succeeding fiscal years are as follows:

| Year Ending June 30 | Amount |
|---------------------|---------------------|
| 2020 | \$ 184,035 |
| 2021 | 176,891 |
| 2022 | 177,399 |
| 2023 | 177,909 |
| 2024 | 163,557 |
| 2025-2027 | 292,619 |
| | <u>\$ 1,172,410</u> |

11. Capital Leases

On November 1, 2015, the City entered into a 62 month lease agreement with C. R. Whitley, Jr. and Sandra S. Whitley, Trustees under the Whitley Living Trust, to lease the property located at 21 S. Bruffey Street, Salem, VA 24153. Under the lease agreement, the City pays \$6,991.13 monthly to the lessor, representing principal and interest payments with interest at 4.5%. Capital lease accounting is required due to transfer of ownership at the end of the lease, bargain purchase price, and net present value of payments through the term of the lease. The lease assets and obligation are accounted for as Governmental Activities. At June 30, 2019, the original cost of the land and building under the capital lease totaled \$96,700 and \$278,300, respectively, and accumulated depreciation on the building totaled \$19,945.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

11. Capital Leases (Continued)

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

| Fiscal Year Ending | Amount |
|---|-------------------|
| June 30, 2020 | \$ 83,894 |
| June 30, 2021 | 41,946 |
| Total minimum lease payments | 125,840 |
| Less: Amount representing interest | (4,373) |
| Present value of minimum lease payments | <u>\$ 121,467</u> |

On August 1, 2018, the School Division entered into a 36 month lease agreement with Dell Financial Services, L.L.C., to lease 1,400 Dell Chromebooks. Under the lease agreement, the School Division pays \$104,768.02 annually to the lessor, representing principal and interest payments with an implicit interest rate of 4.85%. Capital lease accounting is required due to a bargain purchase option and the net present value of payments through the term of the lease. The lease assets and obligation are accounted for in the Statement of Net Position. At June 30, 2019, the original cost of the Chromebooks was \$299,980, and accumulated depreciation was \$49,997.

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

| Fiscal Year Ending | Amount |
|---|-------------------|
| June 30, 2020 | \$ 104,768 |
| June 30, 2021 | 104,768 |
| Total minimum lease payments | 209,536 |
| Less: Amount representing interest | (14,324) |
| Present value of minimum lease payments | <u>\$ 195,212</u> |

12. 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 | Capital Projects | Total Governmental Funds |
|---------------------------------------|------------------|---------------------|--------------------------------|
| Fund Balances: | | | |
| Nonspendable: | | | |
| Inventories | \$ 615,438 | \$ - | \$ 615,438 |
| Prepays | 246,999 | - | 246,999 |
| | <u>862,437</u> | <u>-</u> | <u>862,437</u> |
| Restricted for: | | | |
| Law enforcement | 308,400 | 480,603 | 789,003 |
| Fire and rescue | 239,242 | 65,427 | 304,669 |
| Street equipment | - | 566,302 | 566,302 |
| Building maintenance and improvements | - | 340,505 | 340,505 |
| Highway maintenance | 5,321,220 | - | 5,321,220 |
| Parks and recreation | - | 10,983 | 10,983 |
| Economic development | - | 520,005 | 520,005 |
| | <u>5,868,862</u> | <u>1,983,825</u> | <u>7,852,687</u> |

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

12. Fund Balance (Continued)

| | General | Capital Projects | Total Governmental Funds |
|---------------------------------------|----------------------|---------------------|--------------------------------|
| Committed to: | | | |
| Law enforcement | 75,553 | - | 75,553 |
| Stormwater management | 34,539 | - | 34,539 |
| | <u>110,092</u> | <u>-</u> | <u>110,092</u> |
| Assigned to: | | | |
| Technology systems | 202,739 | 4,684 | 207,423 |
| Law enforcement | 47,156 | - | 47,156 |
| Fire and rescue | - | 1,210 | 1,210 |
| Street equipment | 257,049 | - | 257,049 |
| Building maintenance and improvements | 50,329 | 2,579 | 52,908 |
| Engineering | 55,763 | - | 55,763 |
| Public works | - | 308,509 | 308,509 |
| Parks and recreation | 48,165 | 221,738 | 269,903 |
| Economic development | - | 198,239 | 198,239 |
| Other purposes | 35,842 | - | 35,842 |
| | <u>697,043</u> | <u>736,959</u> | <u>1,434,002</u> |
| Unassigned: | <u>32,652,599</u> | <u>-</u> | <u>32,652,599</u> |
| Total fund balances | <u>\$ 40,191,033</u> | <u>\$ 2,720,784</u> | <u>\$ 42,911,817</u> |

13. Risk Management

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

Workers' Compensation

Workers' Compensation Insurance is provided through the Virginia Risk Sharing Association (VRSA) for the City and through VACORP for the School Division. Benefits are those afforded through the Commonwealth of Virginia as outlined in *Code of Virginia* §65.2-100. Premiums are based on covered payroll, job rates and claims experience. Total premiums for the current year were \$512,729 and \$96,682 for the City and School Division, respectively.

General Liability and Other

The City provides general liability and other insurance through VRSA. General liability and automotive liability have a \$1,000,000 limit per occurrence. Boiler and machinery coverage and property coverage are covered per statement of values. The City maintains an additional \$10,000,000 umbrella policy over all forms of liability. The City has flood insurance coverage through Selective Insurance Company of America for properties in designated flood zones or that are part of the water plant. Total premiums for the current fiscal year were \$340,260.

The School Division provides general liability and other insurance through VACORP. General liability, automobile liability, and property damage have a \$2,000,000 limit per occurrence. The School Division also has a separate student accident insurance policy through VACORP. Total premiums for the current fiscal year were \$129,080.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

13. Risk Management (Continued)

Line of Duty

The Line of Duty Act (LODA) provides benefits to local government employees who hold specified hazardous duty positions (*Code of Virginia* §9.1-400 et seq.). By statute, LODA benefits must be provided. The Virginia Department of Accounts administers the benefit. As of July 1, 2011, the General Assembly shifted the financial responsibility from the state government to local governments. The City provides an insured Line of Duty OPEB benefit plan through coverage with VRSA. In exchange for annual premiums paid while employees are in active service, VRSA covers the Line of Duty OPEB of those employees. The Line of Duty coverage provides a death benefit of \$100,000 to beneficiaries of public safety officers who die in the line of duty and a death benefit of \$25,000 to beneficiaries of public safety employees who die within five years of becoming disabled as a result of a qualifying illness as defined in the LODA. A health insurance benefit is also provided to the disabled public safety employees, their surviving spouses, and their dependents. The City retains an obligation for benefits in the event of VRSA's insolvency. The Commonwealth of Virginia has the authority to establish and amend LODA. Total premiums for the current year to VRSA for Line of Duty coverage were \$89,740.

Healthcare

The City's professionally administered self-insurance program provides health coverage for employees of the City and School Division on a cost-reimbursement basis. All active employees, retired City employees and retired School Division employees pay a premium equivalent for participation. The premium equivalent represents a minimum of 4% active or retired employee participation. The City is obligated for claims payments under the program. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$200,000 per covered individual and approximately \$9,439,000 in the aggregate.

During the current fiscal year, total claim expenses of \$7,482,834, 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, 2019. The estimated liability for the City and School Division was \$370,974 and \$565,666, respectively for a total of \$936,640 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 |
|-----------------------|----------------------|-------------------|-------------------|-------------------|
| 2019 | \$ 1,234,976 | \$ 7,482,834 | \$ 7,781,170 | \$ 936,640 |
| 2018 | 787,078 | 8,097,155 | 7,649,257 | 1,234,976 |
| 2017 | 863,950 | 7,007,489 | 7,084,361 | 787,078 |

Other

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

14. Pension Plan

Plan Description

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

14. Pension Plan (Continued)

Plan Description (Continued)

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

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

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

VRS PLAN 1

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

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

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

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

14. Pension Plan (Continued)

VRS PLAN 1 (Continued)

Calculating the Benefit – The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

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

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

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

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

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

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

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

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

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

14. Pension Plan (Continued)

VRS PLAN 1 (Continued)

- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

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

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

VRS PLAN 2

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

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

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

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

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

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

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

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

14. Pension Plan (Continued)

HYBRID RETIREMENT PLAN

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

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

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

Eligible Members – Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

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

* Non-Eligible Members – Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

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

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

14. Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

Creditable Service

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

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

Vesting

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

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

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

Distribution is not required by law until age 70½.

Calculating the Benefit

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

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

Service Retirement Multiplier

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

Defined Contribution Component: Not applicable.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

14. Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

Normal Retirement Age

Defined Benefit Component: Same as VRS Plan 2.

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

Earliest Unreduced Retirement Eligibility

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

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

Earliest Reduced Retirement Eligibility

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

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

COLA in Retirement

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Not applicable.

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

Purchase of Prior Service

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

Defined Contribution Component: Not applicable

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

14. Pension Plan (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2017 actuarial valuation, the following employees were covered by the benefit terms of the VRS Retirement Plan:

| | <u>City of Salem</u> | <u>School Division (Non-Professional)</u> |
|---|----------------------|---|
| Inactive members or their beneficiaries currently receiving benefits | 614 | 69 |
| Inactive members: | | |
| Vested inactive members | 153 | 13 |
| Non-vested inactive members | 166 | 32 |
| Inactive members active elsewhere in VRS | 286 | 19 |
| Total inactive members | <u>605</u> | <u>64</u> |
| Active members | <u>474</u> | <u>71</u> |
| Total covered employees | <u><u>1,693</u></u> | <u><u>204</u></u> |

Contributions

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

The City's contractually required contribution rate for the year ended June 30, 2019 was 16.26% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by the employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$3,615,284 and \$3,449,144 for the years ended June 30, 2019 and June 30, 2018, respectively.

The School Division's non-professional employees' contractually required contribution rate for the year ended June 30, 2019 was 3.69% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by the employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School Division were \$43,781 and \$51,406 for the years ended June 30, 2019 and June 30, 2018, respectively.

For the School Division's professional employees covered under the VRS Teacher Retirement Plan, each school division's contractually required contribution rate for the year ended June 30, 2019 was 15.68% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School Division were \$4,006,226 and \$3,639,321 for the years ended June 30, 2019 and June 30, 2018, respectively.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

14. Pension Plan (Continued)

Net Pension Liability

Under the VRS Retirement Plan, the net pension liability is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. The City's and School Division's net pension liabilities under the VRS Retirement Plan were measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2017 rolled forward to the measurement date of June 30, 2018.

Under the VRS Teacher Retirement Plan, the School Division reported a liability of \$33,092,000 for its proportionate share of the net pension liability at June 30, 2019. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School Division's proportion of the net pension liability was based on the School Division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the School Division's proportion was 0.28140% as compared to 0.27878% at June 30, 2017.

Under the VRS Teacher Retirement Plan, the net pension liability is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GAAP, less that system's fiduciary net position. As of June 30, 2018, net pension liability amounts for the VRS Teacher Retirement Plan are as follows (amounts expressed in thousands):

| | Teacher Employee Retirement Plan |
|---|---|
| Total Pension Liability | \$ 46,679,555 |
| Plan Fiduciary Net Position | 34,919,563 |
| Employers' Net Pension Liability | <u>\$ 11,759,992</u> |
| | |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 74.81% |

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

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the VRS Retirement Plan was based on an actuarial valuation performed as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

14. Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

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

Mortality rates:

Largest 10 – Non-Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

All Others (Non 10 Largest) – Non-Hazardous Duty: 15% of deaths are assumed to be service related

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-Hazardous Duty:

- Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled) – Update to a more current mortality table-RP-2014 projected to 2020
- Retirement Rates – Lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal Rates – Adjusted rates to better fit experience at each year age and service through 9 years of service
- Disability Rates – Lowered rates
- Salary Scale – No change
- Line of Duty Disability – Increase rate from 14% to 20%

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

14. Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

All Others (Non 10 Largest) – Non-Hazardous Duty:

- Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled) – Update to a more current mortality table-RP-2014 projected to 2020
- Retirement Rates – Lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal Rates – Adjusted rates to better fit experience at each year age and service through 9 years of service
- Disability Rates – Lowered rates
- Salary Scale – No change
- Line of Duty Disability – Increase rate from 14% to 15%

Actuarial Assumptions – Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the VRS Retirement Plan was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

| | |
|---------------------------------------|---|
| Inflation | 2.50% |
| Salary increases, including inflation | 3.50% - 4.75% |
| Investment rate of return | 7.00%, net of pension plan investment expense, including inflation* |

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

Mortality rates:

Largest 10 – Hazardous Duty: 70% of deaths are assumed to be service related

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

14. Pension Plan (Continued)

Actuarial Assumptions – Public Safety Employees with Hazardous Duty Benefits (Continued)

All Others (Non 10 Largest) – Hazardous Duty: 45% of deaths are assumed to be service related

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Hazardous Duty:

- Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled) – Update to a more current mortality table-RP-2014 projected to 2020
- Retirement Rates – Lowered rates at older ages
- Withdrawal Rates – Adjusted rates to better fit experience
- Disability Rates – Increased rates
- Salary Scale – No change
- Line of Duty Disability – Increase rate from 60% to 70%

All Others (Non 10 Largest) – Hazardous Duty:

- Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled) – Update to a more current mortality table-RP-2014 projected to 2020
- Retirement Rates – Increased age 50 rates and lowered rates at older ages
- Withdrawal Rates – Adjusted rates to better fit experience at each age and service through 9 years of service
- Disability Rates – Adjusted rates to better fit experience
- Salary Scale – No change
- Line of Duty Disability – Decrease rate from 60% to 45%

Actuarial Assumptions – VRS Teacher Retirement Plan

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation performed as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

| | |
|---------------------------------------|--|
| Inflation | 2.50% |
| Salary increases, including inflation | 3.50% - 5.95% |
| Investment rate of return | 7.00%, net of pension plan investment expenses, including inflation* |

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

14. Pension Plan (Continued)

Actuarial Assumptions – VRS Teacher Retirement Plan (Continued)

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

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled) – Update to a more current mortality table-RP-2014 projected to 2020
- Retirement Rates – Lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal Rates – Adjusted rates to better fit experience at each year age and service through 9 years of service
- Disability Rates – Adjusted rates to better match experience
- Salary Scale – No change

Long-Term Expected Rate of Return

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

14. Pension Plan (Continued)

Long-Term Expected Rate of Return (Continued)

| <u>Asset Class (Strategy)</u> | <u>Target Allocation</u> | <u>Arithmetic Long-Term Expected Rate of Return</u> | <u>Weighted Average Long-Term Expected Rate of Return</u> |
|--------------------------------------|-------------------------------------|--|--|
| Public Equity | 40.00% | 4.54% | 1.82% |
| Fixed Income | 15.00% | 0.69% | 0.10% |
| Credit Strategies | 15.00% | 3.96% | 0.59% |
| Real Assets | 15.00% | 5.76% | 0.86% |
| Private Equity | 15.00% | 9.53% | 1.43% |
| Total | <u>100.00%</u> | | <u>4.80%</u> |
| | | Inflation | 2.50% |
| | | * Expected arithmetic nominal return | <u>7.30%</u> |

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions, political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2018, the alternate rate was the employer contribution rate used in fiscal year 2012 or 90% of the actuarially determined employer contribution rate from the June 30, 2018 actuarial valuations, whichever was greater. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

14. Pension Plan (Continued)

Changes in Net Pension Liability (Asset)

| | <u>Increase (Decrease)</u> | |
|--|--|--|
| | <u>Total Pension Liability (a)</u> | <u>Plan Fiduciary Net Position (b)</u> |
| | | <u>Net Pension Liability (Asset) (a) - (b)</u> |
| City of Salem | | |
| Balances at June 30, 2017 | \$ 186,927,270 | \$ 152,296,230 |
| Changes for the year: | | |
| Service cost | 2,306,014 | - |
| Interest | 12,687,766 | - |
| Differences between expected and actual experience | 351,330 | - |
| Contributions - employer | - | 3,449,144 |
| Contributions - employee | - | 1,061,292 |
| Net investment income | - | 11,076,102 |
| Benefit payments, including refunds of employee contributions | (11,091,760) | (11,091,760) |
| Administrative expenses | - | (99,013) |
| Other changes | - | (9,719) |
| Net changes | <u>4,253,350</u> | <u>4,386,046</u> |
| Balances at June 30, 2018 | <u>\$ 191,180,620</u> | <u>\$ 156,682,276</u> |
| School Division (Non-Professional Staff) | | |
| Balances at June 30, 2017 | \$ 5,175,368 | \$ 5,475,385 |
| Changes for the year: | | |
| Service cost | 130,240 | - |
| Interest | 350,464 | - |
| Differences between expected and actual experience | (177,270) | - |
| Contributions - employer | - | 51,406 |
| Contributions - employee | - | 61,121 |
| Net investment income | - | 399,866 |
| Benefit payments, including refunds of employee contributions | (337,479) | (337,479) |
| Administrative expenses | - | (3,562) |
| Other changes | - | (350) |
| Net changes | <u>(34,045)</u> | <u>171,002</u> |
| Balances at June 30, 2018 | <u>\$ 5,141,323</u> | <u>\$ 5,646,387</u> |

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

14. Pension Plan (Continued)

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

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

| | Net Pension Liability (Asset) | | |
|--|--------------------------------------|---|------------------------------------|
| | 1% Decrease (6.00%) | Current Discount (7.00%) | 1% Increase (8.00%) |
| City of Salem | | | |
| Retirement Plan | \$ 57,394,166 | \$ 34,498,344 | \$ 15,339,440 |
| School Division | | | |
| Retirement Plan (Non-Professional Staff) | 82,127 | (505,064) | (999,384) |
| Teacher Retirement Plan | 50,549,000 | 33,092,000 | 18,643,000 |

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

For the year ended June 30, 2019, the City and School Division recognized pension expense of \$1,930,270 and \$(162,982), respectively, under the VRS Retirement Plan.

For the year ended June 30, 2019, the School Division recognized pension expense of \$1,427,000 under the VRS Teacher Retirement Plan. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2019, the City and School Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| City of Salem | | |
| Differences between expected and actual experience | \$ 210,233 | \$ 357,672 |
| Changes in assumptions | 63,901 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 1,140,053 |
| Employer contributions subsequent to the measurement date | 3,615,284 | - |
| Total | <u>\$ 3,889,418</u> | <u>\$ 1,497,725</u> |

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

14. Pension Plan (Continued)

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| School Division (Non-Professional Staff) | | |
| Differences between expected and actual experience | \$ - | \$ 97,922 |
| Changes in assumptions | - | 2,517 |
| Net difference between projected and actual earnings on pension plan investments | - | 43,785 |
| Employer contributions subsequent to the measurement date | 43,781 | - |
| Total | \$ 43,781 | \$ 144,224 |

| | | |
|---|---------------------|---------------------|
| School Division - Teacher Retirement Plan | | |
| Differences between expected and actual experience | \$ - | \$ 2,830,000 |
| Changes in assumptions | 395,000 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 702,000 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 288,000 | 877,000 |
| Employer contributions subsequent to the measurement date | 4,006,226 | - |
| Total | \$ 4,689,226 | \$ 4,409,000 |

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of (increase to) the Net Pension Liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30, | City of Salem | School Division (Non-Professional) | School Division- Teacher Retirement Plan |
|----------------------------|-----------------------|---|---|
| 2020 | \$ 469,400 | \$ (69,333) | \$ (852,000) |
| 2021 | 8,815 | (13,074) | (917,000) |
| 2022 | (1,571,722) | (56,898) | (1,490,000) |
| 2023 | (130,084) | (4,919) | (378,000) |
| 2024 | - | - | (89,000) |
| | \$ (1,223,591) | \$ (144,224) | \$ (3,726,000) |

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

14. Pension Plan (Continued)

Payable to the Pension Plan

At June 30, 2019, \$419,142 and \$8,267 were payable to the System under the VRS Retirement Plan for the legally required contributions of the City and School Division, respectively, related to the June 2019 payroll.

At June 30, 2019, \$448,243 was payable to the System under the VRS Teacher Retirement Plan for the legally required contributions related to the June 2019 payroll.

Pension Plan Data

Information about the VRS Retirement Plan and the VRS Teacher Retirement Plan is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

15. Other Postemployment Benefits – Retiree Health Plan

Plan Description

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

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

In addition to the implicit rate subsidy, all pre-65 retirees who retired on or before October 1, 2010 receive a premium subsidy based on their coverage election. If the retiree elects retiree-only coverage, the City contributes between 72% and 96% of the subscriber-only premium. If the retiree elects retiree/spouse, retiree/children, or family coverage, the City contributes between 40% and 57% of the retiree/spouse, retiree/children, or family premium. If the retiree elects retiree/child coverage, the City contributes between 64% and 82% of the retiree/child premium. The actual City contribution within each range depends on the health plan selected by the retiree. For individuals retiring after October 1, 2010 and who were hired before July 1, 2010, the City will contribute 3% of the retiree-only premium for each year of service up to 96% of the total retiree-only premium for the lifetime of the retiree. For employees hired on or after July 1, 2010, the City will contribute 3% of the retiree-only premium for each year of service up to 50% of the total retiree-only premium for the lifetime of the retiree.

When a retiree turns age 65 or otherwise becomes eligible for Medicare, the retiree transfers to a Medicare Health Supplement Plan F Medical and/or Part D Drug plan. These individuals no longer receive the implicit rate subsidy; however, they still receive a premium subsidy. The City contributes 3% of the retiree-only premium for each year of service up to 96% not to exceed \$3,300. Employees hired on or after July 1, 2010 are not eligible to receive the Medicare Health Supplement Plan F Medical and/or Part D Drug plan benefit.

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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

Plan Description (Continued)

The City participates in the OPEB Trust Fund, an irrevocable trust established for the purpose of accumulating assets to fund postemployment benefits other than pensions. The Virginia Pooled OPEB Trust Fund issues a separate report, which may be obtained from VML/VACo Finance Program, 919 East Main Street, Suite 1100, Richmond, Virginia 23219.

Employees Covered by Benefit Terms

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

| | <u>City of Salem</u> | <u>School Division</u> |
|----------------------|----------------------|------------------------|
| Active employees | 493 | 526 |
| Retired participants | 283 | 30 |
| Total participants | <u>776</u> | <u>556</u> |

Contributions

The Retiree Health Plan is funded through member and employer contributions on a pay-as-you-go basis. City Retirees receiving benefits contribute a minimum of 4% to 28%, 18% to 36%, 43% to 60%, 43% to 60%, and 43% to 60% of the health insurance premium rate for retiree only, retiree + one minor child, retiree + spouse, retiree + children, and family coverage, respectively. The actual contribution within each range depends on the health plan selected by the retiree. School Division Retirees receiving benefits contribute 100% of the health insurance premium rate. During the current year, retired City and School Division members contributed \$496,844 and \$312,770, respectively, of the total premiums through their required contributions of between \$15.54 and \$1,811, depending on the type of coverage and years of service.

The City and School Division contributed \$1,461,999 and \$151,400, respectively, in pay-as-you-go contributions to the Retiree Health Plan for the year ended June 30, 2019. In addition, the City and School Division contributed \$236,430 and \$97,135, respectively, to the OPEB Trust Fund. It is the intent of the City and School Division to fully fund the Actuarially Determined Contributions each year.

Net OPEB Liability

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

The components of the net OPEB liability as of June 30, 2019 were as follows:

| | <u>City of Salem</u> | <u>School Division</u> |
|---|----------------------|------------------------|
| Total OPEB liability | \$ 21,492,352 | \$ 2,089,759 |
| Plan fiduciary net position | 6,781,664 | 1,458,940 |
| Net OPEB liability | <u>\$ 14,710,688</u> | <u>\$ 630,819</u> |
| Plan fiduciary net position as a percentage of total OPEB liability | 31.55% | 69.81% |

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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

Actuarial Assumptions

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

| | |
|-------------------------------------|--|
| Valuation date | June 30, 2019 |
| Measurement date | June 30, 2019 |
| Inflation | 2.50% |
| Investment rate of return | 6.5%, net of investment expense |
| Pre-65 healthcare cost trend rates | City: 6.20% for 2019 graded to 4.20% by 2082 School Division: 6.20% for 2019 graded to 4.20% by 2082 |
| Post-65 healthcare cost trend rates | City: 5.30% for 2019 graded to 4.30% by 2088 School Division: N/A |
| Pre-retirement mortality | RP-2014 Employee Rates to age 80, Healthy Annuity Rates at ages 81 and older projected with Scale BB to 2020 set back 1 year for males at 85% of rates and set back 1 year for females |
| Post-retirement mortality | RP-2014 Employee Rates to age 49, Healthy Annuity Rates at ages 50 and older projected with scale BB to 2020 set forward 1 year for males and set back 1 year for females with 1.5% increase compounded from ages 70 to 85 |

Plan Investments

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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

Plan Investments (Continued)

| Asset Class | Target Allocation | Arithmetic Long-Term Expected Rate of Return | Geometric Long-Term Expected Rate of Return |
|-----------------------------------|--------------------------|---|--|
| Core Fixed Income | 19.60% | 2.13% | 2.02% |
| High Yield Bonds | 1.40% | 4.00% | 3.54% |
| Large Cap US Equities | 26.00% | 4.90% | 3.76% |
| Small Cap US Equities | 10.00% | 5.89% | 4.11% |
| Developed Foreign Equities | 13.00% | 6.09% | 4.59% |
| Emerging Market Equities | 5.00% | 8.14% | 5.33% |
| Private Equity | 5.00% | 9.37% | 5.57% |
| Hedge Funds/Absolute Return | 10.00% | 1.91% | 1.66% |
| Real Estate (REITS) | 7.00% | 3.84% | 3.13% |
| Commodities | 3.00% | 3.01% | 1.42% |
| Assumed Inflation | | 2.60% | 2.60% |
| Portfolio Real Mean Return | | 4.55% | 3.95% |
| Portfolio Nominal Mean Return | | 7.15% | 6.65% |
| Portfolio Standard Deviation | | | 10.85% |
| Long-Term Expected Rate of Return | | | 6.50% |

At June 30, 2019, the Plan held no investments in any one organization that represented 5% or more of fiduciary net position.

Rate of Return

As of June 30, 2019, the annual money-weighted rate of return on the plan investments, net of OPEB plan investment expense, was 4.59% for the City and 4.59% for the School Division. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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

Changes in Net OPEB Liability

| | Increase (Decrease) | | |
|--|-----------------------------------|--|---------------------------------------|
| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability (a) - (b) |
| City of Salem | | | |
| Balances at June 30, 2018 | \$ 25,542,002 | \$ 6,263,466 | \$ 19,278,536 |
| Changes for the year: | | | |
| Service cost | 319,409 | - | 319,409 |
| Interest | 1,612,928 | - | 1,612,928 |
| Effect of economic/demographic gains or losses | (2,149,293) | - | (2,149,293) |
| Effect of assumption changes | (2,370,696) | - | (2,370,696) |
| Contributions - employer | - | 1,698,429 | (1,698,429) |
| Net investment income | - | 289,012 | (289,012) |
| Benefit payments | (1,461,997) | (1,461,997) | - |
| Administrative expenses | - | (7,245) | 7,245 |
| Net changes | (4,049,649) | 518,199 | (4,567,848) |
| Balances at June 30, 2019 | \$ 21,492,353 | \$ 6,781,665 | \$ 14,710,688 |
| School Division | | | |
| Balances at June 30, 2018 | \$ 2,247,155 | \$ 1,303,775 | \$ 943,380 |
| Changes for the year: | | | |
| Service cost | 73,179 | - | 73,179 |
| Interest | 158,451 | - | 158,451 |
| Effect of economic/demographic gains or losses | 17,662 | - | 17,662 |
| Effect of assumption changes | (255,288) | - | (255,288) |
| Contributions - employer | - | 248,535 | (248,535) |
| Net investment income | - | 59,924 | (59,924) |
| Benefit payments | (151,400) | (151,400) | - |
| Administrative expenses | - | (1,894) | 1,894 |
| Net changes | (157,396) | 155,165 | (312,561) |
| Balances at June 30, 2019 | \$ 2,089,759 | \$ 1,458,940 | \$ 630,819 |

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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

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

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

| | Net OPEB Liability | | |
|-----------------|------------------------------------|---|------------------------------------|
| | 1% Decrease (5.50%) | Current Discount (6.50%) | 1% Increase (7.50%) |
| City of Salem | \$ 16,853,653 | \$ 14,710,688 | \$ 12,850,199 |
| School Division | 804,967 | 630,819 | 471,000 |

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

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

| | Net OPEB Liability | | |
|-----------------|---------------------------|-------------------------------|------------------------|
| | 1% Decrease | Current Trend Rate | 1% Increase |
| City of Salem | \$ 13,581,494 | \$ 14,710,688 | \$ 16,006,172 |
| School Division | 421,012 | 630,819 | 875,600 |

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

For the year ended June 30, 2019, the City and School Division recognized OPEB expense of \$860,162 and \$112,930, respectively. At June 30, 2019, the City and School Division reported deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| City of Salem | | |
| Differences between expected and actual experience | \$ - | \$ 1,846,577 |
| Changes in assumptions | - | 2,036,794 |
| Net difference between projected and actual earnings on plan investments | 46,843 | - |
| Total | <u>\$ 46,843</u> | <u>\$ 3,883,371</u> |

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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

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

| School Division | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$ 15,584 | \$ - |
| Changes in assumptions | - | 225,254 |
| Net difference between projected and actual earnings on plan investments | 12,632 | - |
| Total | <u>\$ 28,216</u> | <u>\$ 225,254</u> |

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

| Year ended June 30, | City of Salem | School Division |
|----------------------------|-----------------------|------------------------|
| 2020 | \$ (631,604) | \$ (26,053) |
| 2021 | (631,604) | (26,053) |
| 2022 | (631,605) | (26,055) |
| 2023 | (604,817) | (21,031) |
| 2024 | (636,618) | (27,956) |
| Thereafter | (700,280) | (69,890) |
| | <u>\$ (3,836,528)</u> | <u>\$ (197,038)</u> |

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

Plan Description

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

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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

Plan Description (Continued)

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

GROUP LIFE INSURANCE PROGRAM

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

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

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

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

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

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

Minimum Benefit Amounts and Cost-of-Living Adjustment (COLA) – For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and was increased to \$8,279 effective July 1, 2018.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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

POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM

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

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

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

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

Health Insurance Credit Program Notes:

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

TEACHER EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM

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

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

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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

TEACHER EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (Continued)

Health Insurance Credit Program Notes:

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

Employees Covered by Benefit Terms

As of the June 30, 2017 actuarial valuation, the following employees were covered by the benefit terms of the Political Subdivision Health Insurance Credit OPEB plan:

| | |
|---|----|
| Inactive members or their beneficiaries currently receiving benefits | 26 |
| Inactive members: | |
| Vested inactive members | 2 |
| Total inactive members | 28 |
| Active members | 71 |
| Total covered employees | 99 |

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2019 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Employer contributions from the City were \$118,146 and \$112,773 for the years ended June 30, 2019 and June 30, 2018, respectively. Employer contributions from the School Division for non-professional employees were \$6,940 and \$6,688 for the years ended June 30, 2019 and June 30, 2018, respectively. Employer contributions from the School Division for professional employees were \$134,627 and \$117,279 for years ended June 30, 2019 and June 30, 2018, respectively.

The contribution requirement for active employees in the Political Subdivision Health Insurance Credit Program is governed by §51.1-1402(E) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to political subdivisions by the Virginia General Assembly. The School Division's contractually required employer contribution rate for the year ended June 30, 2019 was 0.59% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the School Division were \$7,949 and \$8,875 for years ended June 30, 2019 and June 30, 2018, respectively.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

Contributions (Continued)

The contribution requirement for active employees in the Teacher Employee Health Insurance Credit Program is governed by §51.1-1401(E) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Each school division's contractually required employer contribution rate for the year ended June 30, 2019 was 1.20% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the School Division were \$311,291 and \$277,314 for years ended June 30, 2019 and June 30, 2018, respectively.

Net OPEB Liability

Under the Political Subdivision Health Insurance Credit Program, the School Division's net OPEB liability was measured as of June 30, 2018. The total OPEB liability was determined by an actuarial valuation performed as of June 30, 2017, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Under the Group Life Insurance Program, the City, School Division non-professional employees, and School Division professional employees reported liabilities of \$1,726,760, \$102,000, and \$1,801,000, respectively, for their proportionate shares of the Group Life Insurance Program net OPEB liability. Under the Teacher Employee Health Insurance Credit Program, the School Division reported a liability of \$3,540,000 for its proportionate share of the Teacher Employee Health Insurance Credit Program net OPEB liability. The net OPEB liability for each plan was measured as of June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the net OPEB liability was based on the covered employer's actuarially determined employer contributions to the plan for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers.

At June 30, 2018, the proportions of the Group Life Insurance Program for the City, School Division non-professional employees, and School Division professional employees were 0.11921%, 0.00676%, and 0.11861%, respectively, as compared to 0.12390%, 0.00687%, and 0.11835%, respectively, at June 30, 2017. At June 30, 2018, the proportion of the Teacher Employee Health Insurance Credit Program for the School Division was 0.27878%, as compared to 0.27639% at June 30, 2017.

The net OPEB liabilities for the Group Life Insurance Program and the Teacher Employee Health Insurance Credit Program represent each program's total OPEB liability determined in accordance with GAAP, less the associated fiduciary net position. As of June 30, 2018, net OPEB liability amounts are as follows (amounts expressed in thousands):

| | Group Life Insurance OPEB Program | Teacher Employee HIC OPEB Program |
|--|--|--|
| Total OPEB liability | \$ 3,113,508 | \$ 1,381,313 |
| Plan fiduciary net position | 1,594,773 | 111,639 |
| Net OPEB liability | <u>\$ 1,518,735</u> | <u>\$ 1,269,674</u> |
| Plan fiduciary net position as a percentage of total OPEB liability | 51.22% | 8.08% |

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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

Actuarial Assumptions

The total OPEB liability for each plan was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

| | |
|---------------------------------------|---|
| Inflation | 2.50% |
| Salary increases, including inflation | |
| Teachers | 3.50% - 5.95% |
| Locality – General employees | 3.50% - 5.35% |
| Locality – Hazardous Duty employees | 3.50% - 4.75% |
| Investment rate of return | 7.00%, net of pension plan investment expense, including inflation* |

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

Mortality rates - Teachers:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled) – Updated to a more current mortality table – RP-2014 projected to 2020
- Retirement Rates – Lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal Rates – Adjusted rates to better fit experience at each year age and service through 9 years of service
- Disability Rates – Adjusted rates to better match experience
- Salary Scale – No change

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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

Actuarial Assumptions (Continued)

Mortality rates – General Employees:

Largest Ten Locality Employers:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

Non-Largest Ten Locality Employers:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest Ten Locality Employers:

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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

Actuarial Assumptions (Continued):

Non-Largest Ten Locality Employers:

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

Mortality rates – Hazardous Duty Employees:

Largest Ten Locality Employers:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

Non-Largest Ten Locality Employers:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows on the next page:

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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

Actuarial Assumptions (Continued):

Largest Ten Locality Employers:

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

Non-Largest Ten Locality Employers:

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

Long-Term Expected Rate of Return

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

| <u>Asset Class (Strategy)</u> | <u>Target Allocation</u> | <u>Arithmetic Long-Term Expected Rate of Return</u> | <u>Weighted Average Long-Term Expected Rate of Return</u> |
|--------------------------------------|-------------------------------------|--|--|
| Public Equity | 40.00% | 4.54% | 1.82% |
| Fixed Income | 15.00% | 0.69% | 0.10% |
| Credit Strategies | 15.00% | 3.96% | 0.59% |
| Real Assets | 15.00% | 5.76% | 0.86% |
| Private Equity | 15.00% | 9.53% | 1.43% |
| Total | <u>100.00%</u> | | <u>4.80%</u> |
| | | Inflation | 2.50% |
| | | * Expected arithmetic nominal return | <u>7.30%</u> |

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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

Discount Rate

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

Changes in Net OPEB Liability

| | Increase (Decrease) | | |
|---|---|--|---|
| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability (a) - (b) |
| School Division - Political Subdivision HIC | | | |
| Balances at June 30, 2017 | \$ 163,729 | \$ 67,711 | \$ 96,018 |
| Changes for the year: | | | |
| Service cost | 2,543 | - | 2,543 |
| Interest | 11,059 | - | 11,059 |
| Differences between expected and actual experience | (20,255) | - | (20,255) |
| Contributions - employer | - | 8,875 | (8,875) |
| Net investment income | - | 4,693 | (4,693) |
| Benefit payments | (11,482) | (11,482) | - |
| Administrative expenses | - | (108) | 108 |
| Other changes | - | (359) | 359 |
| Net changes | (18,135) | 1,619 | (19,754) |
| Balances at June 30, 2018 | \$ 145,594 | \$ 69,330 | \$ 76,264 |

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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

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

The following presents the City's and School Division's proportionate share of the Group Life Insurance Program net GLI OPEB liability, the School Division's Political Subdivision Health Insurance Credit Program net HIC OPEB liability, and the School Division's proportionate share of the Teacher Employee Health Insurance Credit Program net HIC OPEB liability using the discount rate of 7.00%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

| | Net OPEB Liability | | |
|--|------------------------------------|---|------------------------------------|
| | 1% Decrease (6.00%) | Current Discount (7.00%) | 1% Increase (8.00%) |
| City of Salem | | | |
| Group Life Insurance | \$ 2,255,944 | \$ 1,726,760 | \$ 1,296,739 |
| School Division (Rounded to nearest thousand) | | | |
| Group Life Insurance (Non-Professional) | 134,000 | 102,000 | 77,000 |
| Group Life Insurance (Professional) | 2,354,000 | 1,801,000 | 1,352,000 |
| Political Subdivision Health Insurance Credit | 89,000 | 76,000 | 65,000 |
| Teacher Employee Health Insurance Credit | 3,954,000 | 3,540,000 | 3,188,000 |

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

For the year ended June 30, 2019, the City, School Division non-professional employees, and School Division professional employees recognized Group Life Insurance OPEB expense of \$(5,735), \$0, and \$12,000, respectively. For the year ended June 30, 2019, the School Division recognized Political Subdivision Health Insurance Credit Program OPEB expense of \$8,281 and Teacher Employee Health Insurance Credit Program OPEB expense of \$287,000. Since there was a change in proportionate share between measurement dates for the Group Life Insurance Program and the Teacher Employee Health Insurance Credit Program, a portion of the OPEB expense for these plans was related to deferred amounts from changes in proportion.

At June 30, 2019, the City and School Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| City of Salem - Group Life Insurance | | |
| Differences between expected and actual experience | \$ 85,056 | \$ 31,538 |
| Net difference between projected and actual earnings on program investments | - | 56,385 |
| Changes in assumptions | - | 71,678 |
| Changes in proportion | - | 93,659 |
| Employer contributions subsequent to the measurement date | 118,146 | - |
| Total | <u>\$ 203,202</u> | <u>\$ 253,260</u> |

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| School Division - Non-Professional GLI | | |
| Differences between expected and actual experience | \$ 5,000 | \$ 2,000 |
| Net difference between projected and actual earnings on program investments | - | 3,000 |
| Changes in assumptions | - | 4,000 |
| Changes in proportion | 2,000 | - |
| Employer contributions subsequent to the measurement date | 6,940 | - |
| Total | <u>\$ 13,940</u> | <u>\$ 9,000</u> |
| School Division - Professional GLI | | |
| Differences between expected and actual experience | \$ 88,000 | \$ 32,000 |
| Net difference between projected and actual earnings on program investments | - | 59,000 |
| Changes in assumptions | - | 75,000 |
| Changes in proportion | 3,000 | 8,000 |
| Employer contributions subsequent to the measurement date | 134,627 | - |
| Total | <u>\$ 225,627</u> | <u>\$ 174,000</u> |
| School Division - Political Subdivision HIC | | |
| Differences between expected and actual experience | \$ - | \$ 15,278 |
| Changes in assumptions | 194 | - |
| Net difference between projected and actual earnings on program investments | - | 1,662 |
| Employer contributions subsequent to the measurement date | 7,949 | - |
| Total | <u>\$ 8,143</u> | <u>\$ 16,940</u> |
| School Division - Teacher Employee HIC | | |
| Differences between expected and actual experience | \$ - | \$ 17,000 |
| Net difference between projected and actual earnings on program investments | - | 3,000 |
| Changes in assumptions | - | 31,000 |
| Changes in proportion | 26,000 | 37,000 |
| Employer contributions subsequent to the measurement date | 311,291 | - |
| Total | <u>\$ 337,291</u> | <u>\$ 88,000</u> |

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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

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

Deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| City of Salem | | | | |
|--------------------------------|------------|------------------|--|--|
| Year ended June 30, | GLI | | | |
| 2020 | \$ | (43,963) | | |
| 2021 | | (43,963) | | |
| 2022 | | (43,963) | | |
| 2023 | | (27,715) | | |
| 2024 | | (8,600) | | |
| | \$ | <u>(168,204)</u> | | |

| School Division | | | | |
|--------------------------------|---------------------------------|-----------------------------|--------------------------------------|---------------------------------|
| Year ended June 30, | GLI Non-Professional | GLI Professional | Political Subdivision HIC | Teacher Employee HIC |
| 2020 | \$ (1,000) | \$ (28,000) | \$ (5,439) | \$ (11,000) |
| 2021 | (1,000) | (28,000) | (5,439) | (11,000) |
| 2022 | - | (28,000) | (5,508) | (11,000) |
| 2023 | - | (12,000) | (360) | (10,000) |
| 2024 | - | 6,000 | - | (10,000) |
| Thereafter | - | 7,000 | - | (9,000) |
| | <u>\$ (2,000)</u> | <u>\$ (83,000)</u> | <u>\$ (16,746)</u> | <u>\$ (62,000)</u> |

Payables to the OPEB Plans

At June 30, 2019, \$26,451, \$1,393, and \$28,989 were payable to the System under the Group Life Insurance Program from the City, School Division non-professional employees, and School Division professional employees, respectively, for contributions related to the June 2019 payroll.

At June 30, 2019, \$627 and \$26,564 were payable to the System under the Political Subdivision Health Insurance Credit Program and the Teacher Employee Health Insurance Program, respectively, from the School Division for contributions related to the June 2019 payroll.

Program Plan Data

Information about the Group Life Insurance Program, the Political Subdivision Health Insurance Credit Program, and the Teacher Employee Health Insurance Credit Program is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

17. Commitments and Contingencies

Construction Commitments

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

| | Spent To Date | Remaining Contract |
|---|---------------------|-----------------------|
| Downtown CCTV Inspection and Cleaning of Sanitary Sewer | \$ 287,477 | \$ 212,508 |
| Downtown Sanitary Sewer Rehabilitation | 3,869,008 | 1,751,464 |
| Civic Center Barrel Roof Replacement | - | 450,611 |
| | <u>\$ 4,156,485</u> | <u>\$ 2,414,583</u> |

Electrical Service

On July 1, 2006, the City entered into an agreement with American Electric Power Service Corporation to purchase electricity for consumption and resale to City residents. The rates are recalculated annually based on the supplier's cost. As part of the agreement, an annual cost true-up is required based upon American Electric Power's FERC filing. The City's policy is to recognize the true-up as an expense when it is billed. The true-up for December 31, 2018 resulted in a credit of \$1,044,022 in the current fiscal year. The agreement expires May 31, 2026 with two possible five-year period renewals and may be terminated under certain circumstances.

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

Water and Wastewater Treatment Contract

On July 1, 1981, the City entered into an agreement with the 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 into an agreement with the City of Roanoke, Virginia for the transportation and treatment of wastewater and to fund a portion of certain sewage treatment plant improvements. Rates for the former services are adjusted annually, while the costs recognized by the City for the latter have been capitalized as the sewage treatment contract in capital assets. The agreement expires October 31, 2033.

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

Special Services

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

Participation Agreement

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

17. Commitments and Contingencies (Continued)

Consent Order

On December 8, 2005, the Virginia Department of Environmental Quality issued a State Water Control Board Enforcement Action Special Order by Consent to the City for the purpose of resolving certain alleged violations of the State Water Control Law and the Regulations. The action requires the City to identify sources of inflow and infiltration into the sanitary sewer system that lead to overflows and Wastewater Treatment Plant bypasses and perform actions to improve the system on the approved schedule as defined in the Corrective Action Plan completed on September 28, 2007. The project costs through 2029 are anticipated to be approximately \$15.7 million.

Special Purpose Grants

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

Litigation

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

18. Tax Abatements

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

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

Rebate payments commence upon completion of the rehabilitation, renovation, or replacement, or on January 1 of the year following completion of the rehabilitation, renovation, or replacement and shall run for a period as specified in each performance agreement, typically between five and ten years. In fiscal year 2019, tax abatements for economic development incentives totaled \$113,895.

19. Jointly Governed Organizations

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

Roanoke Valley Resource Authority

The County of Roanoke, the Cities of Roanoke and Salem, and the Town of Vinton jointly participate in the Roanoke Valley Resource Authority (RVRA), which operates the regional sanitary landfill, waste collection and transfer station, and related treatment facilities. RVRA is governed by a seven-member board, of which one member is appointed by the City. The City has control over the budget and financing for RVRA only to the extent of representation by the board member appointed. The participating localities are each responsible for their pro rata share, based on population, of any year-end operating deficit. For the fiscal year ended June 30, 2019, the City remitted \$883,587 to RVRA for services. Financial statements may be obtained from RVRA at 1020 Hollins Road NE, Roanoke, Virginia 24012.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

19. Jointly Governed Organizations (Continued)

Blue Ridge Behavioral Healthcare

The Counties of Botetourt, Craig and Roanoke and the Cities of Roanoke and Salem formed Blue Ridge Behavioral Healthcare (BRBH) to provide a system of comprehensive community mental health, intellectual disability and substance abuse services. BRBH is governed by a 16-member board; three members are appointed by the City. Each locality's financial obligation is based on the type and amount of services performed for individuals in the locality. For the year ended June 30, 2019, the City remitted \$145,357 to BRBH for services. Financial statements may be obtained from BRBH at 301 Elm Avenue SW, Roanoke, Virginia, 24016.

Roanoke Valley Detention Commission

The Counties of Botetourt, Franklin and Roanoke and the Cities of Roanoke and Salem formed the Roanoke Valley Detention Commission (Commission) to renovate, expand and operate a detention facility for juveniles. The Commission is governed by a six-member board, of which one member is appointed by the City. Each locality's financial obligation is 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, 2019, the City remitted \$51,920 to the Commission for per diem charges. Financial statements may be obtained from the Commission at 498 Coyner Springs Road, Roanoke, Virginia 24012.

Roanoke Valley Regional 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, 2019, the School Division remitted \$786,723 to the Regional Board for services. Financial statements may be obtained from the Regional Board at 57 South Center Drive, Room 225, Daleville, VA 24083.

Roanoke Valley 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, 2019, the City remitted \$7,090 for operating costs of the facility. Financial statements may be obtained from the Center at 1220 Kessler Mill Road, Salem, Virginia 24153.

Western Virginia Regional Jail Authority

The Counties of Franklin, Montgomery and Roanoke and the City of Salem formed the Western Virginia Regional Jail Authority (Jail Authority) to develop and operate a regional jail. The Jail Authority is governed by a 12-member board; three from each participating locality. Each locality's financial obligation 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, 2019, the City remitted \$1,232,691 for per diem charges and \$383,019 for debt service to the Jail Authority. Financial statements may be obtained from the Jail Authority at 5885 West River Road, Salem, Virginia 24153.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

19. Jointly Governed Organizations (Continued)

Roanoke Valley Broadband Authority

The Counties of Botetourt and Roanoke and the Cities of Salem and Roanoke formed the Roanoke Valley Broadband Authority (RVBA) in order to acquire, finance, construct, operate, manage, and maintain a broadband system and related facilities pursuant to the Virginia Wireless Services Authorities Act. RVBA is governed by a five-member board, of which one member is appointed by the City. Based upon participation in the fiber expansion project, the Cities of Salem and Roanoke share equally in the operating and debt service costs of the Authority. For the year ending June 30, 2019, the City remitted \$327,198 for operating costs and \$331,686 for debt service to the RVBA. Financial statements may be obtained from RVBA at 601 South Jefferson Street SW, Suite 110, Roanoke, Virginia 24011.

Western Virginia Regional Industrial Facility Authority

The Counties of Botetourt, Roanoke and Franklin, the Cities of Roanoke and Salem and the Town of Vinton formed the Western Virginia Regional Industrial Facility Authority (WVRIFA) in order to enhance the economic base of each such locality through the developing, owning and operating of one or more facilities on a cooperative basis in the region. WVRIFA is governed by a twelve-member board, of which two members are appointed by the City. Each locality's financial obligation is based on their percentage of participation in each economic development project. For the year ended June 30, 2019, the City remitted \$4,646 for operating budget member dues and \$39,228 for debt service to WVRIFA. Financial statements may be obtained from WVRIFA at PO Box 2569, Roanoke, Virginia 24010.

Roanoke Valley Governor's School

The Counties of Bedford, Botetourt, Craig, Franklin and Roanoke and the Cities of Roanoke and Salem jointly participate in a regional education program focusing on science, technology, engineering and mathematics operated by Roanoke Valley Governor's School (RVGS). RVGS is governed by a seven member board, with one member from each participating locality. The School Division has control over budget and financing only to the extent of representation by the one board member appointed. Each locality's financial obligation is based on their proportionate share of students attending RVGS. For the year ended June 30, 2019, the School Division remitted \$47,874 for services. Financial statements may be obtained from RVGS at 2104 Grandin Road, Roanoke, Virginia 24015.

20. New Accounting Standards

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

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

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

20. New Accounting Standards (Continued)

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

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

REQUIRED SUPPLEMENTARY INFORMATION



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

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
YEAR ENDED JUNE 30, 2019

| | City of Salem Plan Year | | | | |
|---|----------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Total pension liability | | | | | |
| Service cost | \$ 2,306,014 | \$ 2,482,886 | \$ 2,507,103 | \$ 2,505,415 | \$ 2,527,218 |
| Interest | 12,687,766 | 12,477,728 | 12,159,380 | 12,004,363 | 11,654,127 |
| Differences between expected and actual experience | 351,330 | (1,567,004) | 906,524 | (2,262,692) | - |
| Changes in assumptions | - | 279,953 | - | - | - |
| Benefit payments, including refunds of employee contributions | (11,091,760) | (10,997,027) | (10,244,175) | (9,521,624) | (8,944,860) |
| Net change in total pension liability | 4,253,350 | 2,676,536 | 5,328,832 | 2,725,462 | 5,236,485 |
| Total pension liability - beginning | 186,927,270 | 184,250,734 | 178,921,902 | 176,196,440 | 170,959,955 |
| Total pension liability - ending | \$ 191,180,620 | \$ 186,927,270 | \$ 184,250,734 | \$ 178,921,902 | \$ 176,196,440 |
| Plan fiduciary net position | | | | | |
| Contributions - employer | \$ 3,449,144 | \$ 3,496,819 | \$ 3,915,838 | \$ 3,942,152 | \$ 3,507,946 |
| Contributions - employee | 1,061,292 | 1,106,906 | 1,149,948 | 1,094,070 | 1,098,206 |
| Net investment income | 11,076,102 | 16,881,766 | 2,383,779 | 6,436,800 | 19,787,728 |
| Benefit payments, including refunds of employee contributions | (11,091,760) | (10,997,027) | (10,244,175) | (9,521,624) | (8,944,860) |
| Administrative expense | (99,013) | (101,645) | (91,609) | (91,265) | (109,414) |
| Other | (9,719) | (14,845) | (1,041) | (1,350) | 1,043 |
| Net change in plan fiduciary net position | 4,386,046 | 10,371,974 | (2,887,260) | 1,858,783 | 15,340,649 |
| Plan fiduciary net position - beginning | 152,296,230 | 141,924,256 | 144,811,516 | 142,952,733 | 127,612,084 |
| Plan fiduciary net position - ending | \$ 156,682,276 | \$ 152,296,230 | \$ 141,924,256 | \$ 144,811,516 | \$ 142,952,733 |
| Net pension liability - ending | \$ 34,498,344 | \$ 34,631,040 | \$ 42,326,478 | \$ 34,110,386 | \$ 33,243,707 |
| Plan fiduciary net position as a percentage of the total pension liability | 81.96% | 81.47% | 77.03% | 80.94% | 81.13% |
| Covered payroll | \$ 21,264,760 | \$ 21,558,687 | \$ 21,598,665 | \$ 21,743,806 | \$ 21,655,628 |
| Net pension liability as a percentage of covered payroll | 162.23% | 160.64% | 195.97% | 156.87% | 153.51% |

Schedule is intended to show information for 10 years. Since fiscal year 2019 (plan year 2018) is the fifth year for this presentation, only four additional years of data are available. However, additional years will be included as they become available.

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

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS
YEAR ENDED JUNE 30, 2019

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

Schedule is intended to show information for 10 years. Since fiscal year 2019 (plan year 2018) is the fifth year for this presentation, only four additional years of data are available. However, additional years will be included as they become available.

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

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
YEAR ENDED JUNE 30, 2019**

| Year Ended June 30 | Contractually Required Contribution | Contributions in Relation to Contractually Required Contribution | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a % of Covered Payroll |
|---|---|--|--|--------------------|--|
| | (a) | (b) | (a-b) | (c) | (b/c) |
| City of Salem | | | | | |
| 2019 | \$ 3,615,284 | \$ 3,615,284 | \$ - | \$ 22,234,219 | 16.26% |
| 2018* | 3,449,144 | 3,449,144 | - | 21,264,760 | 16.22% |
| 2017 | 3,496,819 | 3,496,819 | - | 21,558,687 | 16.22% |
| 2016 | 3,915,838 | 3,915,838 | - | 21,598,665 | 18.13% |
| 2015 | 3,942,152 | 3,942,152 | - | 21,743,806 | 18.13% |
| School Division (Non-Professional Staff) | | | | | |
| 2019** | \$ 43,781 | \$ 43,781 | \$ - | \$ 1,186,477 | 3.69% |
| 2018* | 51,406 | 51,406 | - | 1,187,206 | 4.33% |
| 2017 | 51,554 | 51,554 | - | 1,190,624 | 4.33% |
| 2016 | 92,100 | 92,100 | - | 1,173,248 | 7.85% |
| 2015 | 93,028 | 93,028 | - | 1,185,071 | 7.85% |

Schedule is intended to show information for 10 years. Since 2019 is the fifth year for this presentation, only four additional years of data are available. However, additional years will be included as they become available.

* Revised to reflect actual 2018 amounts as shown in the VRS actuarial report rather than estimated amounts used in the prior year CAFR.

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

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
VRS TEACHER RETIREMENT PLAN
YEAR ENDED JUNE 30, 2019**

| Plan Year Ended June 30 | Employer's Proportion of the Net Pension Liability | Employer's Proportionate Share of the Net Pension Liability | Covered Payroll | Employer's Share of the Net Pension Liability as a % of Covered Payroll | Plan Fiduciary Net Position as a % of the Total Pension Liability |
|-------------------------------|---|---|--------------------|--|--|
| | | (a) | (b) | (a/b) | |
| 2018 | 0.28140% | \$ 33,092,000 | \$ 22,299,761 | 148.40% | 74.81% |
| 2017 | 0.27878% | 34,284,000 | 21,639,120 | 158.44% | 72.92% |
| 2016 | 0.28026% | 39,276,000 | 21,368,521 | 183.80% | 68.28% |
| 2015 | 0.28555% | 35,941,000 | 21,230,718 | 169.29% | 70.68% |
| 2014 | 0.29170% | 35,251,000 | 19,575,450 | 180.08% | 70.88% |

Schedule is intended to show information for 10 years. Since fiscal year 2019 (plan year 2018) is the fifth year for this presentation, only four additional years of data are available. However, additional years will be included as they become available.

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

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
VRS TEACHER RETIREMENT PLAN
YEAR ENDED JUNE 30, 2019**

| Year Ended June 30 | Contractually Required Contribution | Contributions in Relation to Contractually Required Contribution | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a % of Covered Payroll |
|-----------------------|---|--|--|--------------------|--|
| | (a) | (b) | (a-b) | (c) | (b/c) |
| 2019** | \$ 4,006,226 | \$ 4,006,226 | \$ - | \$ 25,549,911 | 15.68% |
| 2018* | 3,639,321 | 3,639,321 | - | 22,299,761 | 16.32% |
| 2017 | 3,172,295 | 3,172,295 | - | 21,639,120 | 14.66% |
| 2016 | 3,004,414 | 3,004,414 | - | 21,368,521 | 14.06% |
| 2015 | 3,078,454 | 3,078,454 | - | 21,230,718 | 14.50% |

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

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
RETIREE HEALTH PLAN
YEAR ENDED JUNE 30, 2019

| | City of Salem | | | School Division | | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2019 | 2018 | 2017 | 2019 | 2018 | 2017 |
| Total OPEB liability | | | | | | |
| Service cost | \$ 319,409 | \$ 376,793 | \$ 352,143 | \$ 73,179 | \$ 71,941 | \$ 67,235 |
| Interest | 1,612,928 | 1,723,845 | 1,688,424 | 158,451 | 151,536 | 145,477 |
| Effect of economic/demographic gains or losses | (2,149,293) | - | - | 17,662 | - | - |
| Effect of assumption changes | (2,370,696) | - | - | (255,288) | - | - |
| Benefit payments | (1,461,997) | (1,589,537) | (1,533,462) | (151,400) | (136,054) | (125,858) |
| Net change in total OPEB liability | (4,049,649) | 511,101 | 507,105 | (157,396) | 87,423 | 86,854 |
| Total OPEB liability - beginning | 25,542,002 | 25,030,901 | 24,523,796 | 2,247,155 | 2,159,732 | 2,072,878 |
| Total OPEB liability - ending | \$ 21,492,353 | \$ 25,542,002 | \$ 25,030,901 | \$ 2,089,759 | \$ 2,247,155 | \$ 2,159,732 |
| Plan fiduciary net position | | | | | | |
| Contributions - employer | \$ 1,698,429 | \$ 1,824,467 | \$ 1,772,562 | \$ 248,535 | \$ 233,189 | \$ 211,531 |
| Net investment income | 289,012 | 527,316 | 601,076 | 59,924 | 105,580 | 116,176 |
| Benefit payments | (1,461,997) | (1,589,537) | (1,533,462) | (151,400) | (136,054) | (125,858) |
| Administrative expense | (7,245) | (6,596) | (5,982) | (1,894) | (1,717) | (1,579) |
| Net change in plan fiduciary net position | 518,199 | 755,650 | 834,194 | 155,165 | 200,998 | 200,270 |
| Plan fiduciary net position - beginning | 6,263,466 | 5,507,816 | 4,673,622 | 1,303,775 | 1,102,777 | 902,507 |
| Plan fiduciary net position - ending | \$ 6,781,665 | \$ 6,263,466 | \$ 5,507,816 | \$ 1,458,940 | \$ 1,303,775 | \$ 1,102,777 |
| Net OPEB liability - ending | \$ 14,710,688 | \$ 19,278,536 | \$ 19,523,085 | \$ 630,819 | \$ 943,380 | \$ 1,056,955 |
| Plan fiduciary net position as a percentage of the total OPEB liability | 31.55% | 24.52% | 22.00% | 69.81% | 58.02% | 51.06% |
| Covered-employee payroll | \$ 23,606,599 | \$ 22,779,070 | \$ 22,779,070 | \$ 23,962,730 | \$ 23,076,891 | \$ 23,076,891 |
| Net OPEB liability as a percentage of covered-employee payroll | 62.32% | 84.63% | 85.71% | 2.63% | 4.09% | 4.58% |
| Annual money-weighted rate of return, net of investment expense | 4.59% | 9.55% | 12.83% | 4.59% | 9.52% | 12.79% |

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

2019 data reflects totals for the City and excludes \$90,024 and \$72,426 of contributions and benefit payments, respectively, of agency entities.

Notes to Schedule:

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

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS
RETIREE HEALTH PLAN
YEAR ENDED JUNE 30, 2019**

| Year Ended June 30 | Actuarially Determined Contribution* | Contributions in Relation to Actuarially Determined Contribution* | Contribution Deficiency (Excess) | Covered Employee Payroll | Contributions as a % of Covered Employee Payroll |
|------------------------|--|---|--|--------------------------------|--|
| | (a) | (b) | (a-b) | (c) | (b/c) |
| City of Salem | | | | | |
| 2019 | \$ 1,111,485 | \$ 1,698,429 | \$ (586,944) | \$ 23,606,599 | 7.19% |
| 2018 | 1,516,523 | 1,824,467 | (307,944) | 22,779,070 | 8.01% |
| 2017 | 1,475,809 | 1,772,562 | (296,753) | 22,779,070 | 7.78% |
| School Division | | | | | |
| 2019 | \$ 114,675 | \$ 248,535 | \$ (133,860) | \$ 23,962,730 | 1.04% |
| 2018 | 140,801 | 233,189 | (92,388) | 23,076,891 | 1.01% |
| 2017 | 136,700 | 211,531 | (74,831) | 23,076,891 | 0.92% |

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* Contribution amounts for the City of Salem do not include contributions for agency fund related entities.

Notes to Schedule

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

Methods and assumptions used to determine contribution rates:

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

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM
YEAR ENDED JUNE 30, 2019

| | School Division Plan Year | |
|--|------------------------------|-------------------|
| | 2018 | 2017 |
| Total HIC OPEB liability | | |
| Service cost | \$ 2,543 | \$ 2,412 |
| Interest | 11,059 | 10,832 |
| Changes in assumptions | - | 370 |
| Differences between expected and actual experience | (20,255) | - |
| Benefit payments | (11,482) | (9,254) |
| Net change in total HIC OPEB liability | (18,135) | 4,360 |
| Total HIC OPEB liability - beginning | 163,729 | 159,369 |
| Total HIC OPEB liability - ending | <u>\$ 145,594</u> | <u>\$ 163,729</u> |
| Plan fiduciary net position | | |
| Contributions - employer | \$ 8,875 | \$ 8,704 |
| Net investment income | 4,693 | 6,952 |
| Benefit payments | (11,482) | (9,254) |
| Administrative expense | (108) | (109) |
| Other | (359) | 359 |
| Net change in plan fiduciary net position | 1,619 | 6,652 |
| Plan fiduciary net position - beginning | 67,711 | 61,059 |
| Plan fiduciary net position - ending | <u>\$ 69,330</u> | <u>\$ 67,711</u> |
| Net OPEB liability - ending | <u>\$ 76,264</u> | <u>\$ 96,018</u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | 47.62% | 41.36% |
| Covered payroll | \$ 1,286,232 | \$ 1,261,449 |
| Net OPEB liability as a percentage of covered payroll | 5.93% | 7.61% |

Schedule is intended to show information for 10 years. Since fiscal year 2019 (plan year 2018) is the second year for this presentation, only one additional year of data is available. However, additional years will be included as they become available.

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

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS
POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM
YEAR ENDED JUNE 30, 2019**

| Year Ended June 30 | Contractually Required Contribution | Contributions in Relation to Contractually Required Contribution | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a % of Covered Payroll |
|-----------------------|---|--|--|--------------------|--|
| | (a) | (b) | (a-b) | (c) | (b/c) |
| 2019** | \$ 7,949 | \$ 7,949 | \$ - | \$ 1,347,288 | 0.59% |
| 2018* | 8,875 | 8,875 | - | 1,286,232 | 0.69% |

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

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
GLI AND TEACHER EMPLOYEE HIC PROGRAMS
YEAR ENDED JUNE 30, 2019**

| Plan Year Ended June 30 | Employer's Proportion of the Net OPEB Liability | Employer's Proportionate Share of the Net OPEB Liability (a) | Covered Payroll (b) | Employer's Share of the Net OPEB Liability as a % of Covered Payroll (a/b) | Plan Fiduciary Net Position as a % of the Total OPEB Liability |
|--|--|---|---------------------------|--|---|
| City of Salem - Group Life Insurance Program | | | | | |
| 2018 | 0.11921% | \$ 1,726,760 | \$ 21,619,344 | 7.99% | 51.22% |
| 2017 | 0.12390% | 1,778,837 | 22,853,532 | 7.78% | 48.86% |
| School Division - Group Life Insurance Program (Non-Professional Staff) | | | | | |
| 2018 | 0.00676% | \$ 102,000 | \$ 1,286,154 | 7.93% | 51.22% |
| 2017 | 0.00687% | 103,000 | 1,268,277 | 8.12% | 48.86% |
| School Division - Group Life Insurance Program (Professional Staff) | | | | | |
| 2018 | 0.11861% | \$ 1,801,000 | \$ 22,553,654 | 7.99% | 51.22% |
| 2017 | 0.11835% | 1,781,000 | 21,829,358 | 8.16% | 48.86% |
| School Division - Teacher Employee Health Insurance Credit Program | | | | | |
| 2018 | 0.27878% | \$ 3,540,000 | \$ 22,545,854 | 15.70% | 8.08% |
| 2017 | 0.27639% | 3,506,000 | 21,812,560 | 16.07% | 7.04% |

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**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS
GLI AND TEACHER EMPLOYEE HIC PROGRAMS
YEAR ENDED JUNE 30, 2019**

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

City of Salem - Group Life Insurance Program

| | | | | | | | | | |
|-------|----|---------|----|---------|----|---|----|------------|-------|
| 2019 | \$ | 118,146 | \$ | 118,146 | \$ | - | \$ | 22,720,385 | 0.52% |
| 2018* | | 112,421 | | 112,421 | | - | | 21,619,344 | 0.52% |

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

| | | | | | | | | | |
|--------|----|-------|----|-------|----|---|----|-----------|-------|
| 2019** | \$ | 6,940 | \$ | 6,940 | \$ | - | \$ | 1,334,615 | 0.52% |
| 2018* | | 6,688 | | 6,688 | | - | | 1,286,154 | 0.52% |

School Division - Group Life Insurance Program (Professional Staff)

| | | | | | | | | | |
|--------|----|---------|----|---------|----|---|----|------------|-------|
| 2019** | \$ | 134,627 | \$ | 134,627 | \$ | - | \$ | 25,889,808 | 0.52% |
| 2018* | | 117,279 | | 117,279 | | - | | 22,553,654 | 0.52% |

School Division - Teacher Employee Health Insurance Credit Program

| | | | | | | | | | |
|--------|----|---------|----|---------|----|---|----|------------|-------|
| 2019** | \$ | 311,291 | \$ | 311,291 | \$ | - | \$ | 25,940,917 | 1.20% |
| 2018* | | 277,314 | | 277,314 | | - | | 22,545,854 | 1.23% |

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

CITY OF SALEM, VIRGINIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2019

1. Changes of Benefit Terms

Pension

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

Other Postemployment Benefits (OPEB)

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

2. Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 – Non-Hazardous Duty:

- Update mortality table
- Lowered in rates of service retirement
- Update withdrawal rates to better fit experience
- Lowered in rates of disability retirement
- No changes to salary rates
- Increase Line of Duty Disability rates
- Applicable to: Pension, GLI OPEB, and HIC OPEB

Largest 10 – Hazardous Duty/Public Safety Employees:

- Update mortality table
- Lowered rates of retirement at older ages
- Update withdrawal rates to better fit experience
- Increased disability rates
- No changes to salary rates
- Increased Line of Duty disability rates
- Applicable to: Pension, GLI OPEB, and LODA OPEB

All Others (Non 10 Largest) – Non-Hazardous Duty:

- Update mortality table
- Lowered rates of retirement at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience
- Lowered disability rates
- No changes to salary rates
- Increased Line of Duty disability rates.
- Applicable to: Pension, GLI OPEB, and HIC OPEB

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

- Update mortality table
- Increased retirement rate at age 50 and lowered rates at older ages
- Update withdrawal rates to better fit experience
- Update disability rates to better fit experience
- No changes to salary rates
- Lowered Line of Duty rate
- Applicable to: Pension, GLI OPEB, and LODA OPEB

CITY OF SALEM, VIRGINIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2019

2. Changes of Assumptions (Continued)

Teacher Cost-Sharing Pool:

- Update mortality table
- Lowered retirement rates at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience
- Update disability rates to better fit experience
- No changes to salary rates
- Applicable to: Pension, GLI OPEB, and HIC OPEB

OTHER SUPPLEMENTARY INFORMATION



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

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2019

| | Enterprise Funds | | |
|--|------------------|--------------------------------|--|
| | Civic Center | Catering and Concessions | Total Nonmajor Proprietary Funds |
| ASSETS AND DEFERRED OUTFLOWS | | | |
| <i>Current assets:</i> | | | |
| Cash and cash equivalents | \$ 7,973 | \$ 6,902 | \$ 14,875 |
| Receivables, net | 34,946 | 29,031 | 63,977 |
| Inventories | - | 27,889 | 27,889 |
| Prepaid items | 105,266 | - | 105,266 |
| Total current assets | 148,185 | 63,822 | 212,007 |
| <i>Capital assets:</i> | | | |
| Nondepreciable | 203,201 | - | 203,201 |
| Depreciable, net | 3,232,304 | 41,793 | 3,274,097 |
| Total capital assets | 3,435,505 | 41,793 | 3,477,298 |
| Total assets | 3,583,690 | 105,615 | 3,689,305 |
| DEFERRED OUTFLOWS OF RESOURCES | 140,439 | 41,146 | 181,585 |
| LIABILITIES | | | |
| <i>Current liabilities:</i> | | | |
| Accounts payable and accrued liabilities | 92,201 | 11,076 | 103,277 |
| Accrued payroll and related liabilities | 75,343 | 35,731 | 111,074 |
| Due to other funds | 1,175,000 | 240,000 | 1,415,000 |
| Unearned revenues | 198,804 | - | 198,804 |
| Compensated absences | 53,669 | 18,708 | 72,377 |
| Total current liabilities | 1,595,017 | 305,515 | 1,900,532 |
| <i>Noncurrent liabilities:</i> | | | |
| Compensated absences | 41,537 | 19,830 | 61,367 |
| Net pension liability | 1,145,084 | 326,652 | 1,471,736 |
| Net OPEB liability | 509,369 | 100,088 | 609,457 |
| Total noncurrent liabilities | 1,695,990 | 446,570 | 2,142,560 |
| Total liabilities | 3,291,007 | 752,085 | 4,043,092 |
| DEFERRED INFLOWS OF RESOURCES | 191,742 | 37,235 | 228,977 |
| NET POSITION | | | |
| Net investment in capital assets | 3,435,505 | 41,793 | 3,477,298 |
| Unrestricted (deficit) | (3,194,125) | (684,352) | (3,878,477) |
| Total net position | \$ 241,380 | \$ (642,559) | \$ (401,179) |

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2019

| | Enterprise Funds | | |
|---|--------------------|--------------------------------|--|
| | Civic Center | Catering and Concessions | Total Nonmajor Proprietary Funds |
| OPERATING REVENUES | | | |
| Charges for services | \$ 2,714,828 | \$ 763,430 | \$ 3,478,258 |
| Commissions | 11,718 | - | 11,718 |
| Other | 19,036 | 15,175 | 34,211 |
| Total operating revenues | <u>2,745,582</u> | <u>778,605</u> | <u>3,524,187</u> |
| OPERATING EXPENSES | | | |
| Salaries | 1,003,284 | 392,113 | 1,395,397 |
| Fringe benefits | 301,453 | 74,959 | 376,412 |
| Show expenses | 2,041,745 | - | 2,041,745 |
| Maintenance | 183,282 | 5,766 | 189,048 |
| Professional services | 7,691 | 8,759 | 16,450 |
| Insurance | 18,991 | 863 | 19,854 |
| Administration | 86,181 | 17,705 | 103,886 |
| Travel and training | 5,348 | - | 5,348 |
| Materials and supplies | 33,193 | 249,427 | 282,620 |
| Expendable equipment and small tools | 3,723 | 2,196 | 5,919 |
| Utilities | 330,405 | 450 | 330,855 |
| Miscellaneous | 61 | 25 | 86 |
| Depreciation | 282,646 | 4,335 | 286,981 |
| Commissions | - | 177,865 | 177,865 |
| Total operating expenses | <u>4,298,003</u> | <u>934,463</u> | <u>5,232,466</u> |
| Operating loss | <u>(1,552,421)</u> | <u>(155,858)</u> | <u>(1,708,279)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Loss on sale of capital assets | - | (3,295) | (3,295) |
| Miscellaneous | 6,882 | - | 6,882 |
| Net nonoperating revenues | <u>6,882</u> | <u>(3,295)</u> | <u>3,587</u> |
| Loss before transfers | <u>(1,545,539)</u> | <u>(159,153)</u> | <u>(1,704,692)</u> |
| Transfers in | 2,034,188 | 162,499 | 2,196,687 |
| Transfers out | <u>(22,000)</u> | <u>-</u> | <u>(22,000)</u> |
| Change in net position | <u>466,649</u> | <u>3,346</u> | <u>469,995</u> |
| Net position, beginning | <u>(225,269)</u> | <u>(645,905)</u> | <u>(871,174)</u> |
| Net position, ending | <u>\$ 241,380</u> | <u>\$ (642,559)</u> | <u>\$ (401,179)</u> |

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2019

| | Enterprise Funds | | |
|---|-----------------------|--------------------------|----------------------------------|
| | Civic Center | Catering and Concessions | Total Nonmajor Proprietary Funds |
| OPERATING ACTIVITIES | | | |
| Receipts from customers | \$ 2,757,859 | \$ 774,490 | \$ 3,532,349 |
| Payments to suppliers | (2,765,180) | (462,444) | (3,227,624) |
| Payments to employees | (1,372,380) | (486,020) | (1,858,400) |
| Other receipts | 19,036 | 15,175 | 34,211 |
| Nonoperating revenue (expense) | 6,882 | - | 6,882 |
| Net cash used in operating activities | <u>(1,353,783)</u> | <u>(158,799)</u> | <u>(1,512,582)</u> |
| NONCAPITAL FINANCING ACTIVITIES | | | |
| Interfund Loan | (465,000) | 20,000 | (445,000) |
| Transfers in | 2,034,188 | 140,499 | 2,174,687 |
| Net cash provided by noncapital financing activities | <u>1,569,188</u> | <u>160,499</u> | <u>1,729,687</u> |
| CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Purchases of capital assets | (212,081) | - | (212,081) |
| Net cash used in capital and related financing activities | <u>(212,081)</u> | <u>-</u> | <u>(212,081)</u> |
| Net increase in cash and cash equivalents | 3,324 | 1,700 | 5,024 |
| Cash and cash equivalents, beginning | 4,649 | 5,202 | 9,851 |
| Cash and cash equivalents, ending | <u>\$ 7,973</u> | <u>\$ 6,902</u> | <u>\$ 14,875</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR IS COMPRISED OF THE FOLLOWING: | | | |
| Cash and investments | \$ 7,973 | \$ 6,902 | \$ 14,875 |
| Total | <u>\$ 7,973</u> | <u>\$ 6,902</u> | <u>\$ 14,875</u> |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES | | | |
| Operating loss | \$ (1,552,421) | \$ (155,858) | \$ (1,708,279) |
| <i>Adjustments to reconcile operating loss to net cash used in operating activities</i> | | | |
| Depreciation | 282,646 | 4,335 | 286,981 |
| Nonoperating revenue (expense) | 6,882 | - | 6,882 |
| Pension expense, net of employer contributions | 75,364 | (1,983) | 73,381 |
| OPEB expense, net of employer contributions | (161,347) | (20,662) | (182,009) |
| <i>Decrease (increase) in assets:</i> | | | |
| Receivables, net | (7,250) | 11,060 | 3,810 |
| Inventories | - | 128 | 128 |
| Prepaid items | (26,274) | - | (26,274) |
| <i>Increase (decrease) in liabilities:</i> | | | |
| Accounts payable and accrued liabilities | (28,286) | 484 | (27,802) |
| Accrued payroll and related liabilities | 17,591 | 11,842 | 29,433 |
| Unearned revenues | 38,563 | - | 38,563 |
| Compensated absences | 749 | (8,145) | (7,396) |
| Net cash used in operating activities | <u>\$ (1,353,783)</u> | <u>\$ (158,799)</u> | <u>\$ (1,512,582)</u> |
| <i>Noncash investing, capital, and financing activities</i> | | | |
| Capital assets financed with accounts payable | \$ 2,200 | \$ - | \$ 2,200 |
| Capital asset transfers | \$ (22,000) | \$ 22,000 | \$ - |

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2019

| | Cardinal Criminal Justice Academy | Court- Community Corrections Program | Total Agency Funds |
|-----------------------------------|--|---|--------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 553,112 | \$ 1,503,209 | \$ 2,056,321 |
| Receivables, net | 261 | 826 | 1,087 |
| Due from Commonwealth of Virginia | - | 61,605 | 61,605 |
| Total assets | <u>\$ 553,373</u> | <u>\$ 1,565,640</u> | <u>\$ 2,119,013</u> |
| LIABILITIES | | | |
| Accounts payable | \$ 13,681 | \$ 36,295 | \$ 49,976 |
| Liability to agency | 539,692 | 1,529,345 | 2,069,037 |
| Total liabilities | <u>\$ 553,373</u> | <u>\$ 1,565,640</u> | <u>\$ 2,119,013</u> |

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
YEAR ENDED JUNE 30, 2019

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deductions</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|-----------------------|---------------------------|
| <u>CARDINAL CRIMINAL JUSTICE ACADEMY</u> | | | | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 503,630 | \$ 689,718 | \$ (640,236) | \$ 553,112 |
| Receivables, net | 42 | 261 | (42) | 261 |
| Total assets | <u>\$ 503,672</u> | <u>\$ 689,979</u> | <u>\$ (640,278)</u> | <u>\$ 553,373</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 7,442 | \$ 96,549 | \$ (90,310) | \$ 13,681 |
| Liability to agency | 496,230 | 593,430 | (549,968) | 539,692 |
| Total liabilities | <u>\$ 503,672</u> | <u>\$ 689,979</u> | <u>\$ (640,278)</u> | <u>\$ 553,373</u> |
| <u>COURT-COMMUNITY CORRECTIONS PROGRAM</u> | | | | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,370,597 | \$ 1,787,511 | \$ (1,654,899) | \$ 1,503,209 |
| Receivables, net | 68 | 826 | (68) | 826 |
| Due from Commonwealth of Virginia | 57,714 | 1,059,175 | (1,055,284) | 61,605 |
| Total assets | <u>\$ 1,428,379</u> | <u>\$ 2,847,512</u> | <u>\$ (2,710,251)</u> | <u>\$ 1,565,640</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 27,554 | \$ 467,425 | \$ (458,684) | \$ 36,295 |
| Liability to agency | 1,400,825 | 2,380,087 | (2,251,567) | 1,529,345 |
| Total liabilities | <u>\$ 1,428,379</u> | <u>\$ 2,847,512</u> | <u>\$ (2,710,251)</u> | <u>\$ 1,565,640</u> |
| <u>TOTAL AGENCY FUNDS</u> | | | | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,874,227 | \$ 2,477,229 | \$ (2,295,135) | \$ 2,056,321 |
| Receivables, net | 110 | 1,087 | (110) | 1,087 |
| Due from Commonwealth of Virginia | 57,714 | 1,059,175 | (1,055,284) | 61,605 |
| Total assets | <u>\$ 1,932,051</u> | <u>\$ 3,537,491</u> | <u>\$ (3,350,529)</u> | <u>\$ 2,119,013</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 34,996 | \$ 563,974 | \$ (548,994) | \$ 49,976 |
| Liability to agency | 1,897,055 | 2,973,517 | (2,801,535) | 2,069,037 |
| Total liabilities | <u>\$ 1,932,051</u> | <u>\$ 3,537,491</u> | <u>\$ (3,350,529)</u> | <u>\$ 2,119,013</u> |

**CITY OF SALEM, VIRGINIA
BALANCE SHEET
ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF SALEM
GOVERNMENTAL FUND
JUNE 30, 2019**

ASSETS

| | |
|---------------------------|-------------------------|
| Cash and cash equivalents | \$ 8,231 |
| Receivables, net | <u>3,310,037</u> |
| Total assets | <u><u>3,318,268</u></u> |

LIABILITIES

| | |
|---------------------------|-------------------------|
| Due to primary government | <u>3,273,104</u> |
| Total liabilities | <u><u>3,273,104</u></u> |

FUND BALANCE

| | |
|--------------------|----------------------|
| Unassigned | <u>45,164</u> |
| Total fund balance | <u><u>45,164</u></u> |

| | |
|------------------------------------|----------------------------|
| Total liabilities and fund balance | <u><u>\$ 3,318,268</u></u> |
|------------------------------------|----------------------------|

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF SALEM
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2019

REVENUES

| | |
|-------------------|----------------|
| Intergovernmental | \$ 508,618 |
| Total revenues | <u>508,618</u> |

EXPENDITURES

| | |
|-----------------------|----------------|
| Community development | <u>464,871</u> |
| Total expenditures | <u>464,871</u> |

| | |
|----------------------------|---------------|
| Net change in fund balance | <u>43,747</u> |
|----------------------------|---------------|

| | |
|--------------------------------|-------------------------|
| Fund balance, beginning | <u>1,417</u> |
| Fund balance, ending | <u><u>\$ 45,164</u></u> |



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..... | 132 |
| <i>These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</i> | |
| Revenue Capacity..... | 137 |
| <i>These schedules contain information to help the reader assess the City's most significant local revenue sources, property tax and sale of electricity.</i> | |
| Debt Capacity..... | 140 |
| <i>These schedules present information to help the reader assess the affordability of the City's current level of outstanding debt and the government's ability to issue additional debt in the future.</i> | |
| Demographic and Economic Information..... | 142 |
| <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.</i> | |
| Operating Information..... | 144 |
| <i>These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the government provides and the activities it performs.</i> | |

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TABLE 1
UNAUDITEDCITY OF SALEM, VIRGINIA
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | | (1) | | (2), (3) | (2), (3), (4) | (3), (5) | (3) | (3) | | |
| Governmental Activities | | | | | | | | | | |
| Net investment in capital assets | \$ 75,906,865 | \$ 75,637,028 | \$ 76,704,584 | \$ 80,613,041 | \$ 82,468,633 | \$ 84,803,933 | \$ 87,305,352 | \$ 87,296,728 | \$ 88,456,284 | \$ 90,258,361 |
| Restricted | 5,868,862 | 4,211,042 | 4,247,628 | 1,962,017 | 4,246,340 | 2,987,926 | 1,896,959 | 1,260,230 | 1,416,694 | - |
| Unrestricted | (21,585,631) | (30,860,648) | (24,252,734) | (33,750,410) | (44,779,654) | (22,664,736) | (20,157,809) | (10,590,213) | (12,606,292) | (9,373,128) |
| Total governmental net position | \$ 60,190,096 | \$ 48,987,422 | \$ 56,699,478 | \$ 48,824,648 | \$ 41,935,319 | \$ 65,127,123 | \$ 69,044,502 | \$ 77,966,745 | \$ 77,266,686 | \$ 80,885,233 |
| Business-type activities | | | | | | | | | | |
| Net investment in capital assets | \$ 52,850,038 | \$ 49,386,338 | \$ 46,775,751 | \$ 44,477,804 | \$ 42,195,035 | \$ 42,936,315 | \$ 43,413,519 | \$ 44,265,414 | \$ 44,172,488 | \$ 43,180,397 |
| Restricted | - | - | - | - | - | - | - | - | 1,989,529 | - |
| Unrestricted | 42,561,767 | 37,549,539 | 34,837,935 | 29,574,731 | 24,406,951 | 27,531,700 | 24,273,387 | 18,453,692 | 18,896,375 | 20,437,874 |
| Total business-type activities net position | \$ 95,411,805 | \$ 86,935,877 | \$ 81,613,686 | \$ 74,052,535 | \$ 66,601,986 | \$ 70,468,015 | \$ 67,686,906 | \$ 62,719,106 | \$ 65,058,392 | \$ 63,618,271 |
| Primary Government | | | | | | | | | | |
| Net investment in capital assets | \$ 128,756,903 | \$ 125,023,367 | \$ 123,480,335 | \$ 125,090,845 | \$ 124,663,668 | \$ 127,740,248 | \$ 130,718,871 | \$ 131,562,142 | \$ 132,628,772 | \$ 133,438,758 |
| Restricted | 5,868,862 | 4,211,042 | 4,247,628 | 1,962,017 | 4,246,340 | 2,987,926 | 1,896,959 | 1,260,230 | 3,406,223 | - |
| Unrestricted | 20,976,136 | 6,688,890 | 10,585,201 | (4,175,679) | (20,372,703) | 4,866,964 | 4,115,578 | 7,863,479 | 6,290,083 | 11,064,746 |
| Total Primary Government net position | \$ 155,601,901 | \$ 135,923,299 | \$ 138,313,164 | \$ 122,877,183 | \$ 108,537,305 | \$ 135,595,138 | \$ 136,731,408 | \$ 140,685,651 | \$ 142,325,078 | \$ 144,503,504 |

Notes:

Source: City of Salem Finance Department

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

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

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

(4) In 2015, the City implemented GASB Statement No. 68 requiring recognition of the net pension liability.

(5) In 2014, the City implemented GASB Statement No. 65 requiring debt issuance costs to be expensed as incurred and also segregated health insurance into internal service funds.

TABLE 2
UNAUDITED

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

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | | | | (1), (2) | (1), (2) | (2), (3), (4) | (2), (5) | (2) | | |
| Expenses | | | | | | | | | | |
| <i>Governmental activities:</i> | | | | | | | | | | |
| General government | \$ 5,999,310 | \$ 6,388,884 | \$ 6,864,181 | \$ 5,943,899 | \$ 6,335,563 | \$ 6,248,574 | \$ 6,450,069 | \$ 6,583,782 | \$ 6,110,416 | \$ 5,328,382 |
| Judicial administration | 2,019,802 | 2,009,007 | 2,072,538 | 1,934,263 | 1,921,789 | 2,026,034 | 1,952,657 | 1,866,052 | 1,887,444 | 1,779,072 |
| Public safety | 15,953,011 | 15,776,102 | 17,011,463 | 15,753,795 | 16,192,190 | 17,532,682 | 17,279,490 | 16,492,831 | 15,818,359 | 15,330,477 |
| Public works | 9,434,930 | 11,617,750 | 12,228,329 | 16,652,913 | 12,758,967 | 13,399,134 | 13,809,579 | 14,421,981 | 13,915,318 | 14,019,163 |
| Health and welfare | 4,014,354 | 3,318,498 | 3,026,330 | 2,974,663 | 3,050,634 | 2,578,984 | 2,709,561 | 2,430,955 | 2,738,894 | 2,333,736 |
| Education | 21,032,249 | 20,170,298 | 19,760,242 | 19,739,512 | 19,151,270 | 25,103,243 | 30,295,228 | 18,471,653 | 18,420,000 | 18,420,000 |
| Parks, recreation and cultural | 6,300,706 | 6,129,809 | 5,937,858 | 5,335,902 | 5,127,367 | 5,279,886 | 5,436,335 | 5,284,647 | 5,495,431 | 5,064,065 |
| Community development | 3,173,232 | 3,429,290 | 3,296,760 | 2,107,808 | 2,006,736 | 2,388,701 | 2,327,751 | 2,076,325 | 1,834,749 | 1,725,528 |
| Interest and other fiscal changes | 1,008,095 | 950,247 | 988,059 | 1,011,115 | 1,093,989 | 1,118,286 | 1,060,727 | 988,094 | 1,151,867 | 1,137,667 |
| Total governmental activities | 68,935,689 | 69,789,885 | 71,185,760 | 71,453,870 | 67,638,505 | 75,675,524 | 81,321,397 | 68,616,320 | 67,372,478 | 65,138,090 |
| <i>Business-type activities:</i> | | | | | | | | | | |
| Electric | 33,022,574 | 31,361,242 | 31,628,232 | 30,200,956 | 33,901,497 | 34,182,987 | 33,171,403 | 36,047,453 | 35,145,346 | 30,978,370 |
| Water and sewage | 9,538,640 | 9,206,719 | 9,776,628 | 10,000,056 | 10,568,840 | 10,999,420 | 10,671,798 | 10,952,702 | 11,034,638 | 11,065,592 |
| Civic Center | 4,291,121 | 4,708,634 | 4,046,125 | 4,103,577 | 2,888,263 | 2,600,249 | 2,838,499 | 2,472,731 | 2,374,165 | 2,332,330 |
| Catering and concessions | 937,758 | 981,396 | 933,894 | 980,147 | 851,760 | 856,866 | 849,306 | 903,039 | 878,171 | 965,556 |
| Total business-type activities | 47,790,093 | 46,257,991 | 46,384,879 | 45,284,736 | 48,210,360 | 48,639,522 | 47,531,006 | 50,375,925 | 49,432,320 | 45,341,848 |
| Total Primary Government | \$ 116,725,782 | \$ 116,047,876 | \$ 117,570,639 | \$ 116,738,606 | \$ 115,848,865 | \$ 124,315,046 | \$ 128,852,403 | \$ 118,992,245 | \$ 116,804,798 | \$ 110,479,938 |
| Program revenues | | | | | | | | | | |
| <i>Governmental activities:</i> | | | | | | | | | | |
| Charges for services | \$ 1,487,180 | \$ 1,358,612 | \$ 1,237,985 | \$ 1,281,509 | \$ 1,237,901 | \$ 1,103,765 | \$ 1,069,969 | \$ 991,473 | \$ 911,073 | \$ 900,837 |
| Public safety | 1,488,934 | 1,528,945 | 2,563,620 | 4,706,219 | 4,351,157 | 3,695,667 | 3,523,970 | 3,560,239 | 3,418,637 | 3,248,138 |
| Public works | 981,634 | 1,162,193 | 1,254,639 | 779,384 | 849,596 | 1,009,342 | 1,034,129 | 1,005,691 | 782,662 | 716,248 |
| Other activities | 8,466,964 | 8,207,848 | 8,318,690 | 7,623,373 | 7,567,973 | 6,975,699 | 7,436,195 | 7,124,704 | 7,159,171 | 6,827,928 |
| Operating grants and contributions | 566,366 | 1,403,327 | 202,451 | 80,406 | 192,430 | 391,399 | 2,003,251 | 595,986 | 1,517,633 | 2,709,381 |
| Capital grants and contributions | 12,991,078 | 13,660,925 | 13,577,385 | 14,470,891 | 14,199,057 | 13,175,872 | 15,067,514 | 13,278,093 | 13,789,176 | 14,402,532 |
| Total governmental activities | 39,719,859 | 40,153,923 | 39,437,330 | 38,080,149 | 39,715,705 | 39,861,201 | 40,280,161 | 36,824,320 | 35,726,379 | 32,915,660 |
| Charges for services | 14,165,379 | 14,009,576 | 13,530,659 | 13,537,310 | 13,658,281 | 12,645,216 | 11,729,755 | 11,114,241 | 9,988,563 | 10,329,200 |
| Water and sewage | 2,745,582 | 3,106,144 | 2,475,661 | 2,313,348 | 799,948 | 934,047 | 775,437 | 880,306 | 912,697 | 865,314 |
| Civic Center | 778,605 | 922,287 | 819,571 | 935,973 | 791,311 | 779,220 | 781,469 | 856,919 | 858,714 | 940,834 |
| Catering and concessions | - | - | - | - | 47,196 | 27,380 | - | - | 39,929 | - |
| Capital grants and contributions | - | 124,385 | - | - | - | - | - | - | - | - |
| Electric | - | 51,133 | - | - | - | - | - | - | - | - |
| Civic Center | - | - | - | - | - | 21,671 | - | 13,222 | - | - |
| Water and sewage | 57,409,425 | 58,367,448 | 56,263,221 | 54,866,780 | 55,012,441 | 54,268,735 | 53,566,822 | 49,689,008 | 47,526,282 | 45,051,008 |
| Total business-type activities | \$ 70,400,503 | \$ 72,028,373 | \$ 69,840,606 | \$ 69,337,671 | \$ 69,211,498 | \$ 67,444,607 | \$ 68,634,336 | \$ 62,967,101 | \$ 61,315,458 | \$ 59,453,540 |
| Total Primary Government | | | | | | | | | | |

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Net (expense) revenue | | | | | | | | | | |
| Total governmental activities | \$ (55,944,611) | \$ (56,128,960) | \$ (57,608,375) | \$ (56,982,979) | \$ (53,439,448) | \$ (62,499,652) | \$ (66,253,883) | \$ (55,338,227) | \$ (53,583,302) | \$ (50,735,558) |
| Total business-type activities | 9,619,332 | 12,109,457 | 9,878,342 | 9,582,044 | 6,802,081 | 5,629,213 | 6,035,816 | (686,917) | (1,906,038) | (290,840) |
| Total primary government | <u>\$ (46,325,279)</u> | <u>\$ (44,019,503)</u> | <u>\$ (47,730,033)</u> | <u>\$ (47,400,935)</u> | <u>\$ (46,637,367)</u> | <u>\$ (56,870,439)</u> | <u>\$ (60,218,067)</u> | <u>\$ (56,025,144)</u> | <u>\$ (55,489,340)</u> | <u>\$ (51,026,398)</u> |
| General Revenues and Other Changes in Net Position | | | | | | | | | | |
| <i>Governmental activities:</i> | | | | | | | | | | |
| Taxes | | | | | | | | | | |
| Property taxes | \$ 36,825,133 | \$ 35,688,231 | \$ 35,631,665 | \$ 34,610,154 | \$ 33,371,609 | \$ 32,666,172 | \$ 32,272,995 | \$ 32,480,280 | \$ 32,068,912 | \$ 31,477,369 |
| Local sales and use taxes | 7,296,272 | 7,015,296 | 7,174,034 | 6,638,448 | 6,688,509 | 6,432,110 | 6,083,030 | 5,891,941 | 5,707,813 | 5,492,934 |
| Business license tax | 5,615,337 | 5,333,382 | 5,320,865 | 5,391,215 | 5,088,724 | 5,078,755 | 5,107,983 | 4,751,638 | 4,564,531 | 4,421,129 |
| Meals tax | 5,085,168 | 4,802,780 | 4,718,631 | 4,715,137 | 4,464,873 | 4,277,741 | 4,118,041 | 3,242,532 | 2,551,880 | 2,429,239 |
| Utility taxes | 1,203,020 | 1,208,943 | 1,182,963 | 1,169,894 | 1,217,299 | 1,150,691 | 1,153,190 | 1,124,383 | 1,123,400 | 1,105,818 |
| Other taxes | 4,042,474 | 3,997,697 | 3,908,064 | 3,869,411 | 3,497,219 | 3,184,568 | 2,924,694 | 2,604,603 | 2,805,271 | 2,684,054 |
| Intergovernmental revenue not restricted | 3,951,338 | 3,952,121 | 3,941,937 | 3,969,413 | 3,942,960 | 3,961,782 | 3,859,380 | 3,747,854 | 3,747,722 | 3,735,738 |
| Unrestricted investment earnings | 994,037 | 752,672 | 554,437 | 269,350 | 164,585 | 143,186 | 134,650 | 127,210 | 129,640 | 132,522 |
| Gain on sale of property | 44,471 | 35,647 | 20,985 | 100,081 | 389,290 | 33,051 | 1,198 | - | - | - |
| Other | 757,329 | 626,372 | 676,502 | 986,182 | 586,008 | 554,303 | 606,657 | 411,355 | 603,696 | 324,136 |
| Transfers | 1,332,706 | 2,008,304 | 2,353,122 | 2,133,023 | 2,266,120 | 1,694,330 | 1,069,822 | 1,656,490 | (3,338,110) | 575,667 |
| Total governmental activities | <u>67,147,285</u> | <u>65,421,445</u> | <u>65,483,205</u> | <u>63,872,308</u> | <u>61,677,196</u> | <u>59,176,689</u> | <u>57,331,640</u> | <u>56,038,286</u> | <u>49,964,755</u> | <u>52,378,606</u> |
| <i>Business-type activities:</i> | | | | | | | | | | |
| Unrestricted investment earnings | 189,302 | 78,511 | 35,931 | 93 | 158 | 172 | 168 | 4,121 | 8,049 | 23,297 |
| Gain on sale of property | - | 8,483 | - | 1,435 | 8,225 | 5,013 | 1,638 | - | - | - |
| Other | - | - | - | - | - | - | - | - | - | 346,520 |
| Transfers | (1,332,706) | (2,008,304) | (2,353,122) | (2,133,023) | (2,266,120) | (1,694,330) | (1,069,822) | (1,656,490) | 3,338,110 | (575,667) |
| Total business-type activities | <u>(1,143,404)</u> | <u>(1,921,310)</u> | <u>(2,317,191)</u> | <u>(2,131,495)</u> | <u>(2,257,737)</u> | <u>(1,689,145)</u> | <u>(1,068,016)</u> | <u>(1,652,369)</u> | <u>3,346,159</u> | <u>(205,850)</u> |
| Total Primary Government | <u>\$ 66,003,881</u> | <u>\$ 63,500,135</u> | <u>\$ 63,166,014</u> | <u>\$ 61,740,813</u> | <u>\$ 59,419,459</u> | <u>\$ 57,487,544</u> | <u>\$ 56,263,624</u> | <u>\$ 54,385,917</u> | <u>\$ 53,310,914</u> | <u>\$ 52,172,756</u> |
| Changes in Net Position | | | | | | | | | | |
| Total governmental activities | \$ 11,202,674 | \$ 9,292,485 | \$ 7,874,830 | \$ 6,889,329 | \$ 8,237,748 | \$ (3,322,963) | \$ (8,922,243) | \$ 700,059 | \$ (3,618,547) | \$ 1,643,048 |
| Total business-type activities | 8,475,928 | 10,188,147 | 7,561,151 | 7,450,549 | 4,544,344 | 3,940,068 | 4,967,800 | (2,339,286) | 1,440,121 | (496,690) |
| Total Primary Government | <u>\$ 19,678,602</u> | <u>\$ 19,480,632</u> | <u>\$ 15,435,981</u> | <u>\$ 14,339,878</u> | <u>\$ 12,782,092</u> | <u>\$ 617,105</u> | <u>\$ (3,954,443)</u> | <u>\$ (1,639,227)</u> | <u>\$ (2,178,426)</u> | <u>\$ 1,146,358</u> |

Notes:

Source: City of Salem Finance Department

- (1) Interest and other fiscal charges of governmental activities and Electric expenses of business-type activities were restated to record amortization of the deferred loss on refunding of debt from the 2015 refunding bonds.
- (2) Interest and other fiscal charges of governmental activities was restated to record amortization of the deferred loss on refunding on debt from the 2011 refunding bonds.
- (3) Education expenses of governmental activities includes \$5,481,200 of bond funds transferred to the School Division to fund capital projects.
- (4) In 2014, the City implemented GASB Statement No. 65 requiring debt issuance costs to be expensed as incurred and also segregated health insurance into internal service funds.
- (5) Education expenses of governmental activities includes \$9,518,800 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

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|--------------|--------------|--------------|--------------|
| Post-GASB 54 implementation: | | | | | | (1) | | | |
| General Fund | | | | | | | | | |
| Nonspendable | \$ 862,437 | \$ 694,658 | \$ 588,204 | \$ 567,605 | \$ 514,556 | \$ 421,117 | \$ 447,097 | \$ 497,206 | \$ 554,962 |
| Restricted | 5,868,862 | 4,071,765 | 4,245,248 | 1,959,638 | 4,180,415 | 2,661,958 | 1,896,731 | 1,244,986 | 1,287,008 |
| Committed | 110,092 | 94,789 | 89,261 | 76,219 | - | - | - | 519,817 | - |
| Assigned | 697,043 | 741,677 | 672,251 | 743,727 | 505,633 | 465,178 | 941,626 | 1,256,103 | 1,588,768 |
| Unassigned | 32,652,599 | 28,803,322 | 22,212,433 | 15,701,124 | 9,797,393 | 5,271,609 | 3,517,718 | 3,469,721 | 3,351,935 |
| Total General Fund | \$ 40,191,033 | \$ 34,406,211 | \$ 27,807,397 | \$ 19,048,313 | \$ 14,997,997 | \$ 8,819,862 | \$ 6,803,172 | \$ 6,987,833 | \$ 6,782,673 |
| All Other Governmental Funds | | | | | | | | | |
| Restricted | \$ 1,983,825 | \$ 935,933 | \$ 2,894,061 | \$ 4,193,169 | \$ 65,925 | \$ 325,968 | \$ 228 | \$ 15,244 | \$ 129,686 |
| Committed | - | - | 54,458 | 81,754 | 96,503 | 125,651 | 115,000 | 39,436 | - |
| Assigned | 736,959 | 551,356 | 342,149 | 63,848 | - | 8,291 | - | - | - |
| Unassigned | - | - | - | - | - | - | (432,316) | - | - |
| Total all other governmental funds | \$ 2,720,784 | \$ 1,487,289 | \$ 3,290,668 | \$ 4,338,771 | \$ 162,428 | \$ 459,910 | \$ (317,088) | \$ 54,680 | \$ 129,686 |
| Pre-GASB 54 implementation: | 2010 | | | | | | | | |
| General Fund | | | | | | | | | |
| Reserved | \$ 1,038,347 | | | | | | | | |
| Unreserved | 5,183,434 | | | | | | | | |
| Total General Fund | \$ 6,221,781 | | | | | | | | |
| All Other Governmental Funds | | | | | | | | | |
| Reserved | \$ 784,005 | | | | | | | | |
| Unreserved, reported in: | | | | | | | | | |
| Capital Projects Fund | (1,051,141) | | | | | | | | |
| Total all other governmental funds | \$ (267,136) | | | | | | | | |

Note:

Source: City of Salem Finance Department
FY2011 was the first year the City implemented GASB Statement No. 54, which revised fund balance classifications.

(1) In 2014, the City segregated health insurance into internal service funds.

TABLE 4
UNAUDITEDCITY OF SALEM, VIRGINIA
CHANGES IN FUND BALANCE, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Revenues | | | | | (1) | (1) | (2) | | | |
| Taxes | \$ 60,404,459 | \$ 58,583,459 | \$ 58,668,891 | \$ 57,116,158 | \$ 54,697,901 | \$ 53,203,553 | \$ 52,276,472 | \$ 50,284,343 | \$ 48,794,986 | \$ 47,592,620 |
| Permits, fees and licenses | 343,811 | 313,860 | 277,582 | 394,968 | 394,827 | 218,804 | 198,742 | 202,342 | 218,094 | 243,035 |
| Fines and forfeitures | 109,705 | 137,911 | 145,820 | 116,417 | 127,002 | 126,761 | 153,584 | 160,816 | 164,161 | 159,179 |
| Revenue from use of money and property | 1,293,449 | 1,049,368 | 842,624 | 531,379 | 511,980 | 697,565 | 697,140 | 642,067 | 677,805 | 465,564 |
| Charges for services | 3,212,585 | 3,118,065 | 4,192,436 | 6,075,639 | 5,632,172 | 4,956,368 | 4,925,221 | 4,700,364 | 4,463,860 | 4,282,550 |
| Other | 250,381 | 496,510 | 409,131 | 357,115 | 153,748 | 160,095 | 247,149 | 104,701 | 284,324 | 172,872 |
| Intergovernmental | 13,165,857 | 13,360,836 | 12,652,827 | 11,603,416 | 11,638,740 | 11,289,569 | 13,129,214 | 11,462,504 | 12,562,674 | 12,525,033 |
| Total revenues | 78,780,247 | 77,060,009 | 77,189,311 | 76,195,092 | 73,156,370 | 70,652,715 | 71,627,522 | 67,557,137 | 67,165,904 | 65,440,853 |
| Expenditures | | | | | | | | | | |
| General government | 6,152,838 | 5,679,004 | 6,410,086 | 5,918,110 | 6,062,763 | 5,689,510 | 5,881,344 | 5,792,852 | 4,900,770 | 5,232,405 |
| Judicial administration | 2,092,625 | 2,033,068 | 2,018,898 | 2,026,255 | 1,913,666 | 1,919,961 | 1,866,050 | 1,801,429 | 1,788,821 | 1,695,531 |
| Public safety | 16,112,960 | 15,741,300 | 16,403,627 | 15,624,899 | 15,779,717 | 16,358,165 | 16,371,685 | 15,353,250 | 14,792,022 | 14,359,932 |
| Public works | 8,289,463 | 9,796,765 | 8,452,569 | 14,672,498 | 10,709,120 | 11,087,740 | 11,502,485 | 11,988,380 | 11,656,775 | 11,101,013 |
| Health and welfare | 3,877,830 | 3,202,498 | 2,909,343 | 2,827,459 | 2,900,389 | 2,465,194 | 2,672,631 | 2,391,628 | 2,682,090 | 2,293,464 |
| Education | 21,026,377 | 20,170,298 | 19,760,242 | 19,739,512 | 19,151,270 | 25,103,243 | 30,295,228 | 18,471,653 | 18,420,000 | 18,420,000 |
| Parks, recreation and cultural | 5,225,517 | 5,106,766 | 5,071,566 | 4,482,414 | 4,401,263 | 4,323,040 | 4,508,319 | 4,403,170 | 4,203,452 | 4,204,705 |
| Community development | 4,582,992 | 3,340,911 | 3,178,844 | 1,087,606 | 1,062,184 | 857,219 | 829,081 | 981,483 | 879,709 | 618,217 |
| Non-departmental | 2,018,406 | 1,978,778 | 2,085,343 | 3,240,075 | 3,248,409 | 2,759,940 | 2,867,807 | 2,658,955 | 2,908,441 | 2,579,752 |
| Capital projects | 4,886,835 | 3,302,614 | 1,674,861 | 2,187,595 | 697,503 | 1,788,469 | 2,377,884 | 1,571,118 | 3,703,365 | 2,350,384 |
| Debt service: | | | | | | | | | | |
| Principal retirement | 3,056,511 | 3,055,319 | 3,082,999 | 2,988,314 | 3,018,738 | 2,647,514 | 7,765,685 | 2,623,661 | 2,606,810 | 2,593,118 |
| Interest | 831,282 | 908,720 | 960,419 | 941,386 | 1,101,829 | 980,558 | 824,824 | 970,434 | 930,767 | 1,029,641 |
| Bond issuance cost | 73,849 | - | - | 32,987 | 10,377 | 15,500 | 45,750 | 31,900 | 117,689 | - |
| Total expenditures | 78,227,485 | 74,316,041 | 72,008,797 | 75,969,110 | 70,057,228 | 75,996,053 | 87,808,773 | 69,039,913 | 69,590,711 | 66,477,162 |
| Excess (deficiency) of revenues over (under) expenditures | 552,762 | 2,743,968 | 5,180,514 | 225,982 | 3,099,142 | (5,343,338) | (16,181,251) | (1,482,776) | (2,424,807) | (1,036,309) |
| Other Financing Sources (Uses) | | | | | | | | | | |
| Issuance of long-term debt | 5,025,000 | - | - | 5,281,400 | - | 7,275,000 | 9,518,800 | - | 6,540,000 | - |
| Issuance of refunding bonds | - | - | - | - | 1,932,097 | - | 5,036,200 | 9,485,000 | 3,339,279 | - |
| Payment to refunded bond escrow agent | - | - | - | - | (1,921,720) | - | - | (9,513,728) | (3,430,000) | - |
| Premium on sale of bonds | - | - | - | - | - | - | - | - | 248,757 | - |
| Discount on sale of bonds | - | - | - | - | - | - | - | - | (48,989) | - |
| Proceeds from sale of capital assets | 41,167 | 34,084 | 177,345 | 211,254 | 505,014 | - | - | - | - | - |
| Issuance of capital leases | - | - | - | 375,000 | - | - | - | - | - | - |
| Insurance recoveries | 66,682 | 9,079 | - | - | - | - | - | - | - | - |
| Transfers in | 7,552,251 | 7,383,186 | 7,676,999 | 7,930,241 | 7,766,233 | 6,832,903 | 5,626,851 | 6,458,723 | 5,683,661 | 4,985,609 |
| Transfers out | (6,219,545) | (5,374,882) | (5,323,877) | (5,797,218) | (5,500,113) | (5,131,569) | (4,557,029) | (4,817,065) | (8,950,187) | (4,496,102) |
| Total other financing sources, net | 6,465,555 | 2,051,467 | 2,530,467 | 8,000,677 | 2,781,511 | 8,976,334 | 15,624,822 | 1,612,930 | 3,382,521 | 489,507 |
| Net change in fund balances | \$ 7,018,317 | \$ 4,795,435 | \$ 7,710,981 | \$ 8,226,659 | \$ 5,880,653 | \$ 3,632,996 | \$ (556,429) | \$ 130,154 | \$ 957,714 | \$ (546,802) |
| Debt service as a percentage of noncapital expenditures | 5.53% | 5.62% | 5.87% | 5.44% | 6.06% | 4.93% | 10.16% | 5.37% | 5.39% | 5.76% |

Notes:

Source: City of Salem Finance Department

(1) In 2014, the City segregated health insurance into internal service funds.

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

TABLE 5
UNAUDITED

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

| Fiscal Year | Real Estate | | | Personal Property | | | Machinery and Tools | | | Public Service Corporation | | | Mobile Homes | | | Total Taxable | | | Total Direct Tax Rate |
|-------------|------------------|-----|---------|-------------------|-----|---------|---------------------|-----|---------|----------------------------|-----|---------|----------------|-----|---------|------------------|-----|---------|-----------------------|
| | Assessed Value | Tax | Rate | Assessed Value | Tax | Rate | Assessed Value | Tax | Rate | Assessed Value | Tax | Rate | Assessed Value | Tax | Rate | Assessed Value | Tax | Rate | |
| 2019 | \$ 2,144,567,539 | | \$ 1.18 | \$ 310,426,127 | | \$ 3.25 | \$ 91,646,255 | | \$ 3.20 | \$ 53,418,469 | | \$ 1.18 | \$ 749,392 | | \$ 1.18 | \$ 2,600,807,782 | | \$ 1.51 | |
| 2018 | 2,092,863,676 | | 1.18 | 306,890,700 | | 3.25 | 97,999,444 | | 3.20 | 51,247,569 | | 1.18 | 816,174 | | 1.18 | 2,549,817,563 | | 1.50 | |
| 2017 | 2,054,446,049 | | 1.18 | 312,495,313 | | 3.25 | 89,186,639 | | 3.20 | 44,507,648 | | 1.18 | 984,368 | | 1.18 | 2,501,620,017 | | 1.51 | |
| 2016 | 2,022,951,024 | | 1.18 | 295,173,346 | | 3.25 | 91,322,128 | | 3.20 | 41,308,358 | | 1.18 | 1,059,063 | | 1.18 | 2,451,813,919 | | 1.50 | |
| 2015 | 2,012,050,247 | | 1.18 | 282,311,121 | | 3.25 | 91,977,805 | | 3.20 | 40,513,445 | | 1.18 | 1,195,515 | | 1.18 | 2,428,048,133 | | 1.50 | |
| 2014 | 2,003,007,334 | | 1.18 | 276,846,201 | | 3.20 | 91,226,535 | | 3.20 | 41,408,575 | | 1.18 | 1,249,050 | | 1.18 | 2,413,737,695 | | 1.49 | |
| 2013 | 1,997,447,800 | | 1.18 | 267,755,307 | | 3.20 | 84,169,172 | | 3.20 | 42,281,759 | | 1.18 | 1,431,949 | | 1.18 | 2,393,085,987 | | 1.47 | |
| 2012 | 1,977,986,400 | | 1.18 | 267,877,285 | | 3.20 | 90,287,324 | | 3.20 | 37,468,284 | | 1.18 | 1,668,743 | | 1.18 | 2,375,288,036 | | 1.48 | |
| 2011 | 1,973,655,843 | | 1.18 | 265,450,351 | | 3.20 | 80,706,659 | | 3.20 | 37,993,502 | | 1.18 | 1,460,966 | | 1.18 | 2,359,267,321 | | 1.48 | |
| 2010 | 1,940,941,700 | | 1.18 | 262,153,501 | | 3.20 | 79,120,695 | | 3.20 | 36,874,789 | | 1.18 | 1,543,032 | | 1.18 | 2,320,633,717 | | 1.48 | |

Note:

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

TABLE 6
UNAUDITED

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

| Calendar Year Ended December 31, | Taxes Levied for the Calendar Year | Collected within the | | Supplemental Assessments & Exonerations Levied in Subsequent Years | Collections in Subsequent Years | Total Collections to Date | |
|--|--|---------------------------|---------|--|---------------------------------------|---------------------------|-----------------------|
| | | Calendar Year of the Levy | | | | Amount | Percentage of Levy |
| | | Amount | of Levy | | | | |
| 2019 | \$ 36,274,839 | \$ 35,191,478 | 97.01% | \$ - | - | \$ 35,191,478 | 97.01% |
| 2018 | 35,837,963 | 34,375,408 | 95.92% | 4,215 | 1,218,364 | 35,593,772 | 99.31% |
| 2017 | 35,253,119 | 34,012,836 | 96.48% | (80,229) | 1,043,320 | 35,056,156 | 99.67% |
| 2016 | 33,896,364 | 32,608,317 | 96.20% | (18,063) | 1,194,260 | 33,802,577 | 99.78% |
| 2015 | 33,407,499 | 31,903,905 | 95.50% | (62,546) | 1,319,941 | 33,223,846 | 99.64% |
| 2014 | 32,905,743 | 31,229,276 | 94.91% | (83,736) | 1,545,511 | 32,774,787 | 99.86% |
| 2013 | 32,537,416 | 30,854,728 | 94.83% | 64,769 | 1,683,645 | 32,538,373 | 99.80% |
| 2012 | 32,672,916 | 31,351,991 | 95.96% | 32,561 | 1,324,039 | 32,676,030 | 99.91% |
| 2011 | 32,104,079 | 30,836,144 | 96.05% | 105,503 | 1,290,264 | 32,126,408 | 99.74% |
| 2010 | 31,627,310 | 30,440,194 | 96.25% | 309,847 | 1,448,769 | 31,888,963 | 99.85% |

Note:

Source: City of Salem Finance Department

**TABLE 7
UNAUDITED**

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

| Taxpayer | 2019 | | | 2010 | | |
|--|------------------------|------|---|------------------------|------|---|
| | Taxable Assessed Value | Rank | Percentage of Total City Taxable Assessed Value | Taxable Assessed Value | Rank | Percentage of Total City Taxable Assessed Value |
| Lewis-Gale Medical Center LLC (1) | \$63,806,400 | 1 | 2.89% | \$ 36,118,600 | 1 | 1.85% |
| Yokohama Industries | 14,940,900 | 2 | 0.68% | 16,142,400 | 3 | 0.83% |
| Lowes/VALO LLC | 13,174,100 | 3 | 0.60% | 12,462,800 | 4 | 0.64% |
| Spartan Square | 11,617,600 | 4 | 0.53% | 8,754,300 | 8 | 0.45% |
| Carter Machinery/Carthy Corp/Mount Sinai | 11,452,100 | 5 | 0.52% | 7,586,000 | 9 | 0.39% |
| U.S. Food Service, Inc. | 11,016,800 | 6 | 0.50% | 10,524,500 | 6 | 0.54% |
| Chateau Riviera Apts/CSW Associates | 9,968,600 | 7 | 0.45% | 9,190,500 | 7 | 0.47% |
| General Electric | 9,344,200 | 8 | 0.42% | 10,655,700 | 5 | 0.55% |
| Salem Terrace/White Whale | 8,682,900 | 9 | 0.39% | | | |
| Valley Properties and L & M Properties LLC | 8,457,400 | 10 | 0.38% | | | |
| Lewis-Gale Clinic/HRT | | | | 21,895,600 | 2 | 1.12% |
| Wal-Mart Stores, Inc. | | | | 6,750,000 | 10 | 0.35% |

Note:

Source: City of Salem Real Estate Valuation Department

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

**TABLE 8
UNAUDITED**

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

| Customer | 2019 | | | 2010 | | |
|--------------------------------------|-----------------|------|-------------------------------------|-----------------|------|-------------------------------------|
| | Services Billed | Rank | Percentage of Total Services Billed | Services Billed | Rank | Percentage of Total Services Billed |
| Lewis Gale Hospital HCA | \$2,499,548 | 1 | 6.37% | \$1,371,229 | 1 | 4.18% |
| Roanoke College | 1,634,788 | 2 | 4.16% | 1,017,379 | 2 | 3.10% |
| Graham White | 932,300 | 3 | 2.37% | 610,979 | 3 | 1.86% |
| Integer | 808,511 | 4 | 2.06% | | | |
| U.S. Food Service, Inc. | 780,934 | 5 | 1.99% | 556,055 | 5 | 1.70% |
| Rowe Furniture/Salem Frame | 745,335 | 6 | 1.90% | 589,350 | 4 | 1.80% |
| Sewell Products | 593,912 | 7 | 1.51% | 354,812 | 8 | 1.08% |
| Kroger | 570,942 | 8 | 1.45% | 425,347 | 6 | 1.30% |
| Carter Machinery Co. | 512,632 | 9 | 1.31% | 385,588 | 7 | 1.18% |
| Novozymes Jeffreys Biologicals, Inc. | 477,140 | 10 | 1.22% | | | |
| Old Va Brick Co. | | | | 288,697 | 9 | 0.88% |
| Wal-Mart, Inc. | | | | 270,549 | 10 | 0.83% |

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 | Capital Lease Obligation |
|-------------|--------------------------|----------------------|---------------|--------------------------|---------------|--------------------------|--------------------------|
| | General Obligation Bonds | Other Long-term Debt | Total | General Obligation Bonds | Total | | |
| | (1) | (1) | | (1) | | | |
| 2019 | \$ 32,910,038 | \$ - | \$ 32,910,038 | \$ 40,780,877 | \$ 73,690,915 | \$ 121,467 | |
| 2018 | 30,897,265 | - | 30,897,265 | 41,669,640 | 72,566,905 | 198,016 | |
| 2017 | 33,916,905 | - | 33,916,905 | 45,723,894 | 79,640,799 | 271,203 | |
| 2016 | 36,971,375 | - | 36,971,375 | 49,665,950 | 86,637,325 | 341,175 | |
| 2015 | 34,681,163 | - | 34,681,163 | 47,663,394 | 82,344,557 | - | |
| 2014 | 37,640,582 | - | 37,640,582 | 49,258,943 | 86,899,525 | - | |
| 2013 | 32,625,067 | - | 32,625,067 | 50,697,384 | 83,322,451 | - | |
| 2012 | 25,470,726 | - | 25,470,726 | 53,677,900 | 79,148,626 | - | |
| 2011 | 27,913,904 | - | 27,913,904 | 55,461,508 | 83,375,412 | - | |
| 2010 | 23,764,903 | 125,000 | 23,889,903 | 56,004,049 | 79,893,952 | - | |

| Fiscal Year | Total Taxable Assessed Value | Percentage of Estimated Actual Value of Taxable Property | Population | Bonded Debt Per Capita | Per Capita Personal Income | Percentage of Bonded Debt Per Capita to Per Capita Personal Income |
|-------------|------------------------------|--|------------|------------------------|----------------------------|--|
| | (2) | (3) | | (3) | (3) | (3) |
| | (2) | (3) | | (3) | (3) | (3) |
| 2019 | \$ 2,600,807,782 | 2.83% | 25,643 | \$ 2,874 | \$ 49,860 | 6.00% |
| 2018 | 2,549,817,563 | 2.85% | 25,862 | 2,806 | 48,384 | 6.00% |
| 2017 | 2,501,620,017 | 3.18% | 25,549 | 3,117 | 48,047 | 6.00% |
| 2016 | 2,451,813,919 | 3.53% | 25,432 | 3,407 | 45,577 | 7.00% |
| 2015 | 2,428,048,133 | 3.39% | 25,483 | 3,231 | 43,418 | 7.00% |
| 2014 | 2,413,737,695 | 3.60% | 25,299 | 3,435 | 42,288 | 8.00% |
| 2013 | 2,393,085,987 | 3.48% | 25,267 | 3,298 | 40,688 | 8.00% |
| 2012 | 2,375,288,036 | 3.33% | 25,145 | 3,148 | 39,866 | 8.00% |
| 2011 | 2,359,267,321 | 3.53% | 24,970 | 3,339 | 39,866 | 8.00% |
| 2010 | 2,320,633,717 | 3.44% | 24,860 | 3,214 | 39,866 | 8.00% |

Notes:

Source: City of Salem Finance Department

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

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 | Total General Obligation Bonds | Total Other Long-term Debt | Amount of Debt Applicable to Limit | | | | Net Debt Applicable to Limit as a Percent of Debt Limit |
|-------------|---------------------------------|----------------------------------|--------------------------------|----------------------------|------------------------------------|---------------------|------------------------------|-------------------|---|
| | | | | | Enterprise Bonds | RVRA Supported Debt | Net Debt Applicable to Limit | Legal Debt Margin | |
| | (1) | | | | (2) | | (3) | | |
| 2019 | \$ 2,197,986,008 | \$ 219,798,601 | \$ 73,690,915 | \$ - | \$ (40,780,877) | \$ (998,082) | \$ 31,911,956 | \$ 187,886,645 | 14.52% |
| 2018 | 2,144,111,245 | 214,411,125 | 72,566,905 | - | (41,669,640) | (1,209,879) | 29,687,386 | 184,723,739 | 13.85% |
| 2017 | 2,098,953,697 | 209,895,370 | 79,640,799 | - | (45,723,894) | (1,425,312) | 32,491,593 | 177,403,777 | 15.48% |
| 2016 | 2,064,259,382 | 206,425,938 | 86,637,325 | - | (49,665,950) | - | 36,971,375 | 169,454,563 | 17.91% |
| 2015 | 2,052,563,692 | 205,256,369 | 82,344,557 | - | (47,663,394) | - | 34,681,163 | 170,575,206 | 16.90% |
| 2014 | 2,044,415,909 | 204,441,591 | 86,899,525 | - | (49,258,943) | - | 37,640,582 | 166,801,009 | 18.41% |
| 2013 | 2,039,729,559 | 203,972,956 | 83,322,451 | - | (50,697,384) | - | 32,625,067 | 171,347,889 | 15.99% |
| 2012 | 2,015,454,684 | 201,545,468 | 79,148,626 | - | (53,677,900) | - | 25,470,726 | 176,074,742 | 12.64% |
| 2011 | 2,011,649,345 | 201,164,935 | 83,375,412 | - | (55,461,508) | - | 27,913,904 | 173,251,031 | 13.88% |
| 2010 | 1,977,816,489 | 197,781,649 | 79,768,952 | 125,000 | (56,004,049) | - | 23,889,903 | 173,891,746 | 12.08% |

Notes:

Source: City of Salem Finance Department

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

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

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

TABLE 11
UNAUDITED

CITY OF SALEM, VIRGINIA
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS

| Fiscal Year Ended | Population | Total Personal Income (In Thousands) | Per Capita Personal Income | Public School Enrollment | Unemployment Rate |
|----------------------------------|-------------------|---|---|---|------------------------------|
| (1) | (2) | (3) | (3) | (4) | (5) |
| 2019 | 25,643 | \$ 5,962,802 | \$ 49,860 | 3,872 | 2.9% |
| 2018 | 25,862 | 5,785,780 | 48,384 | 3,889 | 3.4% |
| 2017 | 25,549 | 5,758,037 | 48,047 | 3,843 | 4.1% |
| 2016 | 25,432 | 5,435,865 | 45,577 | 3,751 | 4.0% |
| 2015 | 25,483 | 5,159,100 | 43,418 | 3,797 | 5.2% |
| 2014 | 25,299 | 4,984,547 | 42,288 | 3,770 | 5.2% |
| 2013 | 25,267 | 4,789,030 | 40,688 | 3,823 | 6.6% |
| 2012 | 25,145 | 4,672,291 | 39,866 | 3,867 | 6.5% |
| 2011 | 24,970 | 4,672,291 | 39,866 | 3,892 | 6.1% |
| 2010 | 24,860 | 4,672,291 | 39,866 | 3,907 | 7.2% |

Notes:

(1) Population, public school enrollment and unemployment rate figures are based on fiscal years ending June 30. Per capita personal income figures are as of March 2019.

(2) Population is based on Intercensal estimates of the resident population for counties of Virginia: April 1, 2000 to July 1, 2010. U.S. Census Bureau, Population Division. Population for 2011 through 2019 was obtained from U.S. Census Bureau Population Estimates Program.

(3) Bureau of Economic Analysis (BEA). Total personal income reported is for Roanoke County and the City of Salem. No data is available for the City of Salem only. Per capita personal income was computed using Census Bureau midyear population estimates.

(4) Director of Business, School Division

(5) Virginia Employment Commission

TABLE 12
UNAUDITED

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

| Employer | 2019 | | | 2010 | | |
|--|------------------|-------------|--|------------------|-------------|--|
| | Employees | Rank | Percentage of Total City Employment (1) | Employees | Rank | Percentage of Total City Employment (1) |
| Veterans Administration Medical Center | 1,830 | 1 | 9.50% | 1,900 | 1 | 8.51% |
| Lewis-Gale Hospital HCA | 1,173 | 2 | 6.09% | 1,549 | 2 | 6.94% |
| Yokohama Industries | 750 | 3 | 3.89% | 850 | 3 | 3.81% |
| Lewis-Gale Physicians | 713 | 4 | 3.70% | | | |
| City of Salem Schools | 548 | 5 | 2.85% | 584 | 7 | 2.62% |
| City of Salem | 500 | 6 | 2.60% | 549 | 8 | 2.46% |
| Roanoke College | 475 | 7 | 2.47% | 476 | 9 | 2.13% |
| Integer | 431 | 8 | 2.24% | | | |
| U.S. Food Service, Inc. | 419 | 9 | 2.18% | 445 | 10 | 1.99% |
| Carter Machinery | 409 | 10 | 2.12% | | | |
| General Electric | | | | 750 | 4 | 3.36% |
| Virginia Department of Transportation | | | | 725 | 5 | 3.25% |
| Liberty Medical | | | | 625 | 6 | 2.80% |

Notes:

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

(1) Calculated using data provided by Virginia Employment Commission

TABLE 13
UNAUDITED

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

| Function | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| General government | 71 | 76 | 70 | 69 | 69 | 67 | 66 | 66 | 69 | 67 |
| Judicial administration | 21 | 19 | 20 | 18 | 19 | 19 | 19 | 21 | 20 | 20 |
| Public safety | 167 | 153 | 152 | 157 | 157 | 159 | 162 | 160 | 161 | 162 |
| Public works | 84 | 82 | 79 | 89 | 88 | 94 | 94 | 100 | 105 | 110 |
| Parks, recreation and cultural | 33 | 32 | 30 | 32 | 32 | 31 | 32 | 32 | 32 | 33 |
| Community development | 3 | 3 | 3 | 2 | 3 | 3 | 3 | 3 | 3 | 3 |
| Electric | 29 | 28 | 27 | 27 | 29 | 27 | 26 | 26 | 28 | 29 |
| Water and sewage | 49 | 48 | 47 | 48 | 52 | 49 | 49 | 51 | 52 | 53 |
| Civic Center | 18 | 15 | 15 | 16 | 17 | 17 | 17 | 18 | 18 | 17 |
| Catering and concessions | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Total | 479 | 460 | 447 | 462 | 470 | 470 | 472 | 481 | 492 | 498 |

Notes:

Source: City of Salem Finance Department

TABLE 14
UNAUDITED

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

| Function | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| General government | | | | | | | | | | |
| <i>Finance</i> | | | | | | | | | | |
| Accounts payable checks issued | 10,817 | 9,926 | 10,942 | 9,238 | 8,601 | 9,280 | 8,937 | 11,002 | 12,260 | 13,595 |
| <i>Human resources</i> | | | | | | | | | | |
| Positions filled (full-time and temporary) | 156 | 164 | 158 | 154 | 140 | 184 | 142 | 146 | 143 | 129 |
| <i>Registrar</i> | | | | | | | | | | |
| Number of registered voters | 16,785 | 16,887 | 16,704 | 16,584 | 16,282 | 16,695 | 16,625 | 16,678 | 16,436 | 16,309 |
| <i>Fleet</i> | | | | | | | | | | |
| Pieces of equipment maintained | 576 | 568 | 575 | 567 | 583 | 576 | 572 | 573 | 565 | 551 |
| Judicial administration | | | | | | | | | | |
| <i>Sheriff</i> | | | | | | | | | | |
| Inmates housed | 2,790 | 2,961 | 3,132 | 2,681 | 2,730 | 2,885 | 2,776 | 2,668 | 2,587 | 2,343 |
| Inmate transports | 1,479 | 1,489 | 1,333 | 1,222 | 1,137 | 1,240 | 1,062 | 1,069 | 1,276 | 1,879 |
| Courts worked | 462 | 525 | 680 | 595 | 614 | 699 | 686 | 648 | 691 | 676 |
| Public safety | | | | | | | | | | |
| <i>Police</i> | | | | | | | | | | |
| Calls for service | 36,246 | 38,632 | 41,650 | 32,310 | 32,798 | 32,203 | 39,519 | 36,549 | 33,903 | 34,342 |
| Accidents | 1,079 | 1,026 | 1,015 | 1,108 | 983 | 1,053 | 905 | 919 | 1,063 | 975 |
| DUI Arrests | 109 | 137 | 91 | 92 | 63 | 68 | 107 | 62 | 95 | 129 |
| <i>Fire</i> | | | | | | | | | | |
| Emergency responses - fire | 4,095 | 3,811 | 3,467 | 3,019 | 3,203 | 3,181 | 3,337 | 3,241 | 3,661 | 3,270 |
| Emergency responses - medic units | 5,851 | 5,261 | 4,885 | 4,292 | 3,809 | 3,446 | 3,569 | 3,358 | 3,632 | 3,335 |
| Hazardous conditions responses | 101 | 125 | 113 | 127 | 80 | 77 | 125 | 105 | 137 | 134 |
| <i>Building inspections</i> | | | | | | | | | | |
| Residential construction permits | 181 | 188 | 175 | 158 | 150 | 198 | 106 | 122 | 123 | 130 |
| Commercial construction permits | 126 | 133 | 120 | 133 | 139 | 148 | 110 | 116 | 124 | 63 |
| Public works | | | | | | | | | | |
| <i>Refuse collection</i> | | | | | | | | | | |
| Refuse collected (tons per year) | - | - | 29,860 | 88,565 | 80,827 | 82,905 | 80,609 | 81,427 | 81,485 | 83,607 |
| Tons recycled | - | - | 1,821 | 5,060 | 1,404 | 1,386 | 2,315 | 2,844 | 1,764 | 3,883 |
| <i>Other public works</i> | | | | | | | | | | |
| Tons of asphalt used in resurfacing | - | 13,263 | - | 15,453 | - | 639 | 5,770 | 7,507 | 5,821 | 3,616 |
| Square yards of milling completed | - | 219,862 | - | 302,937 | - | 10,718 | 92,988 | 143,962 | 99,960 | 39,959 |
| Tons of salt used | 915 | 1,330 | 315 | 848 | 705 | 769 | 1,098 | 183 | 817 | 1,389 |
| Leaves collected (loads) | 302 | 350 | 113 | 295 | 360 | 293 | 316 | 369 | 494 | 507 |
| Parks, recreation and cultural | | | | | | | | | | |
| <i>Parks and recreation</i> | | | | | | | | | | |
| Tournaments hosted | 58 | 52 | 48 | 52 | 47 | 58 | 62 | 58 | 49 | 53 |
| Special events held | 35 | 28 | 26 | 25 | 26 | 24 | 24 | 24 | 24 | 25 |
| Youth sports teams | 135 | 148 | 151 | 151 | 155 | 164 | 170 | 205 | 225 | 210 |
| Adult sports teams | 30 | 27 | 28 | 29 | 27 | 29 | 39 | 37 | 44 | 49 |
| <i>Library</i> | | | | | | | | | | |
| Circulation | 194,000 | 212,350 | 227,443 | 230,454 | 240,516 | 252,237 | 271,600 | 295,911 | 285,337 | 290,309 |
| Children's program attendance | 9,516 | 10,901 | 7,226 | 8,972 | 3,622 | 3,616 | 3,924 | 4,926 | 6,891 | 7,129 |
| Patron visits to the library | 152,091 | 167,389 | 170,879 | 172,012 | 178,323 | 195,878 | 211,605 | 226,696 | 232,559 | 245,807 |
| New patrons | 769 | 904 | 879 | 968 | 1,049 | 1,138 | 1,373 | 1,315 | 1,288 | 1,417 |
| Internet sessions | 55,932 | 39,884 | 28,554 | 25,944 | 27,571 | 28,965 | 33,885 | 51,033 | 52,397 | 58,517 |
| Electric | | | | | | | | | | |
| Number of customer accounts | 13,129 | 13,084 | 12,838 | 12,880 | 13,021 | 13,204 | 13,198 | 13,202 | 13,163 | 13,131 |
| Water | | | | | | | | | | |
| Number of customer accounts | 9,636 | 9,482 | 9,567 | 9,486 | 9,381 | 9,372 | 9,375 | 9,365 | 9,341 | 9,301 |
| Million gallons sold to customers | 910 | 861 | 850 | 932 | 989 | 876 | 838 | 955 | 1,004 | 977 |
| Sewage | | | | | | | | | | |
| Number of customer accounts | 9,072 | 9,041 | 9,018 | 8,952 | 8,929 | 8,824 | 8,823 | 8,803 | 8,764 | 8,717 |
| Waste/water treated (million gallons/day) | 8.7 | 6.0 | 7.2 | 9.1 | 6.8 | 7.8 | 7.0 | 7.0 | 6.5 | 8.3 |
| Civic Center | | | | | | | | | | |
| Concerts | 13 | 15 | 13 | 11 | 6 | 9 | 11 | 13 | 13 | 9 |
| Meetings | 614 | 599 | 660 | 852 | 778 | 721 | 614 | 792 | 936 | 1,156 |
| Tickets sold | 78,745 | 93,510 | 88,662 | 93,373 | 73,668 | 82,929 | 83,638 | 87,006 | 102,678 | 103,891 |
| Arena utilization days | 155 | 162 | 202 | 215 | 198 | 191 | 175 | 173 | 178 | 179 |

Notes:

Source: Various City of Salem Departments

TABLE 15
UNAUDITED

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

| Function | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Public safety | | | | | | | | | | |
| Police station | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Law enforcement vehicles | 53 | 48 | 47 | 47 | 46 | 48 | 47 | 47 | 47 | 46 |
| Fire stations | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Fire trucks | 6 | 7 | 7 | 7 | 6 | 6 | 6 | 6 | 6 | 6 |
| Ambulances | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 5 | 5 |
| Public works | | | | | | | | | | |
| Primary streets (lane miles) | 68 | 68 | 68 | 68 | 68 | 68 | 68 | 68 | 68 | 68 |
| Secondary streets (lane miles) | 272 | 272 | 272 | 272 | 272 | 272 | 272 | 272 | 272 | 272 |
| Alleys (lane miles) | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 |
| Garbage trucks | 17 | 16 | 16 | 16 | 16 | 14 | 13 | 12 | 12 | 12 |
| Parks, recreation and cultural | | | | | | | | | | |
| Community center/senior center | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Parks/athletic fields | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 |
| Acres of parks maintained | 495 | 495 | 495 | 495 | 495 | 495 | 495 | 495 | 495 | 495 |
| Library | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Golf course | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Dog park | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | - | - |
| Electric | | | | | | | | | | |
| Substations | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 |
| Overhead distribution lines (miles) | 163 | 163 | 166 | 165 | 172 | 172 | 172 | 172 | 172 | 172 |
| Underground distribution lines (miles) | 42 | 42 | 40 | 42 | 38 | 38 | 38 | 38 | 38 | 38 |
| Transmission lines (miles) | 17 | 17 | 17 | 17 | 17 | 17 | 17 | 17 | 17 | 17 |
| Water and sewage | | | | | | | | | | |
| Water treatment plant | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Water distribution lines (miles) | 176 | 176 | 176 | 176 | 175 | 175 | 175 | 175 | 182 | 182 |
| Sanitary sewer lines (miles) | 170 | 170 | 170 | 170 | 170 | 170 | 170 | 177 | 177 | 177 |

Notes:

Source: City of Salem Finance Department

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COMPLIANCE SECTION



The Compliance Section of the City of Salem, Virginia's Comprehensive Annual Financial Report presents a Schedule of Expenditures of Federal Awards. Also included are reports from the independent auditors.

CITY OF SALEM, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

| Federal Grantor Pass-through Grantor Program Title or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures | Passed Through to Subrecipients |
|---|--|---|---------------------------------------|--|
| Department of Agriculture | | | | |
| Local Environmental Agricultural Project Inc | | | | |
| Food Insecurity Nutrition Incentive Grants Program | 10.331 | FINI-120 | \$ 2,503 | |
| Virginia Department of Agriculture and Consumer Services | | | | |
| SNAP Cluster: | | | | |
| Supplemental Nutrition Assistance Program | 10.551 | -- | \$ 2,295 | 2,295 |
| Child Nutrition Cluster: | | | | |
| Food Distribution - Commodities | 10.555 | -- | 123,433 | |
| Virginia Department of Education | | | | |
| Child Nutrition Cluster: | | | | |
| National School Breakfast Program 2018 | 10.553 | 201818N109941 | 22,970 | |
| National School Breakfast Program 2019 | 10.553 | 201919N109941 | 216,303 | |
| National School Lunch Program 2018 | 10.555 | 201818N109941 | 71,909 | |
| National School Lunch Program 2019 | 10.555 | 201919N109941 | 639,261 | 1,073,876 |
| Department of Housing and Urban Development | | | | |
| Virginia Department of Housing and Community Development | | | | |
| Community Development Block Grants | 14.228 | 18-12 | | 6,128 |
| Department of Justice | | | | |
| Direct Payments | | | | |
| Bulletproof Vest Partnership Program | 16.607 | | | 4,072 |
| Virginia Department of Criminal Justice Services | | | | |
| Crime Victim Assistance | 16.575 | 19-V9575VW17 | | 78,138 |
| Department of Transportation | | | | |
| Virginia Department of Transportation | | | | |
| Highway Planning and Construction Cluster: | | | | |
| Highway Planning and Construction: | | | | |
| Hanging Rock Battlefield Phase 2 | 20.205 | UPC 106268 | 1,038 | |
| Roanoke River Greenway Project Phase 5 | 20.205 | UPC 106486 | 446,945 | |
| Roanoke Boulevard Multimodal Improvements | 20.205 | UPC 108899 | 1,985 | |
| Downtown Streetscape and Intersection Improvements | 20.205 | UPC 109612 | 38,865 | |
| Apperson Drive Bridge Replacement | 20.205 | UPC 110574 | 38,559 | 527,392 |
| Virginia Division of Motor Vehicles | | | | |
| Highway Safety Cluster: | | | | |
| State and Community Highway Safety: | | | | |
| Selective Enforcement - Speed FY18 | 20.600 | FSC-2018-58147-8147 | 1,434 | |
| Selective Enforcement - Speed FY19 | 20.600 | FSC-2019-59078-9078 | 15,341 | |
| Selective Enforcement - Pedestrian/Bicycle FY18 | 20.600 | FPS-2018-58151-8151 | 746 | |
| Selective Enforcement - Pedestrian/Bicycle FY19 | 20.600 | FPS-2019-59081-9081 | 1,759 | 19,280 |
| Alcohol Open Container Requirements: | | | | |
| Selective Enforcement - Alcohol FY19 | 20.607 | M6OT-2019-59080-9080 | | 9,280 |
| Roanoke Valley DUI Task Force - Salem City FY18 | 20.607 | 154AL-2018-58203-8203 | | 17,728 |
| Roanoke Valley DUI Task Force - Salem City FY19 | 20.607 | 154AL-2019-59085-9085 | | 19,063 |
| Department of Education | | | | |
| Virginia Department of Education | | | | |
| Adult Education - Basic Grants to States 2017 | 84.002 | V002A170047 | 11,243 | \$ 6,166 |
| Adult Education - Basic Grants to States 2018 | 84.002 | V002A180047 | 285,273 | 185,534 |
| Title I Grants to Local Educational Agencies 2016 | 84.010 | S010A160046 | 459 | |
| Title I Grants to Local Educational Agencies 2017 | 84.010 | S010A170046 | 56,014 | |
| Title I Grants to Local Educational Agencies 2018 | 84.010 | S010A180046 | 401,073 | |
| Special Education Cluster (IDEA) | | | | |
| Special Education - Grants to States (IDEA, Part B) 2017 | 84.027 | H027A170107 | 137,009 | |
| Special Education - Grants to States (IDEA, Part B) 2018 | 84.027 | H027A180107 | 620,648 | |
| Special Education - Preschool Grants (IDEA Preschool) 2017 | 84.173 | H173A170112 | 4,946 | |
| Special Education - Preschool Grants (IDEA Preschool) 2018 | 84.173 | H173A180112 | 7,146 | |
| Total Special Education Cluster (IDEA) | | | 769,749 | |
| Career and Technical Education - Basic Grants to States (Perkins IV) 2017 | 84.048 | V048A170046 | 5,110 | |
| Career and Technical Education - Basic Grants to States (Perkins IV) 2018 | 84.048 | V048A180046 | 43,768 | |
| English Language Acquisition State Grants 2016 | 84.365 | S365A160046 | 613 | |
| English Language Acquisition State Grants 2018 | 84.365 | S365A180046 | 8,215 | |
| Supporting Effective Instruction State Grants 2016 | 84.367 | S367A160044 | 1,678 | |
| Supporting Effective Instruction State Grants 2017 | 84.367 | S367A170044 | 33,455 | |
| Supporting Effective Instruction State Grants 2018 | 84.367 | S367A180044 | 36,560 | |
| Student Support and Academic Enrichment Grants 2018 | 84.424 | S424A180048 | 29,521 | |

(Continued)

CITY OF SALEM, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
JUNE 30, 2019

| <u>Federal Grantor</u> <i>Pass-through Grantor</i> Program Title or Cluster Title | <u>Federal CFDA Number</u> | <u>Pass-Through Entity Identifying Number</u> | <u>Federal Expenditures</u> | <u>Passed Through to Subrecipients</u> |
|---|------------------------------------|---|---------------------------------|--|
| <u>Department of Health and Human Services</u> | | | | |
| <i>Virginia Department of Health</i> | | | | |
| Summer Food Service Program for Children | 10.559 | -- | 20,301 | |
| <i>Virginia Office of Children's Services</i> | | | | |
| Social Services Block Grant | 93.667 | -- | 100,311 | |
| <i>Goodwill Industries of the Valleys</i> | | | | |
| Health Profession Opportunity Grants | 93.093 | 90FX0038-01-01 | 25,512 | |
| Total Expenditures of Federal Awards | | | <u>\$ 3,588,610</u> | <u>\$ 191,700</u> |

Note 1: Basis of Accounting

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

Note 2: Nonmonetary Assistance

Nonmonetary assistance is reported in the Schedule of Expenditures of Federal Awards at the fair market value of the food commodities disbursed. As of June 30, 2019, the City of Salem School Division (School Division) had food commodities in inventory of \$36,213.

Note 3: Indirect Cost Rate

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

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Salem, Virginia (the "City"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 14, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 14, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Salem, Virginia's (the "City") compliance with the types of compliance requirements described in the *OMB Circular 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, 2019. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

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

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

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

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

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

Roanoke, Virginia
November 14, 2019

CITY OF SALEM, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2019

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

STATE COMPLIANCE MATTERS

Code of Virginia:

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

State Agency Requirements:

Education
Highway Maintenance Funds

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

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, 2019

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the basic financial statements.
2. **No significant deficiencies** related to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. **No instances of noncompliance material** to the basic financial statements were disclosed during the audit.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings** relating to major programs.
7. The programs tested as major programs include:

| <u>Name of Programs</u> | <u>CFDA#</u> |
|--------------------------------------|--------------|
| Special Education Cluster: | |
| Special Education – Grants to States | 84.027 |
| Special Education – Preschool Grants | 84.173 |

8. The **threshold for** distinguishing Types A and B programs was **\$750,000**.
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.

D. FINDINGS – COMMONWEALTH OF VIRGINIA

None.

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

Rosemarie B. Jordan, CPA

Director of Finance

Accounting/Accounts Payable/Purchasing

Patricia L. Bidanset
Ellen T. Bowen, CPA
Yen T. Ha
Amy R. Morris, CPA
Mary Ann Penney, CPA
Tammy H. Todd, CPA, CPFO

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

Administrative

Alyson R. Chaisson

Finance Administrative Secretary/
Accounting Technician

Payroll

Tara N. Pugh
Carrington R. Sumner

Payroll Technician
Payroll Manager