

# **CITY OF SALEM, VIRGINIA**



## **COMPREHENSIVE ANNUAL FINANCIAL REPORT YEAR ENDED JUNE 30, 2015**

**DEPARTMENT OF FINANCE**

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# INTRODUCTORY SECTION

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The introductory section of the City of Salem, Virginia's Comprehensive Annual Financial Report contains the Letter of Transmittal, which presents an overview of the profile of the City of Salem government, the local economic condition and outlook, major initiatives and accomplishments, and financial policies and financial planning. Also included in this section are an organizational chart and the Certificate of Achievement for Excellence in Financial Reporting awarded by the Government Finance Officers Association of the United States and Canada (GFOA) for the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014. It is the highest form of recognition in governmental financial reporting.

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November 17, 2015

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

In accordance with Section 8.9 of the Salem City Charter, we are pleased to present the City of Salem (the City) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015. The charter requires the City to issue an annual report on its financial position and activities and that the report be audited by an independent firm of certified public accountants. This report was prepared by the Department of Finance in conformity with generally accepted accounting principles (GAAP) as promulgated by the 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 at the southern end of the Shenandoah Valley, approximately 190 miles west of Richmond and 250 miles southwest of Washington, DC. Its position in the southeastern United States gives the City ready access, within a 500-mile radius, to nearly two-thirds of the total population of the United States. In addition, the City lies at the region's crossroads of major rail and highway systems, making it a part of the principal trade, industrial, transportation, medical and cultural center of western Virginia.

Chartered by the Commonwealth of Virginia as a town in 1806 and as a city in 1968, Salem encompasses a land area of 14.4 square miles. The City's 2015 estimated population, 25,483, accounts for approximately 8.3% of the population in its metropolitan statistical area (MSA), which includes the neighboring City of Roanoke and Counties of Botetourt, Craig, Franklin and Roanoke.

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

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

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



## **Local Economic Condition and Outlook**

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

Salem is fortunate to have a diversified economy comprised of health care, manufacturing, higher education and retail trade. Based on 2015 1<sup>st</sup> quarter data from the Virginia Employment Commission, Salem experienced the largest number of new hires in accommodation and food services, administrative, health care and retail trade. Included in the manufacturing process are hi-tech electronics, medical equipment, tires, furniture, steel, tool and die and railroad equipment, just to name a few. Salem's unemployment rate of 5.2% remained level with the prior year rate of 5.2% and was lower than the national unemployment rate of 5.5% but slightly higher than the state unemployment rate of 5%.

Salem continues to benefit from the expansion of local businesses. The City entered into a performance agreement with Yokohama in fiscal year 2015. The Salem plant manufactures passenger, high-performance and light truck tires. Yokohama, who is the third largest employer in Salem, committed to invest \$15 million in its Salem facility through 2018. Investment dollars will go toward building improvements and the purchase and installation of new equipment. The company will not expand the size of the plant, but will add to operations. Yokohama has pledged to keep at least 800 employees through the end of 2017. In exchange for these commitments, the City has agreed to rebate a portion of the company's tax payments.

Regional Conveyor Services relocated from a 10,000 square foot assembly plant to a 45,000 square foot building to accommodate their growing business. Elizabeth Arden expanded its Salem operation by 100,000 square feet to be used for shipping and receiving to supplement a new light assembly operation. Parkway Brewery is constructing a new parking lot at their facility and adding a new, expanded tasting room with a bigger stage and sound system. Lake Region Medical, a supplier of components for medical devices, expanded at its current location. Kroger at Ridgewood Farms added a new fuel center consisting of five fueling islands. Fuel centers drive business and make it possible for stores to increase their offerings.

Several new businesses opened in Salem or have construction underway. The Launching Pad, a family-friendly trampoline park with 15,000 square feet of trampolines to jump on, opened a second location in Salem in the fall of 2015. The Launching Pad already has an established facility in Raleigh, North Carolina. Missile Baits, a fishing lure manufacturer, is building an 8,000 square foot retail and warehouse building with construction scheduled to be completed in the fall of 2016. Ayers Salon and Homestay Inn, a

bed and breakfast and spa, has nearly completed the renovation of their facility. Fairfield Inn will begin construction in fiscal year 2016.

The Roanoke Valley Broadband Authority (RVBA) was incorporated in January 2014 with four local government members including Salem, Roanoke, Roanoke County and Botetourt County. The primary goal of the RVBA is to improve affordable broadband services in the Roanoke Valley by encouraging collaboration, competition and long term investments. Construction of a 46 mile fiber network began this past summer and is expected to be completed in January 2016. The network will be operated as an open-access network that will allow multiple providers to compete to deliver services using the same infrastructure.

Financial results for the City reflect some positive trends in local taxes over the past year, but slow growth in property tax revenues continued to present financial challenges in fiscal year 2015. City Council has taken various actions over the past few years to replenish General Fund reserves that had declined during the recession. The cigarette tax rate was increased from \$0.15 to \$0.45 per pack effective July 1, 2013 with additional funds earmarked to replenish general fund reserves. City Council also raised several taxes and fees effective July 1, 2014, including the personal property tax rate and garbage collection fees. In fiscal year 2015, proceeds of \$500,000 were received from the one-time sale of property, which increased reserves. As a result of these and other factors, General Fund unassigned fund balance reflected growth of \$4.5 million in fiscal year 2015, reaching a more appropriate level as of June 30, 2015.

General Fund revenues exceeded budget by \$2.2 million, with the largest growth being realized in other local taxes and the charges for services categories. In the other local taxes category, sales tax increased \$256,000 or 4%. Meals, cigarette, admissions and motor vehicle license taxes were all up from the previous year. Charges for services revenue reflected growth of \$676,000 or 13.6% due to the increased fee for garbage collection. The fee was raised from \$1 per month to \$7 per month for each household, effective July 1, 2014. This resulted in additional revenue of \$655,000.

Real estate trends reflected slight growth from the prior year. Thirty seven new homes and townhouses with an assessed value of \$7.2 million were constructed during fiscal year 2015. The North Oaks subdivision represented the largest area of new construction. Personal property tax revenue was higher in fiscal year 2015 due to a tax rate increase and a slight increase in assessments. The tax rate was increased from \$3.20 per \$100 of assessed value to \$3.25 per \$100 of assessed value. The tax rate for machinery and tools tax was not changed and revenue remained level with the previous year.

Intergovernmental revenue increased \$575,000 or 5.3% from the prior year. This was largely due to increased funding received under the Comprehensive Services Act. However, mandated costs included in the Health and Welfare expenditure category also increased as a larger number of children required more comprehensive and costly services. Additional highway maintenance funding of \$101,000 for road

maintenance was received. Other revenue categories in the general fund did not experience significant changes.

City departments have worked very hard to spend conservatively and general fund expenditures came in under budget in fiscal year 2015. Public works expenditures reflected the largest under-budget amount due to lower spending on highway maintenance. Unspent highway maintenance funds are classified as restricted fund balance, dedicated to highway maintenance expenditures in future years. Public safety expenditures were less than the previous year and less than budget due to lower than anticipated prisoner and juvenile detention costs. Education expenditures decreased \$471,000 from the prior year. Of the \$19.2 million in expenditures, \$18.8 million represented local operating support provided to the School Division and \$345,000 was the transfer of meals tax collected by the City and dedicated to school capital projects. The amount transferred was smaller in fiscal year 2015 as a larger portion of the meals tax funding was utilized to pay debt service costs on the bonds issued for South Salem Elementary construction costs. Non-departmental expenditures were \$488,000 higher than the previous year but still within budget as costs for worker's compensation, line of duty and liability insurance increased. In addition, retiree health insurance costs and the payment to the OPEB trust were higher in fiscal year 2015.

### **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.

East Salem Elementary underwent renovations during fiscal year 2015. Nearly 9,000 feet of space was either renovated or added to the two story school that was built in 1961. The majority of the work was done in the primary wing of East Salem where two new classrooms were built and handicap accessible bathrooms were added and renovated. The project also included addition of a new computer lab, a new office for speech therapists, repurposed space for two classrooms and an art room. The width of the hallway in the primary wing was expanded from three feet to eight feet. Project costs totaled approximately \$1.2 million.

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. In 2015, all Salem schools met all Federal Annual Measurable Objectives (AMO). West Salem Elementary earned the VIP Distinguished Achievement Award from the Virginia Board of Education. Salem Schools are very proud of the 2015 graduation rate of 94.2%. Approximately 97% of Salem High School graduates attend 2 or 4 year colleges or universities.

Salem continues to be active in tourism initiatives as a means of economic development. The City of Salem served as the lead petitioner for the creation of the new Virginia Mountains region, as designated by the Virginia Tourism Corporation. This new region, the first of its type in many years, includes the Counties of Alleghany, Bath, Bedford, Botetourt, Craig, Franklin, Highland and Roanoke and the independent cities of Covington, Roanoke and Salem. The new region will be featured in all Virginia Tourism streams including print and electronic media and will allow participants to reduce marketing costs by using cooperative advertising ventures. The City continues to participate with the Roanoke Valley Convention and Visitors Bureau (RVCVB) to promote conventions and events in the region.

The annual Salem Fair held at the Salem Civic Center is the largest fair in the state. Attendance at the Fair held in July 2014 increased over 2013. An estimated 340,000 people toured the fairgrounds during its 12 days of operations. Opening night attendance was the highest since 2010. Attendance and revenue increased for the fifth time in the past six years. Events such as the Amos Alonzo Stagg Bowl, Olde Salem Days, NCAA Championships, ASA Softball and many other special and sporting events bring hundreds of thousands of participants, spectators and tourists to Salem and the surrounding area. The Blue Ridge Music Festival held in May 2015 was expanded from a single day event to a two day event, with 14,582 fans attending.

The City entered into a new ten-year lease with the Salem Red Sox, ensuring the team's presence in Salem for the long term. The City owns the stadium and pays for most of its maintenance and capital improvements. The City expects to spend up to \$1 million over the next few years to renovate the facility. The Salem Red Sox played their sixth season at Salem Memorial Stadium with over 228,000 fans in attendance, which was an increase from the previous year.

The NCAA awarded Salem and the Old Dominion Athletic Conference approval to serve as co-hosts for the Amos Alonzo Stagg Bowl (NCAA Division III Football) and the Men's Division III Basketball championship through 2017/2018. In addition to football and basketball, the City/ODAC was awarded Division III softball through 2015/2016. Division II softball co-hosted by the Mountain East Conference will return again in 2017 and 2018. In addition, the City was awarded the NCAA Division II Women's Lacrosse Championship for 2015 with games being played at Kerr Stadium at Roanoke College. In 2014/2015, nearly 17,000 people traveled to Salem to attend NCAA events held in the City, which included the Stagg Bowl, Division III Men's Basketball Championship along with Division II Softball and Women's Lacrosse for an economic impact of nearly four million dollars.

The James I. Moyer Complex hosted over 1,700 softball and baseball teams this year in tournaments, filling over 20,000 hotel rooms in the Roanoke Valley. The biggest event that came to the valley this year was the 2015 ASA/USA Girls' 14U Class "A" Fast-Pitch national championship. Over 7,600 hotel rooms were filled for this event alone. One hundred twenty-seven teams from thirty one states competed for this national championship. Other major events were the Chance Crawford Benefit Adult

Slow-Pitch Softball Tournament, the ISF Senior World Cup, the NCAA Division II Women's Softball National Championship and the ASA Men's and Women's Class D and E Slow-Pitch National Championship. Over 50,000 people attended events at the Moyer Sports Complex during the past year.

Several projects and improvements were undertaken during fiscal year 2015 that greatly benefited the community. Lake Spring Park has been a popular attraction for citizens and visitors dating back to the late 1800s when the area was home to the Lake Spring Hotel. The park underwent extensive renovations during fiscal year 2015 thanks to efforts of the City's Street Department and Salem High School students. Over 900 feet of ornamental fencing was installed surrounding the water and perimeter of the park. The Street Department, with the help of Salem High School students, constructed the steel fence which saved the City thousands of dollars. A landing area for the ducks was added in the back of the park, complete with river rock, automated feeders and covered houses. Over 100 feet of new concrete walkways were put in place as well as landscaping and a new filtration system. Vending machines were added so that appropriate food is available to feed the ducks. The total cost of the project was \$129,200.

When Old Virginia Brick announced its closure and pending property sale, the 9/11 Memorial located on the property was initially offered for sale. A public outcry helped keep the monument in Salem. The 9/11 Memorial was successfully relocated from Old Virginia Brick to its new location in front of Fire Station 1. The memorial is actually a 16,000 pound section of steel beams from the World Trade Center's North Tower. Members of the City's Street and Electric departments were instrumental in removing the memorial and transporting it to its new home but this has truly been a community project. Several private businesses have contributed design, excavation and transport services. Public donations will be used to build a formal plaza area around the monument.

The Salem Community Garden was established during fiscal year 2015 and was very successful. A small garden plot was donated by the Salem Presbyterian Church. Volunteers worked each week during the spring and summer to weed, plant, fertilize, water and harvest vegetables resulting in the donation of over 1,000 pounds of food to the Salem-Roanoke County Food Pantry.

The City made significant infrastructure improvements with the storm drain upgrades completed at the Salem Woods Apartments in fiscal year 2015. The project included installation of larger reinforced concrete pipe and merging with existing storm drain systems to handle a larger capacity flow. To avoid existing water, sewer, and gas lines already in place, the new pipe was buried deeper than the old system. The project had a total cost of \$527,000.

Technology projects continued to move forward. In October 2014, Vision, a new computer-assisted mass appraisal (CAMA) software package was implemented. New World Systems is the financial system used by the City and School Division. The New World Systems utility management module was

implemented in July 2014. Implementation of the Community Development module that will be used by the Engineering Department is still pending.

## **Financial Policies and Financial Planning**

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

The budget function is used as a management tool, including performance objectives, goals and long-range planning, as well as maintaining budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. 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 selected by City Council. Brown, Edwards & Company, L.L.P., has performed an annual audit of the Comprehensive Annual Financial Report. Their audit was conducted in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. The auditor's report, which includes their opinion on the financial statements of the City, is contained in the Financial Section of this report. Other auditor's reports are included in the Compliance Section.

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

The Government Finance Officers Association of the United States and Canada (GFOA) has awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Salem, Virginia,

for its Comprehensive Annual Financial Report for 2014. This represents the twenty-seventh year Salem has earned this distinction. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. We believe this report conforms to the Certificate of Achievement Program requirements and standards and are submitting it to the GFOA to determine its eligibility for another certificate.

### **Acknowledgments**

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

Respectfully submitted,

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

Kevin S. Boggess  
City Manager

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

Rosemarie B. Jordan  
Director of Finance

**CITY OF SALEM, VIRGINIA  
DIRECTORY OF PRINCIPAL OFFICIALS  
JUNE 30, 2015**

**MEMBERS OF CITY COUNCIL**

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

**ELECTED OFFICERS**

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

**GENERAL CITY GOVERNMENT**

Kevin S. Boggess ..... City Manager  
James E. Taliaferro, II ..... Assistant City Manager and Clerk of Council  
Rosemarie B. Jordan ..... Director of Finance  
Stephen M. Yost ..... City Attorney  
Beth A. Rodgers ..... Director of Human Resources  
H. Bradley Orth ..... Chief Information Officer  
Timothy N. Guthrie ..... Police Chief  
John W. Prillaman ..... Fire Chief  
Charles E. Van Allman, Jr. .... City Engineer  
Norman M. Tyler, Jr. .... Director of Streets and General Maintenance  
John P. Shaner ..... Director of Parks and Recreation  
Ann G. Tripp ..... Library Director  
Dana M. Oliver ..... Registrar  
A. K. Briele, III ..... Director of Electric Department  
Larado M. Robinson ..... Director of Water and Sewer Department  
Justin W. Kuzmich ..... Real Estate Assessor  
Todd W. Sutphin ..... Building Official and Zoning Administrator  
James M. Fender, Jr. .... Director of Solid Waste Disposal and Transfer Station  
Melinda J. Payne ..... Director of Planning and Economic Development  
John E. Saunders ..... Director of Civic Facilities  
Mike Stevens ..... Director of Communications

**MEMBERS OF SCHOOL BOARD**

David H. Preston ..... Chairman  
Dr. Michael A. Chiglinsky ..... Vice Chairman  
Artice M. Ledbetter ..... Member  
Dr. Nancy A. Bradley ..... Member  
Andy Raines ..... Member

**SCHOOL ADMINISTRATION**

Dr. H. Alan Seibert ..... Superintendent of Schools  
Michael A. Bryant ..... Assistant Superintendent  
Rosemarie B. Jordan ..... Director of Finance  
Mandy C. Hall ..... Supervisor of Business  
Jennifer P. Dean ..... Supervisor of Instructional Technology and Accountability  
Curtis N. Hicks ..... Assistant Superintendent for Instruction  
Kirstine M. Barber ..... Supervisor of Human Resources  
Dr. Randy L. Jennings ..... Director of Student Services  
Diane D. Washenberger ..... Director of Instruction



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graph TD
    Voters[Voters] --- CitySheriff[City Sheriff]
    Voters --- ClerkCourt[Clerk of Circuit Court]
    Voters --- CityCouncil[City Council]
    Voters --- Revenue[Commissioner of the Revenue]
    Voters --- Attorney[Commonwealth's Attorney]
    Voters --- Treasurer[Treasurer]
    
    CityCouncil --- CityAttorney[City Attorney]
    CityCouncil --- CommunityPolicy[Community Policy Management Team]
    CityCouncil --- FineArts[Fine Arts Commission]
    CityCouncil --- Personnel[Personnel Board]
    CityCouncil --- Safety[Salem Transportation Safety Commission]
    
    CityAttorney --- BoardAppeals[Board of Adjustments and Appeals]
    CityAttorney --- CityClerk[City Clerk]
    CityAttorney --- CityManager[City Manager]
    CityAttorney --- PlanningComm[Planning Commission]
    CityAttorney --- SchoolBoard[School Board]
    
    CityManager --- AssistantManager[Assistant City Manager]
    
    AssistantManager --- BuildingOfficial[Building Official]
    AssistantManager --- Communications[Communications]
    AssistantManager --- Electric[Electric]
    AssistantManager --- Library[Library]
    AssistantManager --- Technology[Technology Systems]
    AssistantManager --- PlanningEconomic[Planning & Economic Development]
    AssistantManager --- RealEstate[Real Estate]
    AssistantManager --- SolidWaste[Solid Waste Disposal]
    AssistantManager --- WaterSewer[Water & Sewer]
    
    BuildingOfficial --- CivicCenter[Civic Center]
    BuildingOfficial --- Engineering[Engineering]
    BuildingOfficial --- Finance[Finance]
    BuildingOfficial --- Fire[Fire]
    BuildingOfficial --- HumanResources[Human Resources]
    BuildingOfficial --- ParksRecreation[Parks & Recreation]
    BuildingOfficial --- Police[Police]
    BuildingOfficial --- StreetsGeneral[Streets & General Maintenance]
    
    CivicCenter --- Catering[Catering & Concessions]
    CivicCenter --- Stadium[Stadium]
    
    Engineering --- GIS[GIS]
    
    Finance --- Budget[Budget]
    Finance --- Accounting[Accounting]
    Finance --- Payroll[Payroll]
    Finance --- Purchasing[Purchasing]
    Finance --- MeterServices[Meter Services]
    Finance --- UtilityBilling[Utility Billing]
    Finance --- UtilityCollections[Utility Collections]
    
    Fire --- Emergency[Emergency Services]
    Fire --- FireSuppression[Fire Suppression & Prevention]
    
    HumanResources --- MailOps[Mail Operations]
    HumanResources --- SafetyCoord[Safety Coordinator]
    
    ParksRecreation --- MoyerComplex[Moyer Complex]
    ParksRecreation --- SeniorCitizens[Senior Citizens Program]
    ParksRecreation --- SpecialEvents[Special Events]
    
    Police --- AnimalControl[Animal Control]
    Police --- Communications911[Communications 911 System]
    
    StreetsGeneral --- Beautification[Beautification]
    StreetsGeneral --- BuildingMaintenance[Building Maintenance]
    StreetsGeneral --- Sanitation[Sanitation]
    StreetsGeneral --- Garage[Garage]
    StreetsGeneral --- SignsPavement[Signs & Pavement Marking]
    StreetsGeneral --- Streets[Streets]
    
    CityCouncil --- CircuitCourt[Circuit Court]
    CityCouncil --- JDRelations[J&D Relations District Court]
    CityCouncil --- CourtServices[Court Services]
    
    CircuitCourt --- BoardZoning[Board of Zoning Appeals]
    CircuitCourt --- ElectoralBoard[Electoral Board]
    CircuitCourt --- Registrar[Registrar]
    
    BoardZoning --- BoardEqualization[Board of Equalization of Real Estate Assessments]
  
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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, 2014**

A handwritten signature in black ink, reading "Jeffrey R. Emen". The signature is written in a cursive, flowing style with a prominent 'J' and 'E'.

Executive Director/CEO

## FINANCIAL SECTION

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The financial section of the City of Salem's Comprehensive Annual Financial Report includes the independent auditor's report, management's discussion and analysis, 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Salem, Virginia (the "City"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

## ***Opinions***

**In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.**

## ***Change In Accounting Principle***

As described in Note 18 to the financial statements, the City adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, as amended by GASB Statement No. 71*. Our opinion is not modified with respect to this matter.

## ***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.

### ***Other Information***

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

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 17, 2015

**CITY OF SALEM, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2015**

The following discussion and analysis of the City of Salem, Virginia's (the City's) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2015. It should be read in conjunction with the transmittal letter and the City's basic financial statements.

**FINANCIAL HIGHLIGHTS**

- As of June 30, 2015, the primary government had \$108 million in total net position, an increase of \$12.8 million from prior year. Unrestricted net position available to fund future expenses was \$(20.4) million or (18.9%) of total net position.
- As of June 30, 2015, the governmental activities had \$41.4 million in total net position, which increased \$8.3 million from prior year. Unrestricted net position available to fund future expenses was \$(44.8) million or (108.2%) of total net position.
- As of June 30, 2015, the business-type activities had \$66.6 million in total net position, an increase of \$4.5 million from prior year. Unrestricted net position available to fund future expenses was \$24.4 million or 36.6% of total net position.
- As of June 30, 2015, the general fund had \$15 million in total fund balance, which increased by \$6.2 million from prior year. Unassigned fund balance was \$9.8 million or 65.3% of total fund balance.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**Government-Wide Financial Statements**

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

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

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

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

### **Fund Financial Statements**

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

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

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

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

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. Agency funds are custodial in nature and do not involve measurement of results of operations.



# MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

## FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

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

### **Summary of Position**

The following table presents a condensed summary of net position.

<b>Summary of Net Position (In Millions)</b>								
	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2015	2014	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 20.7	\$15.1	\$38.2	\$ 33.7	\$ 58.9	\$ 48.8	\$ 11.1	\$ 11.7
Capital assets, net	91.2	93.9	89.6	91.9	180.8	185.8	48.1	49.4
<b>Total assets</b>	<b>111.9</b>	<b>109.0</b>	<b>127.8</b>	<b>125.6</b>	<b>239.7</b>	<b>234.6</b>	<b>59.2</b>	<b>61.1</b>
<b>Deferred outflows of resources</b>	<b>3.2</b>	<b>-</b>	<b>1.4</b>	<b>-</b>	<b>4.6</b>	<b>-</b>	<b>3.1</b>	<b>-</b>
Current and other liabilities	3.9	4.5	5.3	5.1	9.2	9.6	6.3	6.6
Long-term liabilities	62.8	39.8	55.4	50.0	118.2	89.8	36.1	1.1
<b>Total liabilities</b>	<b>66.7</b>	<b>44.3</b>	<b>60.7</b>	<b>55.1</b>	<b>127.4</b>	<b>99.4</b>	<b>42.4</b>	<b>7.7</b>
<b>Deferred inflows of revenues</b>	<b>7.0</b>	<b>0.1</b>	<b>1.9</b>	<b>-</b>	<b>8.9</b>	<b>0.1</b>	<b>7.2</b>	<b>-</b>
Net investment in capital assets	82.0	84.2	42.2	43.0	124.2	127.2	48.1	49.4
Restricted	4.2	3.0	-	-	4.2	3.0	-	-
Unrestricted	(44.8)	(22.6)	24.4	27.5	(20.4)	4.9	(35.4)	4.0
<b>Total net position</b>	<b>\$ 41.4</b>	<b>\$64.6</b>	<b>\$66.6</b>	<b>\$ 70.5</b>	<b>\$108.0</b>	<b>\$135.1</b>	<b>\$ 12.7</b>	<b>\$ 53.4</b>

In fiscal year 2015, the City and Schools adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The overall effect of this new standard is to reflect the long-term Virginia Retirement System (VRS) obligations of the City and Schools in the government-wide financial statements. Previously, such amounts were disclosed, but were not recognized, as the City and Schools fully funded the annual required VRS contributions. The new standard changes certain measurement methodologies, adds new disclosures and requires that the City and School record a net pension liability on the statement of net position. Beginning net position has been restated as discussed in footnote 18, and this has had a significant impact on the net position of the City and Schools. However, because similar information has been disclosed in prior years in the notes to the financial statements and in required supplementary information, the effect of this new standard is not expected to negatively affect how most governmental entities are viewed by sophisticated readers of financial statements. Because information to restate prior years is not readily available, the prior year comparative information included in the table above and the table on page 24 has not been restated. However, the following analysis of changes in net position is based on beginning net position as restated on Exhibit 2, as this will provide readers with more meaningful information.

The primary government net position increased from \$95.2 million to \$108 million. Net position of governmental activities increased \$8.3 million and net position of business-type activities increased \$4.5 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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 (\$20.4) million, an increase of \$14.6 million from prior year. Debt totaling \$3.7 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 \$21.2 million of debt issued for school improvements while the School Division recorded the related asset. As such, \$24.9 million is included in governmental activities long-term liabilities, which directly reduced unrestricted net position.

The primary government's unrestricted net position has been affected by the requirement to report the City's net pension liability. At June 30, 2015, a net pension liability of \$26.2 million for governmental activities and \$7 million for business-type activities is recorded on the statement of net position. These liabilities have greatly reduced the primary government's 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 \$4.2 million as of June 30, 2015 for governmental activities. Approximately \$3.5 million in state funding was received, but not yet spent, for highway maintenance. Approximately \$635,000 in federal and state judicial administration and public safety grant funding was received, but not yet spent, for fire programs, asset forfeiture and hazardous materials grants. Approximately \$66,000 is restricted for future capital projects.

As of June 30, 2015, the component unit had \$12.7 million in total net position, which decreased \$0.8 million from prior year. Unrestricted net position available to fund future expenses was (\$35.4) million or (278.7%) of total net position and increased by \$0.6 million from prior year. Net investment in capital assets was \$48.1 million and decreased \$1.3 million from prior year.

### **Summary of Changes in Net Position**

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

#### **Summary of Changes in Net Position (In Millions)**

	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2015	2014	2015	2014	2015	2014	2015	2014
<b>Revenues</b>								
<i>Program Revenues:</i>								
Charges for services	\$ 6.4	\$ 5.8	\$55.0	\$ 54.2	\$ 61.4	\$ 60.0	\$ 1.5	\$ 1.7
Operating grants and contributions	7.6	7.0	-	-	7.6	7.0	8.1	9.0
Capital grants and contributions	0.2	0.4	-	-	0.2	0.4	-	-
<i>General Revenues:</i>								
Property taxes	33.4	32.7	-	-	33.4	32.7	-	-
Local sales and use tax	6.7	6.4	-	-	6.7	6.4	-	-
Business license tax	5.1	5.1	-	-	5.1	5.1	-	-
Meals tax	4.4	4.3	-	-	4.4	4.3	-	-
Utility taxes	1.2	1.1	-	-	1.2	1.1	-	-
Other taxes	3.5	3.2	-	-	3.5	3.2	-	-
Intergovernmental revenue	3.9	4.0	-	-	3.9	4.0	-	-
Investment earnings	0.2	0.1	-	-	0.2	0.1	-	-
Gain on sale of capital assets	0.4	-	-	-	0.4	-	-	-
Payments from City of Salem	-	-	-	-	-	-	19.1	25.1
State aid	-	-	-	-	-	-	13.9	13.1
Other	0.6	0.6	-	-	0.6	0.6	1.0	0.8
<b>Total revenues</b>	<b>73.6</b>	<b>70.7</b>	<b>55.0</b>	<b>54.2</b>	<b>128.6</b>	<b>124.9</b>	<b>43.6</b>	<b>49.7</b>

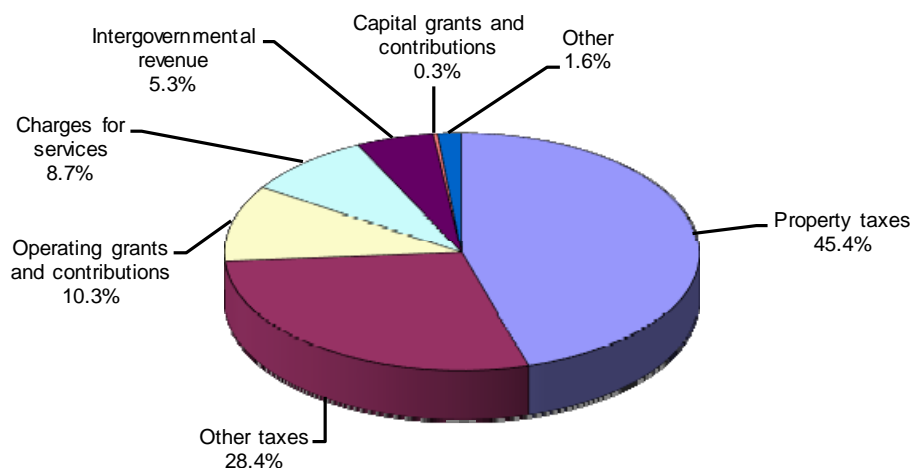
## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### Summary of Changes in Net Position (Continued) (In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2015	2014	2015	2014	2015	2014	2015	2014
<b>Expenses</b>								
General government	\$ 6.3	\$ 6.2	\$ -	\$ -	\$ 6.3	\$ 6.2	\$ -	\$ -
Judicial administration	1.9	2.0	-	-	1.9	2.0	-	-
Public safety	16.2	17.5	-	-	16.2	17.5	-	-
Public works	12.8	13.5	-	-	12.8	13.5	-	-
Health and welfare	3.1	2.6	-	-	3.1	2.6	-	-
Education	19.2	25.1	-	-	19.2	25.1	44.4	46.6
Parks, recreation and cultural	5.1	5.3	-	-	5.1	5.3	-	-
Community development	2.0	2.4	-	-	2.0	2.4	-	-
Interest and other fiscal charges	1.0	1.2	-	-	1.0	1.2	-	-
Electric	-	-	33.9	34.1	33.9	34.1	-	-
Water and sewage	-	-	10.6	11.0	10.6	11.0	-	-
Civic center	-	-	2.9	2.6	2.9	2.6	-	-
Catering and concessions	-	-	0.8	0.8	0.8	0.8	-	-
<b>Total expenses</b>	<b>67.6</b>	<b>75.8</b>	<b>48.2</b>	<b>48.5</b>	<b>115.8</b>	<b>124.3</b>	<b>44.4</b>	<b>46.6</b>
<b>Excess (deficiency) before transfers</b>	<b>6.0</b>	<b>(5.1)</b>	<b>6.8</b>	<b>5.7</b>	<b>12.8</b>	<b>0.6</b>	<b>(0.8)</b>	<b>3.1</b>
Transfers	2.3	1.7	(2.3)	(1.7)	-	-	-	-
<b>Increase (decrease) in net position</b>	<b>8.3</b>	<b>(3.4)</b>	<b>4.5</b>	<b>4.0</b>	<b>12.8</b>	<b>0.6</b>	<b>(0.8)</b>	<b>3.1</b>
<b>Net position, beginning as restated</b>	<b>33.1</b>	<b>68.0</b>	<b>62.1</b>	<b>66.5</b>	<b>95.2</b>	<b>134.5</b>	<b>13.5</b>	<b>50.3</b>
<b>Net position, ending</b>	<b>\$ 41.4</b>	<b>\$64.6</b>	<b>\$66.6</b>	<b>\$ 70.5</b>	<b>\$108.0</b>	<b>\$135.1</b>	<b>\$ 12.7</b>	<b>\$ 53.4</b>

### Governmental Activities – Revenues

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



Property taxes, which were 45.4% 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 increased \$705,000 or 2.2% from the previous year. Real estate assessments showed moderate growth of 1.5%. The tax rate for personal property was increased from \$3.20 per \$100 of assessed value to \$3.25 per \$100 of assessed value on January 1, 2015 and assessments were up slightly. The tax rate for machinery and tools was not increased and revenue remained level with the previous year.

Sales and use tax increased \$256,000 or 4%, which is encouraging. Meals tax revenue was up \$187,000 or 4.4% from the prior year. Pursuant to City Council action, 2% of meals tax revenue is committed to school capital needs. Business license and utility taxes remained comparable to the previous year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Other taxes which included bank stock tax, motor vehicle tax, recordation tax, admissions tax, lodging tax, cigarette tax and other miscellaneous tax increased \$313,000 or 9.8%. Cigarette tax revenue increased \$167,000 or 28%. Motor vehicle license, bank stock and admissions taxes were also higher in fiscal year 2015. These increases are partially offset by a decrease of 3.3% in lodging tax.

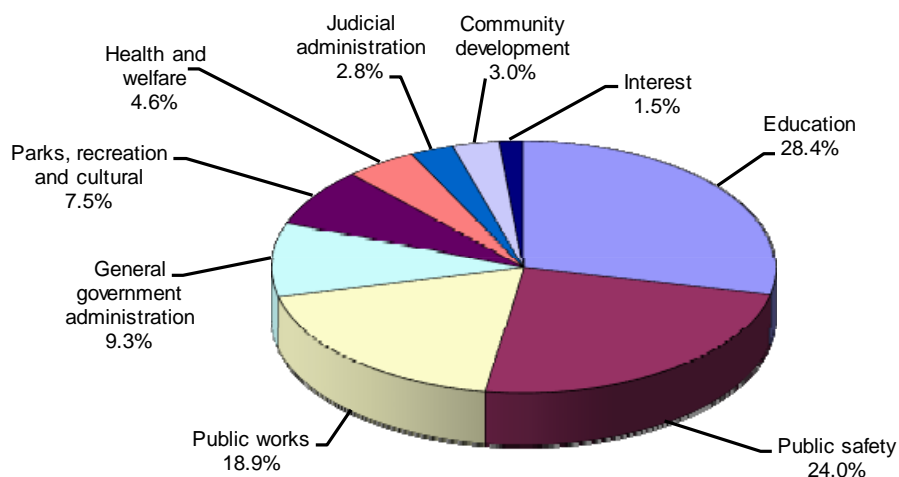
The operating grants and contributions category includes social service programs, street maintenance funds, reimbursement for constitutional officers, funding received under House Bill 599 for law enforcement and other grants and contributions. This category comprised 10.3% of total governmental activities revenues and increased \$592,000 or 8.5%. In the judicial administration category, the Sheriff's Department was awarded \$66,000 in fiscal year 2015 to purchase vehicles. In the public safety category, the City received \$59,000 in flood mitigation funds to purchase and demolish structures located in the flood plain. The Fire Department also received Homeland Security funding to purchase air monitoring equipment and a storage facility in support of the hazardous materials team. In the public works category, state funding for highway maintenance was \$101,000 higher in fiscal year 2015. In the health and welfare function, revenue received under the Comprehensive Services Act for At Risk Youth and Families was higher due to a larger number of children requiring higher level, more costly services in fiscal year 2015.

Charges for services, which were 8.7% of total governmental activities revenues, include fines, court fees, inspection fees, garbage collection fees, recreation fees and other program-based fees. These revenues increased \$630,000 or 10.8% from prior year largely due to an increase in the trash collection fee included in the public works category. The fee was increased from \$1 per month to \$7 per month, effective July 1, 2014.

Capital grants and contributions included grants received from federal and state agencies to fund capital purchases. These revenues decreased \$199,000. In fiscal year 2014, \$150,000 in grant funds were received from the state to pay for a portion of the Police Departments' new 911 phone system. In addition, grant funds totaling \$25,000 were received for the Safe Routes to School project in fiscal year 2014.

### Governmental Activities – Expenses

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



As previously discussed, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. In fiscal year 2015, the calculation of pension expense included various components in an effort to better reflect the value of actual pension benefits earned and incorporate differences between expected/projected and actual results. Prior year expenses were not restated on the statement of activities due to the unavailability of necessary information, so pension expense for fiscal year 2014 reflects actual contributions. In fiscal year 2015, pension expense for governmental activities was \$1 million lower than

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

### **(Continued)**

the previous year, contributing to the decrease in total expenses. Pension expense for business-type activities was \$252,000 lower than the previous year.

Education expenses totaling \$19.2 million or 28.4% of governmental activities, represents the largest allocation of resources. Expenses declined \$5.9 million from the previous year. Funding of \$18.8 million was allocated to the School Division to cover operating costs, which was slightly lower than the amount provided in the previous year. In fiscal year 2014, \$5.5 million in bond proceeds were provided to the School Division to fund a portion of the South Salem Elementary construction, which increased expenses. Meals tax revenue is shared with the School Division. They receive 2% of meals tax revenue, which is dedicated to school debt service and capital needs. In fiscal year 2014, \$702,000 in meals tax was transferred to the School Division. In fiscal year 2015, \$345,000 in meals tax was transferred to the School Division as a larger amount of the dedicated meals tax revenue was utilized to pay the required debt service for the bonds issued for the South Salem construction project.

Public safety expenses, which were 24% of total governmental activities expenses, decreased \$1.3 million or 7.6%. This category includes operations of the labor-intensive police and fire departments, along with expense of emergency medical services, communications (E-911 call center) and the cost of juvenile justice programs. Costs to house inmates at the Roanoke County-Salem Jail and the Western Virginia Regional Jail decreased due to fewer prisoner days. Juvenile detention costs decreased as fewer children were housed at the Roanoke Valley Detention Center. Debt service costs that the City was required to pay for the Western Virginia Regional Jail were lower in fiscal year 2015. Pension expense was also \$463,000 lower than the previous year.

Public works expenses were 18.9% of total governmental activities expenses and included engineering, solid waste management, building maintenance, street paving, traffic engineering and street maintenance. Expenses were down \$640,000 or 4.8% due to decreased highway maintenance spending. Pension expense was also \$115,000 lower than the previous year.

Health and welfare expenses, which were 4.6% of total governmental activities, increased \$472,000 or 18.3%. Comprehensive Services Act expenditures were higher than the previous year as a larger number of children required more intensive and costly services.

Community Development expenses decreased \$382,000 or 16%. In the previous year, the City paid \$500,000 for its share of the Roanoke County social services building renovations, which included HVAC work and roof repairs. The City contracts with Roanoke County to manage the social services area and is thus responsible for its share of renovation costs. A larger amount was paid to the Roanoke Valley Broadband Authority in fiscal year 2015, which partially offset the decrease in expenses because no payment was made to Roanoke County for building renovations.

#### *Business-type Activities*

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

#### *Component Unit – School Division Activities*

General revenues of the School Division decreased \$4.9 million or 12.6%. Payments from the City were higher in the previous year largely due to the transfer of funding for construction of the new school. In fiscal year 2014, support totaled \$25.1 million and included \$18.9 to cover operating costs and \$5.5 million in bond proceeds to fund a portion of South Salem Elementary School construction costs. Meals tax revenue dedicated to school capital projects totaled \$0.7 million. In the current year, the transfer for operating costs remained level, but other amounts were lower. No bond proceeds were transferred and meals tax revenue transferred decreased to \$345,389 due to a larger amount being used to pay debt service costs for the bonds issued for school construction. State aid increased \$0.8 million from the prior year largely due to a \$0.6 million increase in basic aid.

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

Operating grants and contributions decreased \$837,072 or 9.3% largely due to a receipt in fiscal year 2014 of \$850,000 for the Governor's Strategic Compensation Grant Initiative. Charges for services revenue decreased \$124,345 or 7.5% mainly due to a \$73,501 decrease in cafeteria sales.

The School Division incurred expenses of \$44.4 million for the year ended June 30, 2015 a decrease of \$2.2 million or 4.6% from prior year. In fiscal year 2014, the Governor's Strategic Compensation Grant Initiative funding was used to provide one-time incentive compensation totaling \$850,000 to teachers. Instructional costs were also down \$1.3 million or 3.7% from prior year.

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

#### **Governmental Funds**

As of June 30, 2015, the governmental funds had \$15.2 million in total fund balance, an increase of \$5.9 million from prior year. Unassigned fund balances available to fund future expenditures were \$9.8 million or 64.6% of total fund balance. Unassigned fund balance, which contains all amounts not included in other classifications, is available to pay for future years' capital projects expenditures and provide for unforeseen circumstances. Restricted fund balance includes amounts that can be spent only for specific purposes stipulated by grantors and totaled \$4.2 million. Assigned fund balance totaled \$505,633 and represents amounts set aside to liquidate encumbrances. Committed fund balance totaled \$96,503 and represents funds appropriated to complete the CAMA software and ERP projects.

#### **General Fund**

The general fund is the chief operating fund of the City. As of June 30, 2015, the general fund had \$15 million in total fund balance, which increased \$6.2 million from the prior year. Unassigned fund balances available to fund future expenditures were \$9.8 million or 65.3% of total fund balance and increased \$4.5 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 13.6% to 23%. Unassigned fund balance to total fund expenditures increased from 8.1% to 15%.

City Council has stated its intent to increase the unassigned general fund balance to 15% of the fund's current year budgeted appropriations, a level more reflective of the best practices recommended by the Government Finance Officers Association of the United States and Canada (GFOA). As of June 30, 2015, unassigned fund balance levels were 14.4% of the original expenditure budget, slightly less than the desired goal. Various measures have contributed to the growth in reserves. The cigarette tax rate was increased from \$0.15 to \$0.45 per pack effective July 1, 2013 with additional funds earmarked to replenish general fund reserves. In fiscal year 2015, proceeds of \$500,000 were received from the sale of property, which increased reserves. City departments have worked very hard to spend conservatively and general fund expenditures came in under budget in fiscal year 2015, contributing to reserves. City Council also raised several taxes and fees effective July 1, 2014.

Property taxes, which were 46.2% of total general fund revenue, increased \$662,000 or 2% from the prior year. Real estate assessments showed a slight increase from the previous year, resulting in a \$314,000 increase in revenue. Personal property revenue increased by \$314,000 or 5.3%, due to a tax rate increase and a slight increase in assessments. The personal property tax rate increased from \$3.20 per \$100 of assessed value to \$3.25 per \$100 of assessed value. Rates for machinery and tools tax were not increased and revenue remained relatively flat.

Other local taxes, which comprised 28.7% of total general fund revenue, increased \$833,000 or 4.1% from the prior year. Sales tax revenue rose \$256,000 or 4% from the prior year. Meals tax revenue increased \$187,000 or 4.4%. Cigarette tax revenue was \$167,000 higher than the previous year. Collection of business license taxes as of June 30<sup>th</sup> remained level with the prior year and lodging tax decreased 3.3%.

Intergovernmental revenue, which was 15.7% of total general fund revenue, increased \$575,000 or 5.3% from the prior year. In fiscal year 2015, funding received under the Comprehensive Services Act increased as did mandated costs. A larger number of children required more comprehensive and costly services.

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

### **(Continued)**

Additional highway maintenance funding of \$101,000 for road maintenance was received. The Sheriff's Department received grant funding of \$66,000 to purchase vehicles. In fiscal year 2014, the state mandated that localities return a portion of state revenues. The City returned approximately \$77,000, which reduced fiscal year 2014 revenues. This mandate was not in place in fiscal year 2015.

Charges for services, which were 7.7% of total general fund revenue, increased \$676,000 or 13.6% largely due to an increase in the trash collection fee. The fee was raised from \$1 per month to \$7 per month effective July 1, 2014. This resulted in additional revenue of \$655,000.

Education expenditures decreased \$471,000 from prior year and represented 29.4% of General Fund expenditures. Of the \$19.2 million in expenditures, \$18.8 million represented local operating support provided to the School Division and \$345,000 was the transfer of meals tax collected by the City and dedicated to school capital projects. The amount transferred was smaller in fiscal year 2015 as a larger portion of the meals tax funding was utilized to pay debt service costs on the bonds issued for South Salem Elementary construction costs.

Public safety expenditures comprised 24.2% of total general fund expenditures and decreased \$578,000. While there was a slight increase in the daily rate the City paid to house prisoners, the costs for housing prisoners was lower in fiscal year 2015. The City paid for fewer days of prisoner housing at the Roanoke County-Salem Jail and the Western Virginia Regional Jail. Debt service costs that the City was required to pay for Western Virginia Regional Jail were also lower in fiscal year 2015. Costs to house children at the Roanoke Valley Detention Center were lower in fiscal year 2015 as the City paid for fewer days. Police Department costs were also lower in fiscal year 2015. In fiscal year 2014, property was purchased to be used by the Cardinal Academy and a larger amount of grant funds were expended.

Public works expenditures, which were 16.4% of total general fund expenditures, decreased \$379,000 or 3.4% from the prior year. The amount of highway maintenance funds expended was lower in fiscal year 2015.

General government expenditures were 9.3% of total general fund expenditures and increased \$373,000 from the previous year. Costs for the Technology Systems Department were higher than the previous year due to the purchase of various equipment. City Garage expenditures were also higher in fiscal year 2015 due to higher vehicle maintenance costs and the purchase of expendable equipment.

Health and welfare expenditures were 17.7% or \$435,000 higher than the previous year due to an increase in Comprehensive Services Act expenditures. A larger number of children required more intensive and costly services than in the prior year.

Non-departmental expenditures, which were 5% of total general fund expenditures, increased \$488,000 or 17.7%. Costs for worker's compensation, line of duty and liability insurance increased. In addition, retiree health insurance costs and the payment to the OPEB trust were higher in fiscal year 2015.

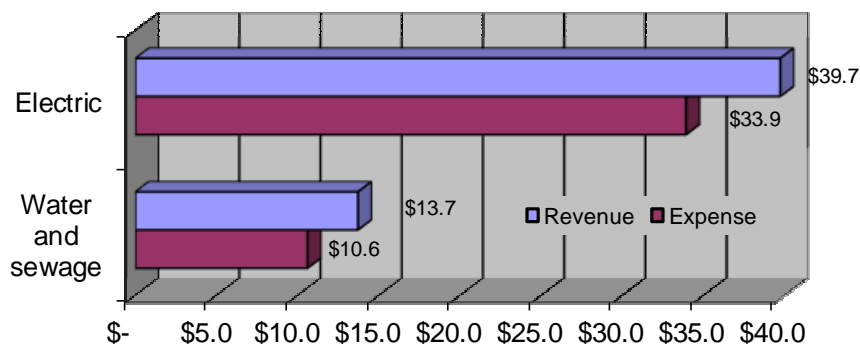
#### Capital Projects Fund

During fiscal year 2015, the fund balance in the capital projects fund decreased by \$297,482. A new front loading refuse truck was purchased with remaining proceeds from bonds sold during fiscal year 2014 at a cost of \$229,000. Construction was completed on the Salem Woods storm drain project with \$245,000 expended in fiscal year 2015. This project was funded through state highway maintenance funds. Various greenway projects continued with expenditures of \$112,000 incurred during fiscal year 2015. The City has been awarded grants that cover the majority of construction costs on the greenway projects.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### Proprietary Funds

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



### Electric Fund

As of June 30, 2015, the electric fund had \$37.8 million in total net position, which increased by \$2.6 million from prior year. Net investment in capital assets was \$13.3 million or 35.3% of total net position and decreased \$470,000 from prior year. Unrestricted net position available to fund future expenses was \$24.4 million or 64.7% of total net position.

For fiscal year 2015, operating revenue was \$39.7 million and decreased \$145,000 from the prior year primarily due to lower consumption. Operating expenses were \$33.1 million and were approximately \$266,000 lower than prior year. The City of Salem purchases power for resale through American Electric Power (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 to AEP's overall transmission and power production costs and are allocated to the City. They are not a direct result of activities in Salem. The true up of charges is done annually and the settle up recorded in fiscal year 2015 was higher than the settle up recorded in fiscal year 2014. Transmission costs were also higher in fiscal year 2015. Despite increases in the true up and transmission costs, total purchased power costs were lower in fiscal year 2015 due to lower consumption.

### Water and Sewage Fund

As of June 30, 2015, the water and sewage fund had \$27.4 million in total net position, an increase of \$3 million from prior year. Net investment in capital assets was \$24.3 million or 88.6% of total net position and increased \$237,000 from prior year. Unrestricted net position available to fund future expenses was \$3.1 million or 11.4% of total net position.

For fiscal year 2015, operating revenue was \$13.7 million, an increase of \$1 million from the previous year. The City's water and sewer rates were increased effective January 1, 2015. Operating expenses were \$9.5 million, approximately \$296,000 lower than prior year. Treatment of sewage costs were \$284,000 lower than the previous year due to the 3.3% decrease in the rate paid to Western Virginia Water Authority (WVWA). In addition, 369.2 million fewer gallons of sewage were treated in fiscal year 2015 compared to the previous year. This is a reduction of 12.9% in gallons of sewage treated.



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

**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 2015**  
(In Millions)

	Original Budget	Budget As Amended	Actual
Revenues	\$ 70.2	\$ 70.8	\$ 73.5
Expenditures	(68.0)	(69.8)	(65.2)
Transfers in	3.3	3.4	3.4
Transfers out	(5.5)	(5.5)	(5.5)
Use of fund balance	\$ -	\$ (1.1)	\$ 6.2

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, 2014.
- To re-appropriate grants, donations and other revenues authorized in fiscal year 2014 or earlier, but not expended or encumbered as of June 30, 2014.
- To appropriate grants, donations and other revenues accepted or adjusted in fiscal year 2015 when official notice of approval was received.
- To appropriate the unassigned general fund balance to capital projects.

**CAPITAL ASSETS**

The City's total primary government capital assets, net of accumulated depreciation, decreased 2.7% from \$185.8 million to \$180.8 million. This investment includes land, construction in progress, machinery and equipment, buildings and improvements, public domain infrastructure, distribution and transmission, utility plant and sewage treatment contract. The following table presents a summary of capital asset balances at the end of the year. The changes in each category of capital assets, along with other important information regarding capital assets, are presented in Note 6 of the financial statements.

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

	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2015	2014	2015	2014	2015	2014	2015	2014
Land	\$ 5.8	\$ 5.9	\$ 1.5	\$ 1.5	\$ 7.3	\$ 7.4	\$ 1.1	\$ 1.1
Construction in progress	0.5	0.8	3.9	2.4	4.4	3.2	0.1	0.4
Machinery and equipment	4.3	4.6	1.3	1.2	5.6	5.8	2.8	3.9
Buildings and improvements	24.3	25.1	18.4	19.4	42.7	44.5	44.1	44.0
Public domain infrastructure	56.3	57.5	-	-	56.3	57.5	-	-
Distribution and transmission	-	-	15.3	15.5	15.3	15.5	-	-
Utility plant	-	-	28.5	30.4	28.5	30.4	-	-
Sewage treatment contract	-	-	20.7	21.5	20.7	21.5	-	-
Total	\$ 91.2	\$ 93.9	\$ 89.6	\$ 91.9	\$180.8	\$185.8	\$ 48.1	\$ 49.4

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

- Lake Spring Park underwent renovations in fiscal year 2015 to improve its aesthetic appearance and control the growing duck population. New iron fencing was made to surround both ponds and a 6,000-square-foot landing of river rock was added near the smaller pond. In order to control the food consumed by the ducks, an automatic feeder was installed to pipe food to the ducks along with coin-operated feeders for park visitors to feed the ducks. The renovation was completed in June 2015 with a total capitalized cost of \$129,200.
- Significant infrastructure improvements were made to the storm drain at the Salem Woods apartments with \$251,490 expended in fiscal year 2015 and a total capitalized cost of \$527,352. Larger reinforced concrete pipe was installed and integrated with the existing storm drain systems to handle a greater capacity flow.
- The City implemented two new software projects in fiscal year 2015 to replace legacy software systems. In July 2014, the utility management software system went live with a total capitalized cost of \$133,794. In October 2014, real estate implemented a new computer-assisted mass appraisal (CAMA) software package with a total capitalized cost of \$71,954.
- The street department purchased a new 2015 front loading dumpster truck in July 2014 at a cost of \$229,481. The truck was funded through general obligation bonds issued in December 2013.
- The fire department purchased a new 2014 Dodge Ram ambulance in August 2014 at a cost of \$153,765 to replace an older ambulance.
- Traffic signal replacement and improvements totaled \$360,110 in fiscal year 2015.

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

- The Electric Department purchased a new 2014 Freightliner Digger Derrick in fiscal year 2015 at a cost of \$225,626.
- The Electric Department replaced six 12 kV circuit breakers located at the Cleveland Avenue substation at a total cost of \$157,500. The new circuit breakers contain a newer technology that is safer and more reliable than the outdated circuit breakers that were replaced and will help reduce future power outages.
- \$770,513 was spent on improvements to Electric distribution and transmission infrastructure, including the circuit breaker replacements.

### LONG-TERM DEBT

At June 30, 2015, the City's long-term liabilities, excluding compensated absences, net pension liabilities, other postemployment benefit liabilities, bond premiums, and bond discounts, totaled \$81.5 million. This amount was comprised of \$34.6 million related to governmental activities (including \$21.2 million for debt held on behalf of the School Division) and \$46.9 million related to business-type activities. The City made \$6.4 million in principal payments and amortized \$149,871 in discounts and premiums.

Total debt decreased \$4.6 million during the fiscal year. The City issued \$18,813,000 in general obligation bonds on April 22, 2015 to advance refund \$17,945,000 of outstanding 2006A general obligation bonds. The City completed the advance refunding to reduce its future debt service payments. Detailed information regarding these changes in long-term debt is disclosed in Note 8 to the financial statements.

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

The Charter of the City of Salem and the *Code of Virginia* limits the City's net debt to 10% of the assessed valuation of real estate within the City limits. This limit applies to governmental fund tax supported debt and certain long-term liabilities of proprietary funds. The City considers long-term debt of its electric, water and sewage funds to be self-supporting. The City's tax-supported debt of \$34.7 million is below the legal debt limit of \$205.3 million. Table 10 of the statistical section provides additional information related to the legal debt margin.

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

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

Interest and other fiscal charges for fiscal year 2015 were \$1.0 million or 1.5% of total governmental activities expenses.

### **FACTORS INFLUENCING FUTURE BUDGETS**

Current economic conditions do not reflect substantial improvement over the previous year. The City has seen moderate growth in local taxes but stagnant property tax revenues, unfunded state mandates, and reduced state support for education continue to put pressure on local government budgets and require tough choices.

City Council approved increases in some taxes and fees effective July 1, 2014 which generated additional general fund revenue in fiscal year 2015 and will result in higher revenues in future budget years as well. The trash collection fee was raised from \$1 per household per month to \$7 per household per month, which generated an additional \$655,000. The personal property tax rate increased from \$3.20 per \$100 of assessed value to \$3.25 per \$100 of assessed value on January 1, 2015. The machinery and equipment tax rate remained at \$3.20. Several smaller changes in permits and fees were also instituted.

While funding was not available for salary increases, the City's fiscal year 2016 general fund budget included \$250,000 for capital purchases. General fund revenues budgeted for fiscal year 2016 reflect an increase of only 1%, largely due to growth in the local taxes category. Other categories such as property taxes and charges for services are expected to be relatively flat or lower in fiscal year 2016. The School Division budget for fiscal year 2016 included a 1.5% raise for employees.

The City is planning to issue bonds in fiscal year 2016 to purchase equipment and fund other improvements. Two fire trucks, stadium improvements and an automated meter reading system for electric and water meters are expected to be paid for with proceeds from this borrowing. The City entered into a \$3.1 million contract for paving work in fiscal years 2016 and 2017. Restricted highway maintenance funds will be used to pay for this contract.

The City is in the tenth year of a twenty-year contract to purchase electricity. The rate the City pays for wholesale electricity varies based on the supplier's actual costs, which are affected by fuel and environmental costs. Moderate increases are expected over the next several years. No rate increases for customers are included in the fiscal year 2016 budget. Consumption is projected to be flat in fiscal year 2016.

Effective July 1, 2010, the City instituted a new rate structure for water and sewer services. The monthly bills were modified to include a monthly base service fee and also a volume charge based on metered water usage. Rate increases necessary to produce sufficient revenue to sustain long-term water and sewer systems were phased incrementally over a four-year period. Water and sewer rates increased approximately 5% and 1% respectively on January 1, 2015. The fiscal year 2016 budget includes a 5% increase in water rates and a 1% increase in sewer rates, which will be effective January 1, 2016. A decrease in consumption is anticipated.

The City is in the process of addressing inflow and infiltration in the downtown portion of the City's sanitary sewer system. Sources of inflow and infiltration were identified in the Sewer System Evaluation Survey completed in early 2012. To address these issues, the City has applied for \$4.9 million in Virginia Department of Environmental Quality (VDEQ) Virginia Clean Water Revolving Loan funding. This project is part of the City's long-term sanitary sewer system corrective action plan that was submitted to the VDEQ

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

as part of the City's special order by consent. Design for this project is scheduled to be completed in the spring of 2016 with construction of the improvements to follow.

The City and Salem School Division continue to be negatively impacted by the Affordable Care Act (ACA). In addition to the cost of services that the health insurance plan is now required to cover, the plan paid fees totaling \$108,000 that were mandated by the Affordable Care Act in fiscal year 2015. Fees also have to be paid in fiscal year 2016. Federal reporting of health insurance information is required for the first time in calendar year 2015. The required reporting is extensive and is an administrative burden for employers. The requirements of the Affordable Care Act have made the City and School Division examine how part-time labor is utilized and has resulted in health insurance being offered to additional staff. The City and School Division have also been forced to make some plan design changes to attempt to alleviate the effects of the Cadillac tax, which will be instituted in 2018. The City and School Division continue to monitor requirements and changes of the Affordable Care Act.

In June 2015, the Governmental Accounting Standards Board approved GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which revises and establishes new financial reporting requirements for governments that provide their employees with postemployment benefits. Beginning in fiscal year 2018, governments providing postemployment benefits such as health insurance will be required to recognize their long-term obligation for these benefits and to comparably measure the annual costs for the first time. The City and School Division will be affected by this new pronouncement.

### **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](http://www.salemva.gov).

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

# BASIC FINANCIAL STATEMENTS

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

**CITY OF SALEM, VIRGINIA  
STATEMENT OF NET POSITION  
JUNE 30, 2015**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 12,290,930	\$ 29,794,988	\$ 42,085,918	\$ 8,235,756
Receivables, net	3,245,278	6,624,044	9,869,322	168,173
Due from other governmental units	4,607,502	-	4,607,502	1,346,715
Other postemployment benefits asset	-	-	-	186,976
Inventories	507,702	1,677,699	2,185,401	34,125
Prepaid items	9,854	69,800	79,654	-
<i>Restricted assets:</i>				
Cash and cash equivalents	66,045	-	66,045	1,160,351
<i>Capital assets:</i>				
Nondepreciable	6,372,873	5,399,519	11,772,392	1,194,205
Depreciable, net	84,804,071	84,176,278	168,980,349	46,927,128
Total assets	<u>111,904,255</u>	<u>127,742,328</u>	<u>239,646,583</u>	<u>59,253,429</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>3,185,036</u>	<u>1,453,653</u>	<u>4,638,689</u>	<u>3,120,057</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	1,982,945	3,327,474	5,310,419	469,015
Accrued payroll and related liabilities	1,028,773	311,748	1,340,521	5,248,650
Accrued interest	352,646	648,839	1,001,485	-
Self insurance claims liability	451,750	-	451,750	516,878
Unearned revenue	52,173	198,948	251,121	55,462
Customer security deposits	-	821,276	821,276	-
<i>Long-term liabilities due in less than one year:</i>				
Bonds payable	2,954,489	3,528,900	6,483,389	-
Compensated absences	1,374,089	415,740	1,789,829	360,720
<i>Long-term liabilities due in more than one year:</i>				
Bonds payable	31,726,674	44,134,494	75,861,168	-
Compensated absences	443,081	259,008	702,089	595,259
Net pension liability	26,225,822	7,017,885	33,243,707	35,161,618
Other postemployment benefits	56,892	60,524	117,416	-
Total liabilities	<u>66,649,334</u>	<u>60,724,836</u>	<u>127,374,170</u>	<u>42,407,602</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>7,004,660</u>	<u>1,859,495</u>	<u>8,864,155</u>	<u>7,225,131</u>
<b>NET POSITION</b>				
Net investment in capital assets	81,968,611	42,204,699	124,173,310	48,121,333
Restricted for:				
Grant programs	635,585	-	635,585	78,474
Highway maintenance	3,544,830	-	3,544,830	-
Capital projects	65,925	-	65,925	-
Unrestricted (deficit)	(44,779,654)	24,406,951	(20,372,703)	(35,459,054)
Total net position	<u>\$ 41,435,297</u>	<u>\$ 66,611,650</u>	<u>\$ 108,046,947</u>	<u>\$ 12,740,753</u>

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

**CITY OF SALEM, VIRGINIA  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2015**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-type Activities	Total	
<b>Primary Government</b>								
<i>Governmental activities:</i>								
General government	\$ 6,335,563	\$ 260,169	\$ 252,250	\$ 8,510	\$ (5,814,634)		\$ (5,814,634)	
Judicial administration	1,921,789	235,587	1,113,033	10,000	(563,169)		(563,169)	
Public safety	16,192,190	1,237,901	1,146,586	10,005	(13,797,698)		(13,797,698)	
Public works	12,758,967	4,351,157	3,817,520	55,057	(4,535,233)		(4,535,233)	
Health and welfare	3,050,634	-	1,082,511	-	(1,968,123)		(1,968,123)	
Education	19,151,270	-	-	-	(19,151,270)		(19,151,270)	
Parks, recreation and cultural	5,127,367	353,830	156,073	108,858	(4,508,606)		(4,508,606)	
Community development	2,006,736	10	-	-	(2,006,726)		(2,006,726)	
Interest and other fiscal charges	1,032,140	-	-	-	(1,032,140)		(1,032,140)	
Total governmental activities	<u>67,576,656</u>	<u>6,438,654</u>	<u>7,567,973</u>	<u>192,430</u>	<u>(53,377,599)</u>		<u>(53,377,599)</u>	
<i>Business-type activities:</i>								
Electric	33,891,833	39,715,705	-	47,196		\$ 5,871,068	5,871,068	
Water and sewage	10,568,840	13,658,281	-	-		3,089,441	3,089,441	
Civic Center	2,888,263	799,948	-	-		(2,088,315)	(2,088,315)	
Catering and concessions	851,760	791,311	-	-		(60,449)	(60,449)	
Total business-type activities	<u>48,200,696</u>	<u>54,965,245</u>	<u>-</u>	<u>47,196</u>		<u>6,811,745</u>	<u>6,811,745</u>	
<b>Total primary government</b>	<u>\$ 115,777,352</u>	<u>\$ 61,403,899</u>	<u>\$ 7,567,973</u>	<u>\$ 239,626</u>	<u>\$ (53,377,599)</u>	<u>\$ 6,811,745</u>	<u>\$ (46,565,854)</u>	
<b>Component Unit</b>	<u>\$ 44,419,377</u>	<u>\$ 1,542,794</u>	<u>\$ 8,119,815</u>	<u>\$ 5,174</u>				<u>\$ (34,751,594)</u>
<i>General revenues:</i>								
Property taxes					33,371,609	-	33,371,609	-
Local sales and use taxes					6,688,509	-	6,688,509	-
Business license tax					5,088,724	-	5,088,724	-
Meals tax					4,464,873	-	4,464,873	-
Utility taxes					1,217,299	-	1,217,299	-
Other taxes					3,497,219	-	3,497,219	-
Intergovernmental revenue not restricted					3,942,960	-	3,942,960	-
Unrestricted investment earnings					164,585	158	164,743	-
Gain on sale of capital assets					389,290	8,225	397,515	-
Payments from City of Salem					-	-	-	19,151,270
State aid					-	-	-	13,916,982
Other					586,008	-	586,008	954,837
Transfers					2,266,120	(2,266,120)	-	-
Total general revenues and transfers					<u>61,677,196</u>	<u>(2,257,737)</u>	<u>59,419,459</u>	<u>34,023,089</u>
Change in net position					8,299,597	4,554,008	12,853,605	(728,505)
<b>Net position, beginning, as restated</b>					<u>33,135,700</u>	<u>62,057,642</u>	<u>95,193,342</u>	<u>13,469,258</u>
<b>Net position, ending</b>					<u>\$ 41,435,297</u>	<u>\$ 66,611,650</u>	<u>\$ 108,046,947</u>	<u>\$ 12,740,753</u>

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

**CITY OF SALEM, VIRGINIA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2015**

	General	Debt Service	Capital Projects	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 10,950,863	\$ -	\$ 69,441	\$ 11,020,304
Cash and cash equivalents, restricted	2,500	-	63,545	66,045
Receivables, net	3,224,465	-	-	3,224,465
Due from other governmental units	4,548,711	-	58,791	4,607,502
Inventories	507,702	-	-	507,702
Prepaid items	6,854	-	-	6,854
Total assets	<u>\$ 19,241,095</u>	<u>\$ -</u>	<u>\$ 191,777</u>	<u>\$ 19,432,872</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 1,797,863	\$ -	\$ 29,349	\$ 1,827,212
Accrued payroll and related liabilities	1,021,628	-	-	1,021,628
Unearned revenue	27,616	-	-	27,616
Total liabilities	<u>2,847,107</u>	<u>-</u>	<u>29,349</u>	<u>2,876,456</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>1,395,991</u>	<u>-</u>	<u>-</u>	<u>1,395,991</u>
<b>FUND BALANCES</b>				
Nonspendable	514,556	-	-	514,556
Restricted	4,180,415	-	65,925	4,246,340
Committed	-	-	96,503	96,503
Assigned	505,633	-	-	505,633
Unassigned	9,797,393	-	-	9,797,393
Total fund balances	<u>14,997,997</u>	<u>-</u>	<u>162,428</u>	<u>15,160,425</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 19,241,095</u>	<u>\$ -</u>	<u>\$ 191,777</u>	<u>\$ 19,432,872</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, 2015**

Total fund balance of governmental funds	\$ 15,160,425
Capital assets used in governmental activities are not considered current financial resources and, therefore, are not reported in the governmental funds.	91,176,944
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	1,340,259
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	78,561
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	(34,582,237)
Bond premiums	(149,699)
Bond discounts	50,773
Accrued interest	(352,646)
Compensated absences	(1,814,744)
Other postemployment benefits	(56,892)
Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds:	
Deferred outflows of resources for current year employer contributions	3,081,035
Deferred inflows of resources for the net difference between projected and actual investment earnings on pension plan investments	(6,893,668)
Net pension liability	(26,017,267)
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.	414,453
Net position of governmental activities	<u><u>\$ 41,435,297</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, 2015**

	General	Debt Service	Capital Projects	Total Governmental Funds
<b>REVENUES</b>				
Property taxes	\$ 33,741,275	\$ -	\$ -	\$ 33,741,275
Other local taxes	20,956,626	-	-	20,956,626
Permits, fees and licenses	394,827	-	-	394,827
Fines and forfeitures	127,002	-	-	127,002
Revenue from use of money and property	511,808	-	172	511,980
Charges for services	5,632,172	-	-	5,632,172
Other	153,748	-	-	153,748
Intergovernmental	11,487,489	-	151,251	11,638,740
Total revenues	<u>73,004,947</u>	<u>-</u>	<u>151,423</u>	<u>73,156,370</u>
<b>EXPENDITURES</b>				
<i>Current:</i>				
General government	6,062,763	-	-	6,062,763
Judicial administration	1,913,666	-	-	1,913,666
Public safety	15,779,717	-	-	15,779,717
Public works	10,709,120	-	-	10,709,120
Health and welfare	2,900,389	-	-	2,900,389
Education	19,151,270	-	-	19,151,270
Parks, recreation and cultural	4,401,263	-	-	4,401,263
Community development	1,062,184	-	-	1,062,184
Non-departmental	3,248,409	-	-	3,248,409
Capital projects	-	-	697,503	697,503
<i>Debt service:</i>				
Principal retirement	-	3,018,738	-	3,018,738
Interest	-	1,101,829	-	1,101,829
Bond issuance costs	-	10,377	-	10,377
Total expenditures	<u>65,228,781</u>	<u>4,130,944</u>	<u>697,503</u>	<u>70,057,228</u>
Excess (deficiency) of revenues over expenditures	<u>7,776,166</u>	<u>(4,130,944)</u>	<u>(546,080)</u>	<u>3,099,142</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of refunding bonds	-	1,932,097	-	1,932,097
Payment to refunded bond escrow agent	-	(1,921,720)	-	(1,921,720)
Proceeds from sale of capital assets	505,014	-	-	505,014
Transfers in	3,397,068	4,120,567	248,598	7,766,233
Transfers out	(5,500,113)	-	-	(5,500,113)
Total other financing sources (uses)	<u>(1,598,031)</u>	<u>4,130,944</u>	<u>248,598</u>	<u>2,781,511</u>
Net change in fund balances	<u>6,178,135</u>	<u>-</u>	<u>(297,482)</u>	<u>5,880,653</u>
<b>Fund balances, beginning</b>	<u>8,819,862</u>	<u>-</u>	<u>459,910</u>	<u>9,279,772</u>
<b>Fund balances, ending</b>	<u>\$ 14,997,997</u>	<u>\$ -</u>	<u>\$ 162,428</u>	<u>\$ 15,160,425</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, 2015**

Net changes in fund balances of governmental funds	\$ 5,880,653
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	2,032,495
Capital donated	57,184
Depreciation expense	(4,641,066)
Governmental funds report proceeds from the sale of a capital asset as an increase in financial resources while governmental activities report the gain or loss on the sale of capital asset.	
Proceeds from sale of assets	(505,014)
Gain from sale of assets	317,084
Revenues in the Statement of Activities that do not provide current financial resources are not reported as fund revenues.	13,511
Issuance of debt provides current financial resources to governmental funds, but increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Position. Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	
Bond Proceeds, net of payment to refunded bond escrow agent	(10,377)
Principal payments	3,018,738
Amortization of current year bond premiums	31,398
Amortization of current year bond discounts	(1,779)
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	65,409
Change in compensated absences	95,570
Change in other postemployment benefits	237,910
Governmental funds report employer pension contributions as expenditures. However, in the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense.	
Employer pension contributions	3,081,035
Pension expense	(1,731,320)
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.	
	358,166
Change in net position of governmental activities	<u><u>\$ 8,299,597</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, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 33,173,500	\$ 33,173,500	\$ 33,741,275	\$ 567,775
Other local taxes	19,749,200	19,837,359	20,956,626	1,119,267
Permits, fees and licenses	277,878	294,791	394,827	100,036
Fines and forfeitures	161,000	161,000	127,002	(33,998)
Revenue from use of money and property	487,458	487,458	511,808	24,350
Charges for services	5,777,160	5,778,602	5,632,172	(146,430)
Other	10,500	15,500	153,748	138,248
Intergovernmental	10,562,858	11,098,246	11,487,489	389,243
Total revenues	<u>70,199,554</u>	<u>70,846,456</u>	<u>73,004,947</u>	<u>2,158,491</u>
<b>EXPENDITURES</b>				
General government	5,953,488	6,409,773	6,062,763	347,010
Judicial administration	1,905,299	2,015,579	1,913,666	101,913
Public safety	16,355,315	16,646,811	15,779,717	867,094
Public works	12,645,560	13,093,258	10,709,120	2,384,138
Health and welfare	2,181,800	2,588,343	2,900,389	(312,046)
Education	18,844,881	19,651,271	19,151,270	500,001
Parks, recreation and cultural	4,501,811	4,655,679	4,401,263	254,416
Community development	946,544	1,152,929	1,062,184	90,745
Non-departmental	4,670,105	3,600,705	3,248,409	352,296
Total expenditures	<u>68,004,803</u>	<u>69,814,348</u>	<u>65,228,781</u>	<u>4,585,567</u>
Excess of revenues over expenditures	<u>2,194,751</u>	<u>1,032,108</u>	<u>7,776,166</u>	<u>6,744,058</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of capital assets	-	-	505,014	505,014
Transfers in	3,310,000	3,410,000	3,397,068	(12,932)
Transfers out	(5,504,751)	(5,540,371)	(5,500,113)	40,258
Total other financing uses	<u>(2,194,751)</u>	<u>(2,130,371)</u>	<u>(1,598,031)</u>	<u>532,340</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ (1,098,263)</u>	<u>\$ 6,178,135</u>	<u>\$ 7,276,398</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, 2015**

	Enterprise Funds				Internal Service Fund
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total	
<b>ASSETS</b>					
<i>Current assets:</i>					
Cash and cash equivalents	\$ 23,402,494	\$ 6,379,421	\$ 13,073	\$ 29,794,988	\$ 1,270,626
Receivables, net	4,814,912	1,671,992	137,140	6,624,044	20,813
Due from other funds	1,225,000	-	-	1,225,000	-
Inventories	1,358,542	286,028	33,129	1,677,699	-
Prepaid items	-	1,496	68,304	69,800	3,000
Total current assets	<u>30,800,948</u>	<u>8,338,937</u>	<u>251,646</u>	<u>39,391,531</u>	<u>1,294,439</u>
<i>Capital assets:</i>					
Nondepreciable	1,310,155	3,912,711	176,653	5,399,519	-
Depreciable, net	29,668,818	50,097,085	4,410,375	84,176,278	-
Total capital assets	<u>30,978,973</u>	<u>54,009,796</u>	<u>4,587,028</u>	<u>89,575,797</u>	<u>-</u>
Total assets	<u>61,779,921</u>	<u>62,348,733</u>	<u>4,838,674</u>	<u>128,967,328</u>	<u>1,294,439</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>938,302</u>	<u>347,099</u>	<u>168,252</u>	<u>1,453,653</u>	<u>25,440</u>
<b>LIABILITIES AND DEFERRED INFLOWS</b>					
<i>Current liabilities:</i>					
Accounts payable and accrued liabilities	2,524,202	635,339	167,933	3,327,474	155,733
Accrued payroll and related liabilities	110,427	112,355	88,966	311,748	7,145
Accrued interest	101,675	547,164	-	648,839	-
Self insurance claims liability	-	-	-	-	451,750
Due to other funds	-	-	1,225,000	1,225,000	-
Unearned revenue	5,473	64,550	128,925	198,948	24,557
Customer security deposits	821,276	-	-	821,276	-
Bonds payable	925,106	2,603,794	-	3,528,900	-
Compensated absences	167,119	164,314	84,307	415,740	2,426
Total current liabilities	<u>4,655,278</u>	<u>4,127,516</u>	<u>1,695,131</u>	<u>10,477,925</u>	<u>641,611</u>
<i>Noncurrent liabilities:</i>					
Bonds payable	16,709,519	27,424,975	-	44,134,494	-
Compensated absences	178,783	30,815	49,410	259,008	-
Net pension liability	2,693,839	2,905,870	1,418,176	7,017,885	208,555
Other postemployment benefits	12,845	25,297	22,382	60,524	-
Total noncurrent liabilities	<u>19,594,986</u>	<u>30,386,957</u>	<u>1,489,968</u>	<u>51,471,911</u>	<u>208,555</u>
Total liabilities	<u>24,250,264</u>	<u>34,514,473</u>	<u>3,185,099</u>	<u>61,949,836</u>	<u>850,166</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>713,773</u>	<u>769,955</u>	<u>375,767</u>	<u>1,859,495</u>	<u>55,260</u>
<b>NET POSITION</b>					
Net investment in capital assets	13,344,348	24,273,323	4,587,028	42,204,699	-
Unrestricted (deficit)	24,409,838	3,138,081	(3,140,968)	24,406,951	414,453
Total net position	<u>\$ 37,754,186</u>	<u>\$ 27,411,404</u>	<u>\$ 1,446,060</u>	<u>\$ 66,611,650</u>	<u>\$ 414,453</u>

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, 2015**

	Enterprise Funds				Internal Service Fund
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total	
<b>OPERATING REVENUES</b>					
Charges for services	\$ 39,298,585	\$ 13,233,968	\$ 1,545,031	\$ 54,077,584	\$ 5,965,867
Connections and transfers	67,110	116,288	-	183,398	-
Penalties	168,612	155,537	-	324,149	-
Pole rentals	180,728	-	-	180,728	-
Commissions	-	-	9,081	9,081	-
Other	670	152,488	37,147	190,305	180,019
Total operating revenues	<u>39,715,705</u>	<u>13,658,281</u>	<u>1,591,259</u>	<u>54,965,245</u>	<u>6,145,886</u>
<b>OPERATING EXPENSES</b>					
Salaries	-	1,614,411	1,392,193	3,006,604	140,761
Fringe benefits	-	779,917	420,871	1,200,788	41,246
Show expenses	-	-	413,850	413,850	-
Maintenance	-	606,484	161,471	767,955	10,370
Billing and collection	366,708	548,991	-	915,699	-
Professional services	20,112	94,906	16,829	131,847	193,675
Insurance	19,779	22,562	19,820	62,161	-
Purchased power	27,618,031	-	-	27,618,031	-
Distribution - operations	773,822	-	-	773,822	-
Distribution - maintenance	1,723,265	-	-	1,723,265	-
Administration	678,237	326,324	73,048	1,077,609	3,210
Travel and training	6,937	10,678	17,247	34,862	-
Materials and supplies	-	336,470	278,015	614,485	8,652
Expendable equipment and small tools	100,956	38,256	651	139,863	-
Utilities	-	386,966	288,966	675,932	4,533
Miscellaneous	149,045	3,733	1,105	153,883	65,609
Depreciation	1,638,003	2,860,108	499,009	4,997,120	-
Treatment of sewage	-	1,907,686	-	1,907,686	-
Commissions	-	-	156,948	156,948	-
Claims	-	-	-	-	5,329,447
Total operating expenses	<u>33,094,895</u>	<u>9,537,492</u>	<u>3,740,023</u>	<u>46,372,410</u>	<u>5,797,503</u>
Operating income (loss)	<u>6,620,810</u>	<u>4,120,789</u>	<u>(2,148,764)</u>	<u>8,592,835</u>	<u>348,383</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Interest income	33	-	125	158	9,783
Interest expense	(693,088)	(1,031,348)	-	(1,724,436)	-
Bond issuance costs	(91,150)	-	-	(91,150)	-
Gain (loss) on sale of capital assets	(12,700)	8,225	-	(4,475)	-
Net nonoperating revenues (expenses)	<u>(796,905)</u>	<u>(1,023,123)</u>	<u>125</u>	<u>(1,819,903)</u>	<u>9,783</u>
Income (loss) before contributions and transfers	<u>5,823,905</u>	<u>3,097,666</u>	<u>(2,148,639)</u>	<u>6,772,932</u>	<u>358,166</u>
<b>Capital contributions in</b>	47,196	-	-	47,196	-
<b>Transfers in</b>	-	-	1,130,948	1,130,948	-
<b>Transfers out</b>	<u>(3,260,000)</u>	<u>(137,068)</u>	<u>-</u>	<u>(3,397,068)</u>	<u>-</u>
Change in net position	<u>2,611,101</u>	<u>2,960,598</u>	<u>(1,017,691)</u>	<u>4,554,008</u>	<u>358,166</u>
<b>Net position, beginning, as restated</b>	<u>35,143,085</u>	<u>24,450,806</u>	<u>2,463,751</u>	<u>62,057,642</u>	<u>56,287</u>
<b>Net position, ending</b>	<u>\$ 37,754,186</u>	<u>\$ 27,411,404</u>	<u>\$ 1,446,060</u>	<u>\$ 66,611,650</u>	<u>\$ 414,453</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, 2015**

	Enterprise Funds				Internal Service Fund
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total	
<b>OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 39,272,749	\$ 13,337,296	\$ 1,593,917	\$ 54,203,962	\$ 5,987,740
Payments to suppliers	(28,950,445)	(4,332,235)	(1,384,229)	(34,666,909)	(220,080)
Payments to employees	(2,519,757)	(2,513,657)	(1,870,246)	(6,903,660)	(192,122)
Payments for claims	-	-	-	-	(5,804,854)
Other receipts	670	152,488	37,147	190,305	180,019
Net cash provided by (used in) operating activities	<u>7,803,217</u>	<u>6,643,892</u>	<u>(1,623,411)</u>	<u>12,823,698</u>	<u>(49,297)</u>
<b>NONCAPITAL FINANCING ACTIVITIES</b>					
Interfund loan	(90,000)	-	490,000	400,000	-
Transfers in	-	-	1,130,948	1,130,948	-
Transfers out	(3,260,000)	(137,068)	-	(3,397,068)	-
Net cash provided by (used in) noncapital financing activities	<u>(3,350,000)</u>	<u>(137,068)</u>	<u>1,620,948</u>	<u>(1,866,120)</u>	<u>-</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Proceeds from sale of capital assets	131	14,262	-	14,393	-
Purchases of capital assets	(1,166,714)	(1,298,006)	-	(2,464,720)	-
Proceeds from capital debt	-	1,161,153	-	1,161,153	-
Proceeds from refunding bonds	16,880,903	-	-	16,880,903	-
Payment of refunding escrow deposit	(16,788,220)	-	-	(16,788,220)	-
Payment of refunding issuance costs	(91,150)	-	-	(91,150)	-
Principal paid on capital debt	(722,317)	(2,617,558)	-	(3,339,875)	-
Interest paid on capital debt	(788,552)	(1,199,417)	-	(1,987,969)	-
Capital contributions	47,196	-	-	47,196	-
Net cash used in capital and related financing activities	<u>(2,628,723)</u>	<u>(3,939,566)</u>	<u>-</u>	<u>(6,568,289)</u>	<u>-</u>
<b>INVESTING ACTIVITIES</b>					
Interest received	33	-	125	158	9,783
Net cash provided by investing activities	<u>33</u>	<u>-</u>	<u>125</u>	<u>158</u>	<u>9,783</u>
Net increase (decrease) in cash and cash equivalents	1,824,527	2,567,258	(2,338)	4,389,447	(39,514)
Cash and cash equivalents, beginning	21,577,967	3,812,163	15,411	25,405,541	1,310,140
Cash and cash equivalents, ending	<u>\$ 23,402,494</u>	<u>\$ 6,379,421</u>	<u>\$ 13,073</u>	<u>\$ 29,794,988</u>	<u>\$ 1,270,626</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>					
Operating income (loss)	\$ 6,620,810	\$ 4,120,789	\$ (2,148,764)	\$ 8,592,835	\$ 348,383
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i>					
Depreciation	1,638,003	2,860,108	499,009	4,997,120	-
Pension expense, net of employer contributions	(148,299)	(153,727)	(73,879)	(375,905)	(11,562)
<i>Decrease (increase) in assets:</i>					
Receivables, net	(448,994)	(118,597)	19,089	(548,502)	21,233
Inventories	15,048	19,906	(13,953)	21,001	-
Prepaid items	-	-	6,910	6,910	(3,000)
<i>Increase (decrease) in liabilities:</i>					
Accounts payable and accrued liabilities	91,288	(69,085)	50,764	72,967	(398,362)
Accrued payroll and related liabilities	17,577	12,563	13,975	44,115	(1,773)
Self insurance claims liability	-	-	-	-	(7,282)
Unearned revenue	(13,034)	(49,900)	20,716	(42,218)	640
Customer security deposits payable	19,742	-	-	19,742	-
Compensated absences	15,863	24,599	(1,314)	39,148	2,426
Other postemployment benefits	(4,787)	(2,764)	4,036	(3,515)	-
Net cash provided by (used in) operating activities	<u>\$ 7,803,217</u>	<u>\$ 6,643,892</u>	<u>\$ (1,623,411)</u>	<u>\$ 12,823,698</u>	<u>\$ (49,297)</u>
<i>Noncash investing, capital, and financing activities</i>					
Capital assets financed with accounts payable	\$ -	\$ 243,142	\$ -	\$ 243,142	\$ -
Capital asset contributions received	<u>\$ 47,196</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,196</u>	<u>\$ -</u>

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

**CITY OF SALEM, VIRGINIA**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2015**

	Agency Funds	OPEB Trust Fund
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,496,755	\$ -
Investments held by trustee, fair value of pooled funds	-	4,661,112
Receivables, net	834	324
Due from Commonwealth of Virginia	60,811	-
Total assets	<u>1,558,400</u>	<u>4,661,436</u>
<b>LIABILITIES</b>		
Accounts payable	47,660	-
Liability to agency	<u>1,510,740</u>	-
Total liabilities	<u>1,558,400</u>	<u>-</u>
<b>NET POSITION</b>		
Held in trust for other postemployment benefits	<u>\$ -</u>	<u>\$ 4,661,112</u>

**CITY OF SALEM, VIRGINIA**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**YEAR ENDED JUNE 30, 2015**

	OPEB Trust Fund
<b>ADDITIONS</b>	
Employer contributions	\$ 365,897
<i>Investment Income</i>	
Increase in fair value of investments	98,983
Less investment expenses	<u>(5,386)</u>
Total additions	<u>459,494</u>
Net increase in plan net position	<u>459,494</u>
<b>Net position held in trust for other postemployment benefits, beginning</b>	<u>4,201,618</u>
<b>Net position held in trust for other postemployment benefits, ending</b>	<u><u>\$ 4,661,112</u></u>

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



**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**1. Summary of Significant Accounting Policies**

**The Financial Reporting Entity**

The Town of Salem was established by act of the Virginia General Assembly in 1806. The City of Salem, Virginia (City) was established by act of the Virginia General Assembly in 1968. It is a political subdivision of the Commonwealth of Virginia, operating under the council-manager form of government. The City Council consists of a mayor and four other council members elected at large. The City is not part of a county and has taxing powers subject to statewide restrictions and tax limits. The City of Salem is the primary government of the reporting entity.

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

**Discretely Presented Component Unit**

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

During the current year, the City provided \$18,805,881 of operating support to the School Division and made debt service payments of \$2,633,926 on behalf of the School Division.

**Government-Wide Financial Statements**

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

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

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

**Fund Financial Statements**

These statements are organized based on funds, each of which is considered a separate accounting entity. The emphasis is on major governmental and 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.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

**Fund Financial Statements (Continued)**

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

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

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

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

**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.

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

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

**Measurement Focus and Basis of Accounting**

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

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

**Measurement Focus and Basis of Accounting (Continued)**

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

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

**Proprietary fund** financial statements are reported using the *economic financial resources measurement focus* and the *accrual basis of accounting*. These statements distinguish *operating* from *nonoperating* revenues and expenses. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's principal ongoing operations. Operating revenues include charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

**Budgets and Budgetary Accounting**

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

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

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

**Budgets and Budgetary Accounting (Continued)**

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

**Amendment** – The City Manager is authorized to transfer amounts within and between departments and categories. City Council must approve budget amendments between funds and any budget amendments increasing or decreasing appropriations. During the year, City Council approved \$1,845,165 of additional appropriations primarily for grants, capital outlay, unforeseen operating expenditures and the reappropriation of fund balances for encumbrances.

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

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

**Encumbrances**

Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded in order to reserve the applicable appropriation, is employed as an extension of formal budgetary integration in the general and capital project funds. Encumbrances outstanding at year-end are reported as part of the 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, 2015 total \$1,106,458 in the general fund and \$301,873 in the capital projects fund.

**Deposits and Investments**

The City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Investments are recorded at fair value.

**Allowance for Uncollectible Accounts**

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

**Property Taxes**

The City levies *real estate taxes* on all real estate within its boundaries, except that exempted by statute, each year as of July 1 based on 100% of estimated fair market value of the property. The City reassesses all property annually. Real estate taxes are due in equal semiannual payments on December 5 and June 5 and are considered delinquent after each due date. Real estate taxes become a lien on real property the first day of the levy year. The tax rate for 2015 was \$1.18 per \$100 of assessed value.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

**Property Taxes (Continued)**

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 2015 was \$3.25 per \$100 of assessed value. The tax rate for machinery and tools for 2015 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 unit are reported as due to/from component unit or due to/from primary government.

**Inventory**

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

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

**Prepaid Items**

Governmental fund prepaid items consist primarily of lease agreement payments incurred for lease periods in a subsequent fiscal year. Prepaid items are amortized using the consumption method. The payments are recorded as an expenditure in the fiscal year related to the lease agreement period.

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

**Capital Assets**

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

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

**CITY OF SALEM, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

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

**Capital Assets (Continued)**

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

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

The City capitalizes net interest costs on funds borrowed to finance the construction of proprietary capital assets. Capital asset additions included \$20,133 of net capitalized interest for the current year.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statements which represent financial position sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents 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. The City has two items that qualify for reporting in this category in the governmental-wide and proprietary statements of net position: deferred loss on refunding of debt and pension contributions subsequent to the measurement date. A deferred loss on refunding of debt results from the difference in the carrying amount of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Pension contributions made subsequent to the measurement date will be applied to the net pension liability in the next fiscal year.

In addition to liabilities, the statements which represent financial position sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents 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. The City has three types of items that qualify for reporting in this category: unavailable revenue, property taxes collected in advance, and net difference between projected and actual earnings on pension plan investments. The governmental funds report unavailable revenue from two sources: 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. The governmental funds and government-wide statement of net position report revenues collected in advance from one source: property taxes. 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 the net difference between projected and actual earnings on pension plan investments. This difference will be recognized in pension expense over a closed five year period.

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 letter of credit for a performance bond. The amount is included in restricted cash and accounts payable and accrued liabilities since the funds will be returned upon successful completion of the performance bond.

**Unearned Revenue**

Unearned revenue arises when assets are received before revenue recognition criteria is satisfied and primarily consists of retiree health insurance premiums billed in advance, advertising, event deposits, and rentals.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

**Long-Term Obligations**

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

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

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

**Compensated Absences**

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

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's retirement plan and the additions to/deductions from the City's retirement plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (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**

In connection with the City's funding of other postemployment benefits (OPEB), the City participates in the Virginia Pooled OPEB Trust (OPEB Trust Fund). The City's policy is to fully fund actuarially determined OPEB costs, which include both normal costs and amortization of unfunded accrued liability. The OPEB Trust Fund assets and investments are recorded at fair value. The 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.

**Net Position**

Net investment in capital assets for governmental activities excludes \$21,210,969 of School Division debt and \$3,715,211 of Civic Center debt reported by the City because the related assets are reported by the School Division and Civic Center, respectively. Noncapital debt of \$483,105 and \$292,296 are also excluded from the net investment in capital assets for governmental activities and the water and sewage fund, respectively.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

**Fund Balances**

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

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

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

**Restricted Amounts**

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

**Minimum Fund Balance**

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

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

**Estimates**

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



**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**2. Deposits and Investments**

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

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

	<b>Primary Government</b>	<b>Component Unit</b>
Cash and cash equivalents	\$ 42,085,918	\$ 8,235,756
Cash and cash equivalents, restricted	66,045	1,160,351
	<u>\$ 42,151,963</u>	<u>\$ 9,396,107</u>

Restricted cash and cash equivalents consist of a general fund surety bond payable, unspent bond proceeds in the city capital projects fund, and the school capital projects fund cash balance.

**Deposits**

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

**Investments**

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

As of June 30, 2015, the City had no investments.

**Credit Risk**

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

**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.

**CITY OF SALEM, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**3. Receivables**

Receivables are as follows:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>			<b>Component Unit</b>
		Electric	Water and Sewage	Nonmajor Proprietary	
Tax receivables	\$ 3,308,028	\$ -	\$ -	\$ -	\$ -
Account receivables	20,813	4,973,002	1,733,446	146,268	-
Other receivables	1,721,840	-	-	-	168,173
Gross receivables	5,050,681	4,973,002	1,733,446	146,268	168,173
Allowance for uncollectibles	(1,805,403)	(158,090)	(61,454)	(9,128)	-
Receivables, net	<u>\$ 3,245,278</u>	<u>\$ 4,814,912</u>	<u>\$ 1,671,992</u>	<u>\$ 137,140</u>	<u>\$ 168,173</u>

**4. Interfund Balances and Transfers**

The composition of the interfund balances is as follows:

Due to (fund)	Due from (fund)	
	Nonmajor enterprise	Total
	Electric	
	1,225,000	1,225,000
Total	<u>\$ 1,225,000</u>	<u>\$ 1,225,000</u>

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

The composition of the interfund transfers is as follows:

Transfer in (fund)	Transfer out (fund)			
	General	Electric	Water	Total
General	\$ -	\$ 3,260,000	\$ 137,068	\$ 3,397,068
Debt service	4,120,567	-	-	4,120,567
Capital projects	248,598	-	-	248,598
Nonmajor enterprise	1,130,948	-	-	1,130,948
Total	<u>\$ 5,500,113</u>	<u>\$ 3,260,000</u>	<u>\$ 137,068</u>	<u>\$ 8,897,181</u>

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

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**5. Due from Other Governmental Units**

Amounts due from other governmental units are as follows:

	<b>Governmental Activities</b>	<b>Component Unit</b>
Commonwealth of Virginia		
Personal property tax	\$ 2,588,707	\$ -
Local sales tax	1,127,807	-
Sales tax	-	726,873
Comprehensive Services Act	431,971	-
Communications tax	174,914	-
Other	273,372	
Federal government		
School funds	-	619,842
Lease payment from General Services Administration	10,731	-
	<u>\$ 4,607,502</u>	<u>\$ 1,346,715</u>

**6. Capital Assets**

Capital asset activity for the year is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital assets, nondepreciable				
Land	\$ 5,896,824	\$ 58,264	\$ (115,723)	\$ 5,839,365
Construction in progress	750,749	270,671	(487,912)	533,508
Capital assets, nondepreciable	<u>6,647,573</u>	<u>328,935</u>	<u>(603,635)</u>	<u>6,372,873</u>
Capital assets, depreciable				
Machinery and equipment	20,787,588	1,081,732	(359,631)	21,509,689
Buildings and improvements	40,636,117	134,005	(24,318)	40,745,804
Public domain infrastructure	98,487,154	1,167,268	(98,957)	99,555,465
Capital assets, depreciable	<u>159,910,859</u>	<u>2,383,005</u>	<u>(482,906)</u>	<u>161,810,958</u>
Accumulated depreciation				
Machinery and equipment	(16,191,941)	(1,398,558)	341,097	(17,249,402)
Buildings and improvements	(15,530,399)	(968,074)	10,031	(16,488,442)
Public domain infrastructure	(40,919,831)	(2,408,783)	59,571	(43,269,043)
Accumulated depreciation	<u>(72,642,171)</u>	<u>(4,775,415)</u>	<u>410,699</u>	<u>(77,006,887)</u>
Capital assets, depreciable, net	<u>87,268,688</u>	<u>(2,392,410)</u>	<u>(72,207)</u>	<u>84,804,071</u>
Capital assets, net	<u>\$ 93,916,261</u>	<u>\$ (2,063,475)</u>	<u>\$ (675,842)</u>	<u>\$ 91,176,944</u>

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**6. Capital Assets (Continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type Activities</b>				
Capital assets, nondepreciable				
Land	\$ 1,523,798	\$ -	\$ -	\$ 1,523,798
Construction in progress	2,442,338	1,535,683	(102,300)	3,875,721
Capital assets, nondepreciable	<u>3,966,136</u>	<u>1,535,683</u>	<u>(102,300)</u>	<u>5,399,519</u>
Capital assets, depreciable				
Machinery and equipment	7,215,643	438,012	(158,142)	7,495,513
Buildings and improvements	27,056,823	13,680	-	27,070,503
Distribution and transmission	35,105,537	770,513	(179,819)	35,696,231
Utility plant	77,384,203	52,923	(9,625)	77,427,501
Sewage treatment contract	<u>28,843,397</u>	<u>-</u>	<u>-</u>	<u>28,843,397</u>
Capital assets, depreciable	<u>175,605,603</u>	<u>1,275,128</u>	<u>(347,586)</u>	<u>176,533,145</u>
Accumulated depreciation				
Machinery and equipment	(6,009,858)	(342,260)	158,142	(6,193,976)
Buildings and improvements	(7,712,489)	(931,218)	-	(8,643,707)
Distribution and transmission	(19,629,201)	(943,896)	166,987	(20,406,110)
Utility plant	(46,960,724)	(2,017,608)	3,587	(48,974,745)
Sewage treatment contract	<u>(7,371,474)</u>	<u>(766,855)</u>	<u>-</u>	<u>(8,138,329)</u>
Accumulated depreciation	<u>(87,683,746)</u>	<u>(5,001,837)</u>	<u>328,716</u>	<u>(92,356,867)</u>
Capital assets, depreciable, net	<u>87,921,857</u>	<u>(3,726,709)</u>	<u>(18,870)</u>	<u>84,176,278</u>
Capital assets, net	<u>\$ 91,887,993</u>	<u>\$ (2,191,026)</u>	<u>\$ (121,170)</u>	<u>\$ 89,575,797</u>

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

<b>Governmental Activities</b>		<b>Business-type Activities</b>	
General government	\$ 600,589	Electric	\$ 1,638,003
Judicial administration	36,177	Water and sewage	2,864,825
Public safety	639,377	Civic Center	494,666
Public works	2,606,803	Catering	4,343
Parks, recreation and cultural	<u>758,120</u>	Total depreciation expense	<u>\$ 5,001,837</u>
Total depreciation expense	<u>\$ 4,641,066</u>		

Accumulated depreciation shown in the capital asset table for governmental activities exceeds depreciation expense by \$134,349 because the table includes accumulated depreciation for machinery and equipment transferred to the street department from the civic center and electric department.

**CITY OF SALEM, VIRGINIA**  
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**6. Capital Assets (Continued)**

<b>Component Unit</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	\$ 1,123,637	\$ -	\$ -	\$ 1,123,637
Construction in progress	404,109	54,870	(388,411)	70,568
Capital assets, nondepreciable	<u>1,527,746</u>	<u>54,870</u>	<u>(388,411)</u>	<u>1,194,205</u>
Capital assets, depreciable				
Furniture and equipment	7,486,003	294,189	(439,743)	7,340,449
Buildings and improvements	67,578,969	1,241,635	-	68,820,604
Capital assets, depreciable	<u>75,064,972</u>	<u>1,535,824</u>	<u>(439,743)</u>	<u>76,161,053</u>
Accumulated depreciation				
Furniture and equipment	(4,310,461)	(574,208)	359,471	(4,525,198)
Buildings and improvements	(22,840,691)	(1,868,036)	-	(24,708,727)
Accumulated depreciation	<u>(27,151,152)</u>	<u>(2,442,244)</u>	<u>359,471</u>	<u>(29,233,925)</u>
Capital assets, depreciable, net	<u>47,913,820</u>	<u>(906,420)</u>	<u>(80,272)</u>	<u>46,927,128</u>
Capital assets, net	<u>\$ 49,441,566</u>	<u>\$ (851,550)</u>	<u>\$ (468,683)</u>	<u>\$ 48,121,333</u>

**7. 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 Unit
<b>Deferred outflows of resources</b>			
Deferred loss on refunding of debt	\$ 78,561	\$ 610,741	\$ -
Pension contributions subsequent to measurement date	3,106,475	842,912	3,120,057
Total deferred outflows of resources	<u>\$ 3,185,036</u>	<u>\$ 1,453,653</u>	<u>\$ 3,120,057</u>
<b>Deferred inflows of resources</b>			
Property taxes collected in advance	\$ 55,732	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	6,948,928	1,859,495	5,543,131
Changes in proportion - teacher cost sharing pool	-	-	1,682,000
Total deferred inflows of resources	<u>\$ 7,004,660</u>	<u>\$ 1,859,495</u>	<u>\$ 7,225,131</u>

**CITY OF SALEM, VIRGINIA  
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JUNE 30, 2015**

**7. Deferred Outflows/Inflows of Resources (Continued)**

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

	<u><b>General Fund</b></u>
<b>Deferred inflows of resources</b>	
Unavailable revenue - property taxes	\$ 1,257,987
Property taxes collected in advance	55,732
Unavailable revenue - charges for services and fees	82,272
Total deferred inflows of resources	<u>\$ 1,395,991</u>

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

	<u><b>Electric</b></u>	<u><b>Water and Sewage</b></u>	<u><b>Nonmajor Proprietary Funds</b></u>	<u><b>Internal Service Fund</b></u>
<b>Deferred outflows of resources</b>				
Deferred loss on refunding of debt	\$ 610,741	\$ -	\$ -	\$ -
Pension contributions subsequent to measurement date	327,561	347,099	168,252	25,440
Total deferred outflows of resources	<u>\$ 938,302</u>	<u>\$ 347,099</u>	<u>\$ 168,252</u>	<u>\$ 25,440</u>
<b>Deferred inflows of resources</b>				
Net difference between projected and actual investment earnings on pension plan investments	\$ 713,773	\$ 769,955	\$ 375,767	\$ 55,260
Total deferred inflows of resources	<u>\$ 713,773</u>	<u>\$ 769,955</u>	<u>\$ 375,767</u>	<u>\$ 55,260</u>

**8. Long-Term Liabilities**

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

**Prior Year Defeasances of Debt**

In prior years, the City defeased certain general obligation bonds by placing the proceeds in irrevocable trusts to provide for all future debt service on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. As of June 30, 2015, \$17,945,000 of bonds are considered defeased.

**Current Year Debt Issuance**

On April 22, 2015, the City issued \$18,813,000 in series 2015 general obligation refunding bonds with a true interest cost of 2.50% to advance refund \$17,945,000 of outstanding 2006A series general obligation public improvement bonds with an average interest rate of 4.53%. The net proceeds of \$18,709,940 (after payment of \$103,060 in issuance costs) were used to purchase government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the 2006A series general obligation public improvement bonds. As a result, \$17,945,000 of the 2006A series general obligation public improvement bonds are considered to be defeased and the liability for those bonds has been removed from the proprietary funds statement of net position and the government-wide statement of net position.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

**Current Year Debt Issuance (Continued)**

The advance refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$689,302. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being amortized over the remaining life of the old bonds as a component of interest expense through the year 2016. The City completed the advance refunding to reduce its total debt service payments by \$2,728,067 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$2,245,744.

**Line of Credit**

On April 2, 2015, the City entered into a variable rate nondisclosable revolving line of credit loan agreement with Union First Market Bank. The agreement provides for borrowings of up to \$5,000,000 to provide for general working capital needs. The outstanding principal balance will be payable in full on demand or at maturity, whichever occurs first. Interest will accrue on the outstanding principal balance at the Wall Street Journal Prime Rate, with changes becoming effective on the day such rate changes. Payments of interest will be due on the last day of each month. This commitment will expire on April 2, 2016. As of June 30, 2015, no principal balance was outstanding.

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

	Beginning Balance*	Increases	Decreases	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
General obligation bonds	\$37,512,037	\$ 1,932,097	\$ (4,861,897)	\$34,582,237	\$2,954,489
Bond premiums	181,097	-	(31,398)	149,699	-
Bond discounts	(52,552)	-	1,779	(50,773)	-
Bonds payable	37,640,582	1,932,097	(4,891,516)	34,681,163	2,954,489
Compensated absences	1,910,314	1,278,519	(1,371,663)	1,817,170	1,374,089
Net pension liability	34,196,957	1,745,198	(9,716,333)	26,225,822	-
Other postemployment benefits	294,802	1,280,778	(1,518,688)	56,892	-
	<u>\$74,042,655</u>	<u>\$ 6,236,592</u>	<u>\$ (17,498,200)</u>	<u>\$62,781,047</u>	<u>\$4,328,578</u>
<b>Business-type Activities</b>					
General obligation bonds	\$48,367,162	\$ 18,042,057	\$ (19,441,716)	\$46,967,503	\$3,528,900
Bond premiums	891,781	-	(195,890)	695,891	-
Bonds payable	49,258,943	18,042,057	(19,637,606)	47,663,394	3,528,900
Compensated absences	635,600	454,888	(415,740)	674,748	415,740
Net pension liability	9,150,915	467,007	(2,600,037)	7,017,885	-
Other postemployment benefits	64,039	399,737	(403,252)	60,524	-
	<u>\$59,109,497</u>	<u>\$ 19,363,689</u>	<u>\$ (23,056,635)</u>	<u>\$55,416,551</u>	<u>\$3,944,640</u>
<b>Component Unit</b>					
Compensated absences	\$ 1,099,901	\$ 216,798	\$ (360,720)	\$ 955,979	\$ 360,720
Net pension liability	39,944,426	2,442,323	(7,225,131)	35,161,618	-
Other postemployment benefits	(66,146)	174,218	(295,048)	(186,976)	-
	<u>\$40,978,181</u>	<u>\$ 2,833,339</u>	<u>\$ (7,880,899)</u>	<u>\$35,930,621</u>	<u>\$ 360,720</u>

\* Restated

**CITY OF SALEM, VIRGINIA**  
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**8. Long-Term Liabilities (Continued)**

The Debt Service Fund is used to liquidate most long-term liabilities of governmental activities as shown above. However, a portion of compensated absences and other postemployment benefits are liquidated by the Internal Service Fund. The remaining portion of compensated absences and other postemployment benefits is liquidated by the General Fund.

Details of long-term indebtedness are as follows:

	Interest Rates	Issue Date	Maturity Date	Issue Amount	Governmental Activities	Business-type Activities
<b>General Obligation Bonds</b>						
2003 Public Improvement	2.00-4.50%	10/03	10/15	\$ 22,000,000	\$ 1,100,000	\$ -
2004 Refunding	1.50-3.50%	03/04	04/16	9,640,000	294,595	370,405
2004 Public Improvement	3.00%	04/04	07/26	11,052,222	-	7,275,737
2006 Public Improvement	4.00-5.00%	05/06	04/31	25,000,000	86,278	753,722
2007 Refunding	4.00-5.00%	02/07	01/27	17,045,000	-	14,210,000
2010 Taxable Build America	4.57-6.56%	12/10	02/31	2,700,000	2,700,000	-
2010 Taxable	1.55-3.17%	12/10	02/16	1,010,000	50,000	-
2010 Public Improvement	3.00-4.25%	12/10	02/28	2,830,000	2,825,000	-
2010 Public Improvement	3.15%	09/10	03/30	3,648,124	-	3,098,179
2010 Refunding	2.50-5.25%	12/10	02/19	7,410,000	933,767	2,241,233
2011 Refunding	2.14%	12/11	10/23	9,485,000	9,160,000	-
2012 Public Improvement	2.35%	12/12	08/32	9,545,000	8,590,500	-
2013 Public Improvement	1.25%	03/13	04/35	2,137,324	-	2,137,324
2013 Public Improvement	3.03%	12/13	08/33	7,275,000	6,910,000	-
2015 Refunding	2.50%	04/15	04/31	18,813,000	1,932,097	16,880,903
					34,582,237	46,967,503
			Bond premiums		149,699	695,891
			Bond discounts		(50,773)	-
					<u>\$ 34,681,163</u>	<u>\$ 47,663,394</u>

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

Fiscal Year	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 2,954,489	\$ 929,378	\$ 3,528,900	\$ 1,567,227
2017	2,660,262	840,027	3,286,599	1,430,067
2018	2,649,889	769,271	3,365,869	1,312,588
2019	2,639,413	698,603	3,449,963	1,192,118
2020	2,407,788	628,016	2,998,949	1,068,417
2021-2025	10,855,224	2,263,284	16,558,506	3,697,740
2026-2030	6,932,864	1,098,589	11,856,600	1,021,065
2031-2035	3,482,308	161,115	1,922,117	53,966
	<u>\$ 34,582,237</u>	<u>\$ 7,388,283</u>	<u>\$ 46,967,503</u>	<u>\$ 11,343,188</u>



**CITY OF SALEM, VIRGINIA  
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**9. Fund Balance**

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

	General Fund	Debt Service Fund	Capital Projects Fund
<b>Fund Balances:</b>			
<b>Nonspendable:</b>			
Inventories	\$ 507,702	\$ -	\$ -
Prepays	6,854	-	-
<b>Restricted for:</b>			
General government administration	-	-	63,545
Judicial administration	79,237	-	-
Public safety	551,147	-	-
Public works	3,544,830	-	-
Parks & recreation	5,201	-	2,380
<b>Committed to:</b>			
General government administration	-	-	96,503
<b>Assigned to:</b>			
General government administration	248,353		
Public safety	152,747	-	-
Public works	103,797	-	-
Parks & recreation	736	-	-
<b>Unassigned:</b>	9,797,393	-	-
Total fund balances	<u>\$ 14,997,997</u>	<u>\$ -</u>	<u>\$ 162,428</u>

**10. Risk Management**

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

**Worker's Compensation**

Worker's Compensation Insurance is provided through the Virginia Municipal Self Insurance Association for the City and through School Systems of Virginia for the School Division. Benefits are those afforded through the Commonwealth of Virginia as outlined in *Code of Virginia* §65.2-100. Premiums are based on covered payroll, job rates and claims experience. Total premiums for the current year were \$476,536 and \$98,066 for the City and School Division, respectively.

**General Liability and Other**

The City provides general liability and other insurance through Virginia Municipal League (VML) Insurance Programs. General liability and automotive liability have a \$1,000,000 limit per occurrence. Boiler and machinery coverage and property coverage are covered as 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 Nationwide Mutual Insurance Company for properties in designated flood zones or that are part of the water plant. Total premiums for the current fiscal year were \$376,157.

The School Division provides general liability and other insurance through the Virginia Municipal League (VML) Insurance Programs. General liability and automobile liability have a \$1,000,000 limit per occurrence. Boiler and machinery coverage and property coverage are covered as per statement of values. The School Division maintains an additional \$10,000,000 umbrella policy over all forms of liability. Total premiums for the current fiscal year were \$129,865.

**CITY OF SALEM, VIRGINIA  
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**10. Risk Management (Continued)**

**Healthcare**

The City's professionally administered self-insurance program provides health coverage for employees of the City and School Division on a cost-reimbursement basis. All active employees, retired City employees and retired School employees pay a premium equivalent for participation. The premium equivalent represents a minimum of 10% active or retired employee participation. The City is obligated for claims payments under the program. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$150,000 per covered individual and approximately \$10,100,867 in the aggregate.

During the current fiscal year, total claim expenses of \$9,052,509, 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, 2015. The estimated liability for the City and School Division was \$451,750 and \$516,878, respectively for a total of \$968,628 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
2015	\$ 898,880	\$ 9,052,509	\$ 8,982,761	\$ 968,628
2014	\$ 689,276	\$ 8,331,624	\$ 8,122,020	\$ 898,880
2013	\$ 738,264	\$ 7,948,001	\$ 7,996,989	\$ 689,276

**Other**

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

**11. Pension Plan**

**Plan Description**

All full-time, salaried permanent employees of the City (the "Political Subdivision") and School Division are automatically covered by the VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the "System") along with plans for other employer groups in the Commonwealth of Virginia. Professional employees of the School Division participate in a VRS statewide teacher cost-sharing pool (Note 12) and non-professional employees of the School Division participate as a separate group in the VRS Retirement Plan. Members earn one month of service credit for each month they are employed and for which they and their employer are paying contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a 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, and they were vested as of January 1, 2013.

**CITY OF SALEM, VIRGINIA  
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**11. Pension Plan (Continued)**

**VRS PLAN 1 (Continued)**

**Hybrid Opt-In Election** – VRS non-hazardous duty covered plan 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 remain as VRS Plan 1 or ORP.

**Retirement Contributions** – Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contributions; all employees will be paying the full 5% by July 1, 2016. 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.

**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 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.

**Normal Retirement Age** – Age 65 for VRS. 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.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**11. Pension Plan (Continued)**

**VRS PLAN 1 (Continued)**

**Earliest Reduced Retirement Eligibility** – Members who are not in hazardous duty positions may retire with a reduced benefit as early as 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 as early as age 50 with at least 5 years of creditable service.

**Cost-of-Living Adjustment (COLA) in Retirement** – The Cost-of-Living Adjustment (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.
- 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** – 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. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

**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. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

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

**VRS PLAN 2**

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

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

**Average Final Compensation** – A member's average final compensation is the average of 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** – 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.

**Cost-of-Living Adjustment (COLA) in Retirement** – The Cost-of-Living Adjustment (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** – 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. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

**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. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window.

- 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.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**11. Pension Plan (Continued)**

**HYBRID RETIREMENT PLAN (Continued)**

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

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

\* Non-Eligible Members

Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

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

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

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

**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.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**11. Pension Plan (Continued)**

**HYBRID RETIREMENT PLAN (Continued)**

**Vesting (Continued)**

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** – The retirement multiplier is 1.0%. For members that 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.

**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.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**11. Pension Plan (Continued)**

**HYBRID RETIREMENT PLAN (Continued)**

**Cost-of-Living Adjustment (COLA) in Retirement**

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Not applicable.

**Disability Coverage** – Eligible political subdivision and school division (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, with the following exceptions:

- Hybrid Retirement Plan members are ineligible for ported service.
- The cost for purchasing refunded service is the higher of 4.00% of creditable compensation or average final compensation.
- Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.

Defined Contribution Component: Not applicable

**Employees Covered by Benefit Terms**

As of the June 30, 2013 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>City of Salem</u>	<u>School Division (Non-Professional)</u>
Inactive members or their beneficiaries currently receiving benefits	473	57
Inactive members:		
Vested inactive members	168	8
Non-vested inactive members	237	26
Inactive members active elsewhere in VRS	350	17
Total inactive members	755	51
Active members	493	80
Total covered employees	<u>1,721</u>	<u>188</u>



**CITY OF SALEM, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**11. Pension Plan (Continued)**

**Contributions**

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The City's contractually required contribution rate for the year ended June 30, 2015 was 18.13% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. 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 \$3,949,387 and \$3,503,465 for the years ended June 30, 2015 and June 30, 2014, respectively.

The School Division's non-professional employees' contractually required contribution rate for the year ended June 30, 2015 was 7.85% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. 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 \$154,622 and \$160,259 for the years ended June 30, 2015 and June 30, 2014, respectively.

**Net Pension Liability (Asset)**

The City's and School Division's net pension liabilities (assets) were measured as of June 30, 2014. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

**Actuarial Assumptions – General Employees**

The total pension liability for General Employees in the City's and School Division's Retirement Plans was based on an actuarial valuation as of June 30, 2013, 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, 2014.

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*

\* 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.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**11. Pension Plan (Continued)**

**Actuarial Assumptions – General Employees (Continued)**

Mortality rates: 14% of deaths are assumed to be service related.

Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

All Others (Non 10 Largest) – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

**Actuarial Assumptions – Public Safety Employees**

The total pension liability for Public Safety employees in the Political Subdivision Retirement Plan was based on an actuarial valuation as of June 30, 2013, 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, 2014.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**11. Pension Plan (Continued)**

**Actuarial Assumptions – Public Safety Employees (Continued)**

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*

\* 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: 60% of deaths are assumed to be service related.

Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

All Others (Non 10 Largest) – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**11. Pension Plan (Continued)**

**Actuarial Assumptions – Public Safety Employees (Continued)**

All Others (Non 10 Largest) – LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

**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:

<b><u>Asset Class (Strategy)</u></b>	<b><u>Target Allocation</u></b>	<b><u>Arithmetic Long-Term Expected Rate of Return</u></b>	<b><u>Weighted Average Long-Term Expected Rate of Return</u></b>
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	<u>100.00%</u>		<u>5.83%</u>
		Inflation	<u>2.50%</u>
		* Expected arithmetic nominal return	<u>8.33%</u>

\* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**11. Pension Plan (Continued)**

**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 System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. 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.

**Changes in Net Pension Liability (Asset)**

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
<b>City of Salem</b>			
Balances at June 30, 2013	\$ 170,959,955	\$ 127,612,084	\$ 43,347,871
Changes for the year:			
Service cost	2,527,218	-	2,527,218
Interest	11,654,127	-	11,654,127
Contributions - employer	-	3,507,946	(3,507,946)
Contributions - employee	-	1,098,206	(1,098,206)
Net investment income	-	19,787,728	(19,787,728)
Benefit payments, including refunds of employee contributions	(8,944,860)	(8,944,860)	-
Administrative expenses	-	(109,414)	109,414
Other changes	-	1,043	(1,043)
Net changes	5,236,485	15,340,649	(10,104,164)
Balances at June 30, 2014	\$ 176,196,440	\$ 142,952,733	\$ 33,243,707

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**11. Pension Plan (Continued)**

**Changes in Net Pension Liability (Asset) (Continued)**

	<u>Increase (Decrease)</u>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (Asset) (a) - (b)</b>
<b>School Division (Non-Professional Staff)</b>			
Balances at June 30, 2013	\$ 4,758,374	\$ 4,464,677	\$ 293,697
Changes for the year:			
Service cost	145,676	-	145,676
Interest	323,812	-	323,812
Contributions - employer	-	97,271	(97,271)
Contributions - employee	-	61,480	(61,480)
Net investment income	-	697,591	(697,591)
Benefit payments, including refunds of employee contributions	(264,987)	(264,987)	-
Administrative expenses	-	(3,812)	3,812
Other changes	-	37	(37)
Net changes	<u>204,501</u>	<u>587,580</u>	<u>(383,079)</u>
Balances at June 30, 2014	<u>\$ 4,962,875</u>	<u>\$ 5,052,257</u>	<u>\$ (89,382)</u>

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

The following presents the net pension liability (asset) of the political subdivision using the discount rate of 7.00%, as well as what the political subdivision's 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:

	<b>1% Decrease (6.00%)</b>	<b>Current Discount (7.00%)</b>	<b>1% Increase (8.00%)</b>
City of Salem's Net Pension Liability	\$ 55,720,862	\$ 33,243,707	\$ 14,526,839
School Division's Net Pension Liability (Asset)	\$ 487,991	\$ (89,382)	\$ (573,782)

**CITY OF SALEM, VIRGINIA  
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**11. Pension Plan (Continued)**

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

For the year ended June 30, 2015, the City and School Division recognized pension expense of \$2,212,205 and \$25,323, respectively. At June 30, 2015, the City and School Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<b>City of Salem</b>		
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 8,808,423
Employer contributions subsequent to the measurement date	3,949,387	-
Total	<u>\$ 3,949,387</u>	<u>\$ 8,808,423</u>
<b>School Division (Non-Professional Staff)</b>		
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 311,131
Employer contributions subsequent to the measurement date	94,579	-
Total	<u>\$ 94,579</u>	<u>\$ 311,131</u>

\$3,949,387 and \$94,579 reported as deferred outflows of resources related to pensions resulting from the City's and School's contributions subsequent to the measurement date, respectively, will be recognized as a reduction of (increase to) the Net Pension Liability (Asset) in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>City of Salem</u>	<u>School Division (Non-Professional)</u>
<b><u>Year ended June 30,</u></b>		
2016	\$ (2,202,106)	\$ (77,783)
2017	\$ (2,202,106)	(77,783)
2018	\$ (2,202,106)	(77,783)
2019	\$ (2,202,105)	(77,782)
Thereafter	-	-

**Payable to the Pension Plan**

At June 30, 2015, approximately \$436,418 and \$20,225 were payable to the Virginia Retirement System for the legally required contributions of the City and School Division, respectively, related to June 2015 payroll.

**CITY OF SALEM, VIRGINIA  
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**12. Pension Plan – Teacher Cost Sharing Pool**

**Plan Description**

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer are pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended.

Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees in the VRS Teacher Retirement Plan – Plan 1, Plan 2, and, Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table 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, and they were vested as of January 1, 2013.

**Hybrid Opt-In Election** – VRS plan 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.

**Retirement Contributions** – Employees contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions elected to phase in the required 5% member contributions but all employees will be paying the full 5% by July 1, 2016. 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  
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**12. Pension Plan – Teacher Cost Sharing Pool (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 members is 1.7%.

**Normal Retirement Age** – Age 65.

**Earliest Unreduced Retirement Eligibility** – Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.

**Earliest Reduced Retirement Eligibility** – Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.

**Cost-of-Living Adjustment (COLA) in Retirement** – The Cost-of-Living Adjustment (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 is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

**Disability Coverage** – Not applicable.

**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. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

**CITY OF SALEM, VIRGINIA  
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**12. Pension Plan – Teacher Cost Sharing Pool (Continued)**

**VRS PLAN 2**

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

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

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

**Service Retirement Multiplier** – The retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.

**Normal Retirement Age** – Normal Social Security retirement age.

**Earliest Unreduced Retirement Eligibility** – Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.

**Earliest Reduced Retirement Eligibility** – Age 60 with at least five years (60 months) of creditable service.

**Cost-of-Living Adjustment (COLA) in Retirement** – The Cost-of-Living Adjustment (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%.

**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. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window.

- 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:

- 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

**CITY OF SALEM, VIRGINIA  
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**12. Pension Plan – Teacher Cost Sharing Pool (Continued)**

**HYBRID RETIREMENT PLAN (Continued)**

**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.

**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 (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) 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.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
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**12. Pension Plan – Teacher Cost Sharing Pool (Continued)**

**HYBRID RETIREMENT PLAN (Continued)**

**Service Retirement Multiplier** – The retirement multiplier is 1.0%. For members that 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.

**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 (60 months) 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 (60 months) of creditable service.

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

**Cost-of-Living Adjustment (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, with the following exceptions:

- Hybrid Retirement Plan members are ineligible for ported service.
- The cost for purchasing refunded service is the higher of 4.00% of creditable compensation or average final compensation.
- Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.

Defined Contribution Component: Not applicable

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**12. Pension Plan – Teacher Cost Sharing Pool (Continued)**

**Contributions**

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin requiring that the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each school division's contractually required contribution rate for the year ended June 30, 2015 was 14.50% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. The actuarial rate for the Teacher Retirement Plan was 18.20%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions were funded at 79.69% of the actuarial rate for the year ended June 30, 2015. Contributions to the pension plan from the school division were \$4,093,425 and \$3,261,270 for the years ended June 30, 2015 and June 30, 2014, respectively.

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

At June 30, 2015, the school division reported a liability of \$35,251,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2014 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, 2014 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2014, the school division's proportion was 0.29170% as compared to 0.30660% at June 30, 2013.

For the year ended June 30, 2015, the school division recognized pension expense of \$2,417,000. Since there was a change in proportionate share between June 30, 2013 and June 30, 2014, 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, 2015, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 5,232,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	1,682,000
Employer contributions subsequent to the measurement date	3,025,478	-
Total	<u>\$ 3,025,478</u>	<u>\$ 6,914,000</u>

**CITY OF SALEM, VIRGINIA  
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**12. Pension Plan – Teacher Cost Sharing Pool (Continued)**

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

\$3,025,478 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30,</u>	
2016	\$ (1,679,000)
2017	(1,679,000)
2018	(1,679,000)
2019	(1,679,000)
Thereafter	(198,000)

**Actuarial Assumptions**

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2013, 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, 2014.

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*

\* 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-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 3 years and females were set back 5 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females were set back 3 years.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 1 year and no provision for future mortality improvement.

**CITY OF SALEM, VIRGINIA  
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**12. Pension Plan – Teacher Cost Sharing Pool (Continued)**

**Actuarial Assumptions (Continued)**

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table.
- Adjustments to the rates of service retirement.
- Decrease in rates of withdrawals for 3 through 9 years of service.
- Decrease in rates of disability.
- Reduce rates of salary increase by 0.25% per year.

**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:

<b><u>Asset Class (Strategy)</u></b>	<b><u>Target Allocation</u></b>	<b><u>Arithmetic Long-Term Expected Rate of Return</u></b>	<b><u>Weighted Average Long-Term Expected Rate of Return</u></b>
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	<u>100.00%</u>		<u>5.83%</u>
		Inflation	<u>2.50%</u>
		* Expected arithmetic nominal return	<u>8.33%</u>

\* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

**CITY OF SALEM, VIRGINIA  
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**12. Pension Plan – Teacher Cost Sharing Pool (Continued)**

**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. Through the fiscal year ending June 30, 2018, the rate contributed by the school division for the VRS Teacher Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, school divisions are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the school division's proportionate share of the net pension liability using the discount rate of 7.00%, as well as what the school division's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	<b>1% Decrease (6.00%)</b>	<b>Current Discount (7.00%)</b>	<b>1% Increase (8.00%)</b>
School division's proportionate share of the VRS teacher employee retirement plan net pension liability	\$ 51,763,000	\$ 35,251,000	\$ 21,657,000

**Pension Plan Fiduciary Net Position**

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2014 Comprehensive Annual Financial Report (CAFR). A copy of the 2014 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2014-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

**Payables to the Pension Plan**

At June 30, 2015, approximately \$761,820 was payable to the Virginia Retirement System for the legally required contributions related to June 2015 payroll.

**13. Other Postemployment Benefits**

In addition to salary, many employees earn benefits over their years of service that will not be received until they retire. The cost of these postemployment benefits are part of the compensation employees earn each year, rather than costs of future years when the benefits are paid and should be recognized during their years of service.

An actuarial valuation was performed as of June 30, 2015. The specific limitations, which the actuarial valuation was based on, are outlined under the plan description.

**Plan Description**

The City and School Division participate in a single-employer defined benefit healthcare plan (Retiree Health Plan) administered and sponsored by the City. Full-time employees retiring directly from the City 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 the Virginia Retirement System (VRS).



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

**Plan Description (Continued)**

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

In addition to the implicit rate subsidy, all pre-65 retirees who retired on or before October 1, 2010 receive a premium subsidy based on their coverage election. If the retiree elects retiree-only coverage, the City contributes 90% of the subscriber-only premium. If the retiree elects retiree/spouse, retiree/children, or family coverage, the City contributes 50% of the retiree/spouse, retiree/children, or family premium. If the retiree elects retiree/child coverage, the City contributes 72% of the retiree/child premium. 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 90% of the total retiree-only premium for the lifetime of the retiree. For employees hired on or after July 1, 2010, the City will contribute 3% of the retiree-only premium for each year of service up to 50% of the total retiree-only premium 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 90% 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.

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

As of June 30, 2015, the date of the latest actuarial valuation for the City and School Division, plan participation consisted of:

	<u><b>City of Salem</b></u>	<u><b>School Division</b></u>
Active employees	489	524
Retired participants	<u>257</u>	<u>51</u>
Total participants	<u><u>746</u></u>	<u><u>575</u></u>

**Funding Policy**

The Retiree Health Plan is funded through member and employer contributions. City Retirees receiving benefits contribute a minimum of 10%, 28%, 50%, 50%, and 50% of the health insurance premium rate for retiree only, retiree + one minor child, retiree & spouse, retiree + children, and family coverage, respectively. School Division Retirees receiving benefits contribute 100% of the health insurance premium rate. During the current year, retired City and School Division members contributed \$275,685 and \$407,308, respectively, of the total premiums through their required contributions of between \$8.31 and \$1,493 depending on the type of coverage and years of service.

**CITY OF SALEM, VIRGINIA  
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JUNE 30, 2015**

**13. Other Postemployment Benefits (Continued)**

**Funding Policy (Continued)**

Based on the June 30, 2015 actuarial valuation, the City contributed \$1,921,940 to the Retiree Health Plan. Included in this amount is a current year contribution of \$351,692 to the Virginia Pooled OPEB Trust, which consisted of \$110,267 representing 100% of the annual required contribution (ARC) and \$241,425 to reduce the net other postemployment benefit (OPEB) obligation. It is the City's intent to reduce this obligation to zero and fully fund the ARC each year.

Based on the June 30, 2015 actuarial valuation, the School Division contributed \$295,048 to the Retiree Health Plan. Included in this amount is a current year contribution of \$65,000 to the Virginia Pooled OPEB Trust to increase the net other postemployment benefit (OPEB) asset. It is the School Division's intent to fully fund the ARC each year.

**Annual OPEB Cost and Net OPEB Obligation**

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

The following table presents the City's and School Division's annual OPEB cost, amount contributed and changes in the net OPEB obligation (asset) for the fiscal year ended June 30, 2015.

	<b>City of Salem</b>	<b>School Division</b>
Annual required contribution	\$ 1,676,657	\$ 174,964
Interest on net OPEB obligation	23,952	(4,630)
Adjustment to annual required contribution	(20,094)	3,884
Annual OPEB cost	1,680,515	174,218
Contributions made	(1,921,940)	(295,048)
Increase (decrease) in net OPEB obligation	(241,425)	(120,830)
Net OPEB obligation (asset), beginning	358,841	(66,146)
Net OPEB obligation (asset), ending	<u>\$ 117,416</u>	<u>\$ (186,976)</u>

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

**Three-Year Trend Information**

	Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
<b>City of Salem</b>	June 30, 2015	\$ 1,680,515	114.4%	\$ 117,416
	June 30, 2014	\$ 1,970,423	115.2%	\$ 358,841
	June 30, 2013	\$ 1,849,352	107.6%	\$ 658,357
<b>School Division</b>	June 30, 2015	\$ 174,218	169.4%	\$ (186,976)
	June 30, 2014	\$ 274,039	100.0%	\$ (66,146)
	June 30, 2013	\$ 294,471	97.6%	\$ (66,146)

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**13. Other Postemployment Benefits (Continued)**

**Funded Status and Funding Progress**

As of June 30, 2015, the City's most recent actuarial valuation date, the plan was 16.1% funded. The actuarial accrued liability (AAL) for benefits was \$27,025,707 and the actuarial value of assets was \$4,357,722, resulting in an unfunded actuarial accrued liability (UAAL) for benefits of \$22,667,985. The covered payroll (annual payroll of active employees covered by the plan) was \$24,272,001 and the ratio of the UAAL to the covered payroll was 93.4%.

As of June 30, 2015, the School Division's most recent actuarial valuation date, the plan was 37.6% funded. The AAL for benefits was \$2,275,141 and the actuarial value of assets was \$855,224, resulting in a UAAL for benefits of \$1,419,917. The covered payroll (annual payroll of active employees covered by the plan) was \$24,081,341 and the ratio of the UAAL to the covered payroll was 5.9%.

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

**Methods and Assumptions**

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

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

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

	<b>City of Salem</b>	<b>School Division</b>
<b><u>Actuarial methods</u></b>		
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percent of payroll	Level percent of payroll
Amortization period	Open over 30 years	Open over 30 years
Asset valuation method	Market value	Market value
<b><u>Actuarial assumptions</u></b>		
Investment rate of return	7.00%	7.00%
Payroll growth	3.00%	3.00%
Healthcare cost trend rate	Getzen Trend Model	Getzen Trend Model
	Pre-65: 6.50% for 2016 graded to 4.50% over 64 years	Pre-65: 6.40% graded to 4.50% over 61 years
	Post 65: 4.30% for 2016, 4.50% for 2017, 4.80% for 2018 graded to 4.70% over 83 years	Post 65: Not Applicable

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**14. Operating Leases**

**Rental Costs**

The City and School Division entered several non-cancelable operating leases for office space and equipment. Rent expenditures for the current year were \$89,492 and \$45,012 for the City and School Division, respectively. Scheduled minimum rental payments for the next five years are as follows:

Fiscal Year Ending	City of Salem	School Division
June 30, 2016	\$ 73,309	\$ 42,771
June 30, 2017	7,835	37,313
June 30, 2018	2,083	15,547
June 30, 2019	521	2,538
June 30, 2020	-	552
	\$ 83,748	\$ 98,721

**Rental Revenues**

On July 1, 2011, the City entered into a fifteen year lease agreement with the General Services Administration (GSA). The lease provides for the use of office area on the third floor of the City of Salem Police Department. The lease includes a five year renewal option under the same terms and conditions. The net book value of leased assets of \$1,603,731 (cost of \$1,843,486 less accumulated depreciation of \$239,755) is included in capital assets in the government-wide financial statements. Rent is determined as \$48.75 per ABOA plus a component for operating costs adjusted annually based on the Cost of Living Index. Rent revenues for the current year were \$128,759. Scheduled minimum rental revenues over the remaining lease period are \$1,443,580. Minimum rental revenues are determined using the current year change in the monthly rent payment of 0.25% projected for each future year of the lease.

On May 1, 2014, the City entered into a five year lease agreement with Cardinal Criminal Justice Academy. The lease provides for the use of real property located at 912 Central Avenue in Salem. Upon completion of the five year term, the lease shall continue on a month-to-month basis. Upon completion of a 10-year lease term, the Academy will purchase the property for the sum of \$1. The net book value of leased assets of \$125,483 (cost of \$127,891 less accumulated depreciation of \$2,408) is included in capital assets in the government-wide financial statements. Rent in the amount of \$14,500 is paid annually in advance and due on the same date each year.

Scheduled minimum rental revenues for the next five years are as follows:

Fiscal Year Ending	Rental Revenues
June 30, 2016	\$ 143,565
June 30, 2017	143,886
June 30, 2018	144,209
June 30, 2019	144,532
June 30, 2020	130,356
	\$ 706,548

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**15. Commitments and Contingencies**

**Electrical Service**

On July 1, 2006, the City entered an agreement with American Electric Power Service Corporation to purchase electricity for consumption and resale to City residents. The rates are recalculated annually based on the supplier's cost. As part of the agreement, an annual cost true-up is required based upon American Electric Power's FERC filing. The City's policy is to recognize the true-up as an expense when it is billed. The true-up for December 31, 2014 resulted in a credit of \$135,525 in the current fiscal year. The agreement expires May 31, 2026 with two possible five-year period renewals and may be terminated under certain circumstances.

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

**Solid Waste Disposal**

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

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

On October 1, 2013, the City entered an agreement with Craig County to accept the County's solid waste at the City's transfer station. The agreement expires on June 30, 2016 or upon expiration of the City's agreement with Waste Management, Inc., whichever occurs first.

**Water and Wastewater Treatment Contract**

On July 1, 1981, the City entered an agreement with 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 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 an agreement with the County of Roanoke, Virginia for social services, agricultural and home demonstration services and jail services. The agreement can be renewed or terminated at the end of any two-year period with proper notice.

**Performance Agreement**

On July 30, 2008, the City entered a performance agreement with a company to provide incentive payments for development of property located at 4<sup>th</sup> Street and Main Street. The City will make maximum annual payments of \$500,000 for no more than 10 years not to exceed \$3,000,000. As of June 30, 2015, \$1,614,882 has been remitted.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**15. 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.

**16. Jointly Governed Organizations**

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

**Blue Ridge Behavioral Healthcare**

The Counties of Botetourt, Craig and Roanoke and the Cities of Roanoke and Salem formed Blue Ridge Behavioral Healthcare (BRBH) to provide a system of comprehensive community mental health, intellectual disability and substance abuse services. BRBH is governed by a 16-member board; three members are appointed by the City of Salem. Each locality's financial obligation is based on the type and amount of services performed for individuals in the locality. For the year ended June 30, 2015, the City remitted \$103,500 to BRBH for services. Financial statements may be obtained from BRBH at 301 Elm Street, Roanoke, Virginia, 24016.

**Roanoke Valley Detention Commission**

The Counties of Botetourt, Franklin and Roanoke and the Cities of Roanoke and Salem formed the Roanoke Valley Detention Commission (Commission) to renovate, expand and operate a detention facility for juveniles. The Commission is governed by a six-member board, of which one member is appointed by the City of Salem. Each locality's financial obligation is based on the number of juveniles housed at the facility. The Commission has the authority to issue debt and such debt is the responsibility of the Commission. For the year ended June 30, 2015, the City remitted \$80,675 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, 2015, the School Division remitted \$741,682 to the Regional Board for services. Financial statements may be obtained from the Regional Board at 12 Barron Drive, Suite 1, Troutville, Virginia 24175.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

**Roanoke Valley Regional Fire/EMS Training Center**

The County of Roanoke, the Cities of Roanoke and Salem and the Town of Vinton jointly operate a fire/EMS training center (Center). The Center is governed by a committee designated by the participating jurisdictions. New fire/EMS recruits are required to take a 17-week training course at the facility before being assigned to a station. After completion of the training, the new recruits are state certified. Each jurisdiction is responsible for a percentage of the annual operating costs of the facility. The City of Salem is responsible for 8% of the annual operating costs. For the year ended June 30, 2015, the City remitted \$9,534 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, 2015, the City remitted \$1,003,541 for per diem charges and \$546,129 for capital costs to the Jail Authority. Financial statements may be obtained from the Jail Authority at 5885 West River Road, Salem, Virginia 24153.

**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 of Salem. Each locality's financial obligation shall be an equal share of the operating costs of the Authority. For the year ending June 30, 2015, the City remitted \$170,419 to the RVBA.

**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, 2015, the School Division remitted \$41,850 for services. Financial statements may be obtained from RVGS at 2104 Grandin Road, Roanoke, Virginia 24015.

**17. Subsequent Event**

Effective September 1, 2015, the Virginia Department of Environmental Quality authorized a reduction of the Cost of Funds on the City's taxable general obligation sewer bond, series 2010 (the "loan") from 3.35% to 2.65%. The reduction is the result of efforts taken to refund the clean water state revolving fund revenue bonds, subordinate series 2009 which was the source of funding for the loan. The rate reduction will be reflected in semi-annual payments beginning March 1, 2016.

**CITY OF SALEM, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**18. Accounting Changes and Restatements**

In the current year the City and Schools adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No. 27, as amended by GASB Statement No. 71*. This standard replaces the requirements of GASB Statements No. 27 and No. 50 as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The new Statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

The following is a summary of the restatements to net position of governmental activities, business-type activities, and the component unit resulting from the adoption of GASB Statement No. 68:

	Governmental Activities	Business-type Activities	Component Unit
Net Position, beginning, as previously reported	\$ 64,565,252	\$ 70,468,015	\$ 53,413,684
Recognition of pension related liabilities and deferred outflows in accordance with GASB No. 68	(31,429,552)	(8,410,373)	(39,944,426)
Net Position, beginning, as restated	<u>\$ 33,135,700</u>	<u>\$ 62,057,642</u>	<u>\$ 13,469,258</u>

The following is a summary of the restatements to net position of electric, water and sewage, nonmajor proprietary funds, and the internal service fund resulting from the adoption of GASB Statement No. 68:

	Electric	Water and Sewage	Nonmajor Proprietary Funds	Internal Service Fund
Net Position, beginning, as previously reported	\$ 38,371,435	\$ 27,933,259	\$ 4,163,321	\$ 306,224
Recognition of pension related liabilities and deferred outflows in accordance with GASB No. 68	(3,228,350)	(3,482,453)	(1,699,570)	(249,937)
Net Position, beginning, as restated	<u>\$ 35,143,085</u>	<u>\$ 24,450,806</u>	<u>\$ 2,463,751</u>	<u>\$ 56,287</u>

**19. New Accounting Standards**

The GASB has issued Statement 72, *Fair Value Measurement and Application*. The statement addresses accounting and financial reporting issues related to fair value measurements and provides guidance for determining a fair value measurement for financial reporting purposes. The statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this statement are effective for fiscal years beginning after June 15, 2015. 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, 2015**

**19. New Accounting Standards (Continued)**

The GASB has issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. The statement also establishes requirements for defined contribution pensions that are not within the scope of Statement 68 and amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2016, and the requirements of this statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. 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 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The statement will improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The provisions of this statement are effective for fiscal years beginning after June 15, 2016. 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 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. The statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. The provisions of this statement are effective for fiscal years beginning after June 15, 2017. 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 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The provisions of this statement are effective for fiscal years beginning after June 15, 2015 and should be applied retroactively. 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 77, *Tax Abatement Disclosures*. The statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The provisions of this statement are effective for fiscal years beginning after December 15, 2015. 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.

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## REQUIRED SUPPLEMENTARY INFORMATION

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

**CITY OF SALEM, VIRGINIA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS**  
**JUNE 30, 2015**

	<u>City of Salem</u>	<u>School Division (Non-Professional Staff)</u>
<b>Total pension liability</b>		
Service cost	\$ 2,642,428	\$ 145,676
Interest	12,185,411	323,812
Benefit payments, including refunds of employee contributions	(9,352,635)	(264,987)
<b>Net change in total pension liability</b>	5,475,204	204,501
<b>Total pension liability - beginning</b>	178,753,613	4,758,374
<b>Total pension liability - ending</b>	<u>184,228,817</u>	<u>4,962,875</u>
<b>Plan fiduciary net position</b>		
Contributions - employer	\$ 3,667,865	\$ 97,271
Contributions - employee	1,148,271	61,480
Net investment income	20,689,804	697,591
Benefit payments, including refunds of employee contributions	(9,352,635)	(264,987)
Administrative expense	(114,402)	(3,812)
Other	1,091	37
<b>Net change in plan fiduciary net position</b>	16,039,994	587,580
<b>Plan fiduciary net position - beginning</b>	133,429,615	4,464,677
<b>Plan fiduciary net position - ending</b>	<u>\$ 149,469,609</u>	<u>\$ 5,052,257</u>
<b>Net pension liability (asset) - ending</b>	<u>\$ 34,759,208</u>	<u>\$ (89,382)</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	81.13%	101.80%
<b>Covered-employee payroll</b>	\$ 22,642,858	\$ 1,229,675
<b>Net pension liability (asset) as a percentage of covered-employee payroll</b>	153.51%	-7.27%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

**CITY OF SALEM, VIRGINIA  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS  
JUNE 30, 2015**

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)
<b>City of Salem</b>					
2015	\$ 4,132,124	\$ 4,132,124	\$ -	\$ 22,791,638	18.13%
<b>School Division (Non-Professional Staff)</b>					
2015	\$ 94,579	\$ 94,579	\$ -	\$ 1,204,829	7.85%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

**CITY OF SALEM, VIRGINIA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY**  
**VRS TEACHER RETIREMENT PLAN**  
**JUNE 30, 2015**

<u>Year Ended June 30</u>	<u>Employer's Proportion of the Net Pension Liability</u>	<u>Employer's Proportionate Share of the Net Pension Liability (a)</u>	<u>Covered Employee Payroll (b)</u>	<u>Employer's Share of the Net Pension Liability as a % of Covered Employee Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a % of the Total Pension Liability</u>
2015	0.2917%	\$ 35,251,000	\$ 19,575,450	180.08%	70.88%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

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

**CITY OF SALEM, VIRGINIA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS**  
**VRS TEACHER RETIREMENT PLAN**  
**JUNE 30, 2015**

Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
	(a)	(b)	(a-b)	(c)	(b/c)
2015	\$ 3,025,478	\$ 3,025,478	\$ -	\$ 20,865,367	14.50%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

**CITY OF SALEM, VIRGINIA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS**  
**JUNE 30, 2015**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as of Percentage of Covered Payroll ((b-a)/c)
<b>City of Salem</b>						
June 30, 2015	\$ 4,357,722	\$ 27,025,707	\$ 22,667,985	16.1%	\$ 24,272,001	93.4%
June 30, 2013	\$ 3,430,040	\$ 28,083,367	\$ 24,653,327	12.2%	\$ 22,978,569	107.3%
June 30, 2011	\$ 2,384,957	\$ 24,152,578	\$ 21,767,621	9.9%	\$ 22,707,562	95.9%
<b>School Division</b>						
June 30, 2015	\$ 855,224	\$ 2,275,141	\$ 1,419,917	37.6%	\$ 24,081,341	5.9%
June 30, 2013	\$ 699,672	\$ 2,951,722	\$ 2,252,050	23.7%	\$ 23,283,603	9.7%
June 30, 2011	\$ 460,426	\$ 3,041,121	\$ 2,580,695	15.1%	\$ 22,300,816	11.6%

**CITY OF SALEM, VIRGINIA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS**  
**JUNE 30, 2015**

Fiscal year	Annual Required Contribution	Percentage Contributed
<b>City of Salem</b>		
June 30, 2015	\$ 1,676,657	114.6%
June 30, 2014	\$ 1,963,938	115.6%
June 30, 2013	\$ 1,841,418	108.1%
<b>School Division</b>		
June 30, 2015	\$ 174,964	168.6%
June 30, 2014	\$ 274,697	99.8%
June 30, 2013	\$ 295,200	97.3%



**CITY OF SALEM, VIRGINIA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2015**

**1. Changes of Benefit Terms**

There have been no significant changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012 (fiscal year 2014 for the teacher cost sharing pool). The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013 and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

**2. Changes of Assumptions**

The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

Teacher cost-sharing pool:

- Update mortality table
- Adjustments to rates of service retirement
- Decrease in rates of withdrawal for 3 through 9 years of service
- Decrease in rates of disability
- Reduce rates of salary increase by 0.25% per year

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## OTHER SUPPLEMENTARY INFORMATION

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

**CITY OF SALEM, VIRGINIA**  
**COMBINING STATEMENT OF NET POSITION**  
**NONMAJOR PROPRIETARY FUNDS**  
**JUNE 30, 2015**

	Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
<b>ASSETS AND DEFERRED OUTFLOWS</b>			
<i>Current assets:</i>			
Cash and cash equivalents	\$ 6,145	\$ 6,928	\$ 13,073
Receivables, net	90,001	47,139	137,140
Inventories	-	33,129	33,129
Prepaid items	68,304	-	68,304
Total current assets	164,450	87,196	251,646
<i>Capital assets:</i>			
Nondepreciable	176,653	-	176,653
Depreciable, net	4,371,162	39,213	4,410,375
Total capital assets	4,547,815	39,213	4,587,028
Total assets	4,712,265	126,409	4,838,674
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	130,861	37,391	168,252
<b>LIABILITIES</b>			
<i>Current liabilities:</i>			
Accounts payable and accrued liabilities	156,580	11,353	167,933
Accrued payroll and related liabilities	68,294	20,672	88,966
Due to other funds	1,080,000	145,000	1,225,000
Unearned revenue	128,925	-	128,925
Compensated absences	70,342	13,965	84,307
Total current liabilities	1,504,141	190,990	1,695,131
<i>Noncurrent liabilities:</i>			
Compensated absences	18,671	30,739	49,410
Net pension liability	1,101,867	316,309	1,418,176
Other postemployment benefits	21,684	698	22,382
Total noncurrent liabilities	1,142,222	347,746	1,489,968
Total liabilities	2,646,363	538,736	3,185,099
<b>DEFERRED INFLOWS OF RESOURCES</b>	291,956	83,811	375,767
<b>NET POSITION</b>			
Net investment in capital assets	4,547,815	39,213	4,587,028
Unrestricted (deficit)	(2,643,008)	(497,960)	(3,140,968)
Total net position	\$ 1,904,807	\$ (458,747)	\$ 1,446,060

**CITY OF SALEM, VIRGINIA**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**NONMAJOR PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2015**

	Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
<b>OPERATING REVENUES</b>			
Charges for services	\$ 768,136	\$ 776,895	\$ 1,545,031
Commissions	9,081	-	9,081
Other	22,731	14,416	37,147
Total operating revenues	<u>799,948</u>	<u>791,311</u>	<u>1,591,259</u>
<b>OPERATING EXPENSES</b>			
Salaries	1,053,443	338,750	1,392,193
Fringe benefits	332,112	88,759	420,871
Show expenses	413,850	-	413,850
Maintenance	159,531	1,940	161,471
Professional services	7,223	9,606	16,829
Insurance	19,820	-	19,820
Administration	59,420	13,628	73,048
Travel and training	17,172	75	17,247
Materials and supplies	41,735	236,280	278,015
Expendable equipment and small tools	122	529	651
Utilities	288,156	810	288,966
Miscellaneous	1,013	92	1,105
Depreciation	494,666	4,343	499,009
Commissions	-	156,948	156,948
Total operating expenses	<u>2,888,263</u>	<u>851,760</u>	<u>3,740,023</u>
Operating loss	<u>(2,088,315)</u>	<u>(60,449)</u>	<u>(2,148,764)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	125	-	125
Net nonoperating revenue	<u>125</u>	<u>-</u>	<u>125</u>
Loss before transfers	<u>(2,088,190)</u>	<u>(60,449)</u>	<u>(2,148,639)</u>
<b>Transfers in</b>	<u>1,123,670</u>	<u>7,278</u>	<u>1,130,948</u>
Change in net position	<u>(964,520)</u>	<u>(53,171)</u>	<u>(1,017,691)</u>
<b>Net position, beginning, as restated</b>	<u>2,869,327</u>	<u>(405,576)</u>	<u>2,463,751</u>
<b>Net position, ending</b>	<u>\$ 1,904,807</u>	<u>\$ (458,747)</u>	<u>\$ 1,446,060</u>

**CITY OF SALEM, VIRGINIA**  
**COMBINING STATEMENT OF CASH FLOWS**  
**NONMAJOR PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2015**

	Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
<b>OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 820,535	\$ 773,382	\$ 1,593,917
Payments to suppliers	(944,714)	(439,515)	(1,384,229)
Payments to employees	(1,434,581)	(435,665)	(1,870,246)
Other receipts	22,731	14,416	37,147
Net cash used in operating activities	(1,536,029)	(87,382)	(1,623,411)
<b>NONCAPITAL FINANCING ACTIVITIES</b>			
Interfund Loan	410,000	80,000	490,000
Transfers in	1,123,670	7,278	1,130,948
Net cash provided by noncapital financing activities	1,533,670	87,278	1,620,948
<b>INVESTING ACTIVITIES</b>			
Interest received	125	-	125
Net cash provided by investing activities	125	-	125
Net decrease in cash and cash equivalents	(2,234)	(104)	(2,338)
<b>Cash and cash equivalents, beginning</b>	8,379	7,032	15,411
<b>Cash and cash equivalents, ending</b>	<u>\$ 6,145</u>	<u>\$ 6,928</u>	<u>\$ 13,073</u>
<b><u>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</u></b>			
Operating loss	\$ (2,088,315)	\$ (60,449)	\$ (2,148,764)
<i>Adjustments to reconcile operating loss to net cash used in operating activities</i>			
Depreciation	494,666	4,343	499,009
Pension expense, net of employer contributions	(57,537)	(16,342)	(73,879)
<i>Decrease (increase) in assets:</i>			
Receivables, net	21,902	(2,813)	19,089
Inventories	-	(13,953)	(13,953)
Prepaid items	6,910	-	6,910
<i>Increase (decrease) in liabilities:</i>			
Accounts payable and accrued liabilities	56,418	(5,654)	50,764
Accrued payroll and related liabilities	7,860	6,115	13,975
Unearned revenue	21,416	(700)	20,716
Compensated absences	(2,687)	1,373	(1,314)
Other postemployment benefits	3,338	698	4,036
Net cash used in operating activities	<u>\$ (1,536,029)</u>	<u>\$ (87,382)</u>	<u>\$ (1,623,411)</u>

**CITY OF SALEM, VIRGINIA**  
**COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**JUNE 30, 2015**

	Cardinal Criminal Justice Academy	Court- Community Corrections Program	Total Agency Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 412,652	\$ 1,084,103	\$ 1,496,755
Receivables, net	510	324	834
Due from Commonwealth of Virginia	-	60,811	60,811
Total assets	<u>\$ 413,162</u>	<u>\$ 1,145,238</u>	<u>\$ 1,558,400</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 3,682	\$ 43,978	\$ 47,660
Liability to agency	409,480	1,101,260	1,510,740
Total liabilities	<u>\$ 413,162</u>	<u>\$ 1,145,238</u>	<u>\$ 1,558,400</u>

**CITY OF SALEM, VIRGINIA**  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**YEAR ENDED JUNE 30, 2015**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<u>CARDINAL CRIMINAL JUSTICE ACADEMY</u>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 367,786	\$ 694,121	\$ (649,255)	\$ 412,652
Receivables, net	2,580	510	(2,580)	510
Total assets	<u>\$ 370,366</u>	<u>\$ 694,631</u>	<u>\$ (651,835)</u>	<u>\$ 413,162</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 2,473	\$ 666,358	\$ (665,149)	\$ 3,682
Liability to agency	367,893	28,273	13,314	409,480
Total liabilities	<u>\$ 370,366</u>	<u>\$ 694,631</u>	<u>\$ (651,835)</u>	<u>\$ 413,162</u>
<u>COURT-COMMUNITY CORRECTIONS PROGRAM</u>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,027,427	\$ 1,948,528	\$ (1,891,852)	\$ 1,084,103
Receivables, net	-	324	-	324
Due from Commonwealth of Virginia	63,953	60,811	(63,953)	60,811
Total assets	<u>\$ 1,091,380</u>	<u>\$ 2,009,663</u>	<u>\$ (1,955,805)</u>	<u>\$ 1,145,238</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 47,926	\$ 1,912,993	\$ (1,916,941)	\$ 43,978
Liability to agency	1,043,454	96,670	(38,864)	1,101,260
Total liabilities	<u>\$ 1,091,380</u>	<u>\$ 2,009,663</u>	<u>\$ (1,955,805)</u>	<u>\$ 1,145,238</u>
<u>TOTAL AGENCY FUNDS</u>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,395,213	\$ 2,642,649	\$ (2,541,107)	\$ 1,496,755
Receivables, net	2,580	834	(2,580)	834
Due from Commonwealth of Virginia	63,953	60,811	(63,953)	60,811
Total assets	<u>\$ 1,461,746</u>	<u>\$ 2,704,294</u>	<u>\$ (2,607,640)</u>	<u>\$ 1,558,400</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 50,399	\$ 2,579,351	\$ (2,582,090)	\$ 47,660
Liability to agency	1,411,347	124,943	(25,550)	1,510,740
Total liabilities	<u>\$ 1,461,746</u>	<u>\$ 2,704,294</u>	<u>\$ (2,607,640)</u>	<u>\$ 1,558,400</u>



# STATISTICAL SECTION



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

Contents	Page
Financial Trends.....	112
<i>These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>	
Revenue Capacity.....	117
<i>These schedules contain information to help the reader assess the government's most significant local revenue sources, property tax and sale of electricity.</i>	
Debt Capacity.....	120
<i>These schedules present information to help the reader assess the affordability of the government's current level of outstanding debt and the government's ability to issue additional debt in the future.</i>	
Demographic and Economic Information.....	122
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.</i>	
Operating Information.....	124
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.</i>	

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**TABLE 1  
UNAUDITED**

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

	<b>2015</b> (1)	<b>2014</b> (2)	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b> (3)	<b>2006</b> (4)
<b>Governmental Activities</b>										
Net investment in capital assets	\$ 81,968,611	\$ 84,242,062	\$ 86,860,275	\$ 87,145,604	\$ 88,456,284	\$ 90,258,361	\$ 89,946,841	\$ 88,463,741	\$ 85,853,628	\$ 88,112,343
Restricted	4,246,340	2,987,926	1,896,959	1,260,230	1,416,694	-	-	-	-	-
Unrestricted	(44,779,654)	(22,664,736)	(20,157,809)	(10,590,213)	(12,606,292)	(9,373,128)	(10,704,656)	(9,598,627)	(9,132,365)	(12,509,444)
Total governmental net position	<u>\$ 41,435,297</u>	<u>\$ 64,565,252</u>	<u>\$ 68,599,425</u>	<u>\$ 77,815,621</u>	<u>\$ 77,266,686</u>	<u>\$ 80,885,233</u>	<u>\$ 79,242,185</u>	<u>\$ 78,865,114</u>	<u>\$ 76,721,263</u>	<u>\$ 75,602,899</u>
<b>Business-type activities</b>										
Net investment in capital assets	\$ 42,204,699	\$ 42,936,315	\$ 43,413,519	\$ 44,265,414	\$ 44,172,488	\$ 43,180,397	\$ 40,790,077	\$ 39,787,750	\$ 41,636,232	\$ 36,954,684
Restricted	-	-	-	-	1,989,529	-	-	-	-	-
Unrestricted	24,406,951	27,531,700	24,273,387	18,453,692	18,896,375	20,437,874	23,324,884	25,278,681	20,760,143	21,804,567
Total business-type activities net position	<u>\$ 66,611,650</u>	<u>\$ 70,468,015</u>	<u>\$ 67,686,906</u>	<u>\$ 62,719,106</u>	<u>\$ 65,058,392</u>	<u>\$ 63,618,271</u>	<u>\$ 64,114,961</u>	<u>\$ 65,066,431</u>	<u>\$ 62,396,375</u>	<u>\$ 58,759,251</u>
<b>Primary government</b>										
Net investment in capital assets	\$ 124,173,310	\$ 127,178,377	\$ 130,273,794	\$ 131,411,018	\$ 132,628,772	\$ 133,438,758	\$ 130,736,918	\$ 128,251,491	\$ 127,489,860	\$ 125,067,027
Restricted	4,246,340	2,987,926	1,896,959	1,260,230	3,406,223	-	-	-	-	-
Unrestricted	(20,372,703)	4,866,964	4,115,578	7,863,479	6,290,083	11,064,746	12,620,228	15,680,054	11,627,778	9,295,123
Total primary government net position	<u>\$ 108,046,947</u>	<u>\$ 135,033,267</u>	<u>\$ 136,286,331</u>	<u>\$ 140,534,727</u>	<u>\$ 142,325,078</u>	<u>\$ 144,503,504</u>	<u>\$ 143,357,146</u>	<u>\$ 143,931,545</u>	<u>\$ 139,117,638</u>	<u>\$ 134,362,150</u>

Notes:

Source: City of Salem Finance Department

(1) In 2015, the City implemented GASB 68 requiring recognition of the net pension liability.

(2) In 2014, the City implemented GASB 65 requiring debt issuance costs to be expensed as incurred and also segregated health insurance into internal service funds.

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

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

**TABLE 2**  
**UNAUDITED**

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

	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
		(1), (2)	(3)						(4)	
<b>Expenses</b>										
<i>Governmental activities</i>										
General government	\$ 6,335,563	\$ 6,248,574	\$ 6,450,069	\$ 6,583,782	\$ 6,110,416	\$ 5,328,382	\$ 5,937,208	\$ 5,031,352	\$ 4,803,246	\$ 5,107,268
Judicial administration	1,921,789	2,026,034	1,952,657	1,866,052	1,887,444	1,779,072	1,897,961	1,687,507	1,540,762	1,457,720
Public safety	16,192,190	17,532,682	17,279,490	16,492,831	15,818,359	15,330,477	15,932,421	15,048,715	13,869,676	13,547,191
Public works	12,758,967	13,399,134	13,809,579	14,421,981	13,915,318	14,019,163	14,906,728	14,067,674	13,476,019	12,443,334
Health and welfare	3,050,634	2,578,984	2,709,561	2,430,955	2,738,894	2,333,736	2,354,803	2,450,245	2,193,126	2,055,166
Education	19,151,270	25,103,243	30,295,228	18,471,653	18,420,000	18,420,000	18,420,000	17,995,000	17,095,000	16,266,005
Parks, recreation and cultural	5,127,367	5,279,886	5,436,335	5,284,647	5,495,431	5,064,065	5,620,844	5,721,997	5,796,220	5,239,517
Community development	2,006,736	2,388,701	2,327,751	2,076,325	1,834,749	1,725,528	1,830,327	1,122,221	1,022,096	933,002
Nondepartmental	-	-	-	-	-	-	-	-	-	-
Interest on long-term debt	1,032,140	1,235,080	1,354,680	1,139,218	1,151,867	1,137,667	1,188,350	1,263,858	1,202,201	1,267,296
Total governmental activities	<u>67,576,656</u>	<u>75,792,318</u>	<u>81,615,350</u>	<u>68,767,444</u>	<u>67,372,478</u>	<u>65,138,090</u>	<u>68,088,642</u>	<u>64,388,569</u>	<u>60,998,346</u>	<u>58,316,499</u>
<i>Business-type activities</i>										
Electric	33,891,833	34,182,987	33,171,403	36,047,453	35,145,346	30,978,370	28,763,182	26,505,160	24,308,309	24,692,031
Water and sewage	10,568,840	10,999,420	10,671,798	10,952,702	11,034,638	11,065,592	11,253,172	11,150,046	10,991,783	10,836,280
Civic Center	2,888,263	2,600,249	2,838,499	2,472,731	2,374,165	2,332,330	2,440,459	2,435,383	2,563,090	2,364,891
Catering and concessions	851,760	856,866	849,306	903,039	878,171	965,556	1,033,658	1,081,528	1,103,860	1,036,737
Total business-type activities	<u>48,200,696</u>	<u>48,639,522</u>	<u>47,531,006</u>	<u>50,375,925</u>	<u>49,432,320</u>	<u>45,341,848</u>	<u>43,490,471</u>	<u>41,172,117</u>	<u>38,967,042</u>	<u>38,929,939</u>
Total primary government	<u>\$ 115,777,352</u>	<u>\$ 124,431,840</u>	<u>\$ 129,146,356</u>	<u>\$ 119,143,369</u>	<u>\$ 116,804,798</u>	<u>\$ 110,479,938</u>	<u>\$ 111,579,113</u>	<u>\$ 105,560,686</u>	<u>\$ 99,965,388</u>	<u>\$ 97,246,438</u>
<b>Program revenues</b>										
<i>Governmental activities</i>										
Charges for services										
Public safety	\$ 1,237,901	\$ 1,103,765	\$ 1,069,969	\$ 991,473	\$ 911,073	\$ 900,837	\$ 1,107,794	\$ 1,048,587	\$ 1,148,627	\$ 1,315,417
Public works	4,351,157	3,695,667	3,523,970	3,560,239	3,418,637	3,248,138	3,627,290	3,203,179	2,892,913	1,799,284
Other activities	849,596	1,009,342	1,034,129	1,005,691	782,662	716,248	587,294	566,814	535,125	471,137
Operating grants and contributions	7,567,973	6,975,699	7,436,195	7,124,704	7,159,171	6,827,928	6,763,352	6,613,064	7,024,034	6,038,168
Capital grants and contributions	192,430	391,399	2,003,251	595,986	1,517,633	2,709,381	2,119,392	1,359,606	1,168,709	6,392,874
Total governmental activities	<u>14,199,057</u>	<u>13,175,872</u>	<u>15,067,514</u>	<u>13,278,093</u>	<u>13,789,176</u>	<u>14,402,532</u>	<u>14,205,122</u>	<u>12,791,250</u>	<u>12,769,408</u>	<u>16,016,880</u>
<i>Business-type activities</i>										
Charges for services										
Electric	39,715,705	39,861,201	40,280,161	36,824,320	35,726,379	32,915,660	30,863,283	31,000,915	29,300,625	27,699,386
Water and sewage	13,658,281	12,645,216	11,729,755	11,114,241	9,988,563	10,329,200	10,981,350	11,569,453	10,740,194	9,529,125
Civic Center	799,948	934,047	775,437	880,306	912,697	865,314	919,781	937,520	1,006,344	793,716
Catering and concessions	791,311	779,220	781,469	856,919	858,714	940,834	994,016	1,048,994	1,097,172	991,208
Capital grants and contributions										
Electric	47,196	27,380	-	-	39,929	-	-	-	-	-
Water and sewage	-	21,671	-	13,222	-	-	-	-	-	-
Total business-type activities	<u>55,012,441</u>	<u>54,268,735</u>	<u>53,566,822</u>	<u>49,689,008</u>	<u>47,526,282</u>	<u>45,051,008</u>	<u>43,758,430</u>	<u>44,556,882</u>	<u>42,144,335</u>	<u>39,013,435</u>
Total primary government	<u>\$ 69,211,498</u>	<u>\$ 67,444,607</u>	<u>\$ 68,634,336</u>	<u>\$ 62,967,101</u>	<u>\$ 61,315,458</u>	<u>\$ 59,453,540</u>	<u>\$ 57,963,552</u>	<u>\$ 57,348,132</u>	<u>\$ 54,913,743</u>	<u>\$ 55,030,315</u>

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Net (expense) revenue</b>										
Total governmental activities	\$ (53,377,599)	\$ (62,616,446)	\$ (66,547,836)	\$ (55,489,351)	\$ (53,583,302)	\$ (50,735,558)	\$ (53,883,520)	\$ (51,597,319)	\$ (48,228,938)	\$ (42,299,619)
Total business-type activities	6,811,745	5,629,213	6,035,816	(686,917)	(1,906,038)	(290,840)	267,959	3,384,765	3,177,293	83,496
Total primary government	<u>\$ (46,565,854)</u>	<u>\$ (56,987,233)</u>	<u>\$ (60,512,020)</u>	<u>\$ (56,176,268)</u>	<u>\$ (55,489,340)</u>	<u>\$ (51,026,398)</u>	<u>\$ (53,615,561)</u>	<u>\$ (48,212,554)</u>	<u>\$ (45,051,645)</u>	<u>\$ (42,216,123)</u>
<b>General Revenues and Other Changes in Net Position</b>										
<i>Governmental activities:</i>										
Taxes										
Property taxes	\$ 33,371,609	\$ 32,666,172	\$ 32,272,995	\$ 32,480,280	\$ 32,068,912	\$ 31,477,369	\$ 31,335,765	\$ 30,082,026	\$ 27,606,560	\$ 27,161,942
Local sales and use taxes	6,688,509	6,432,110	6,083,030	5,891,941	5,707,813	5,492,934	5,568,978	5,908,920	5,711,940	5,634,585
Business license tax	5,088,724	5,078,755	5,107,983	4,751,638	4,564,531	4,421,129	4,827,348	4,714,965	4,258,059	3,866,585
Meals tax	4,464,873	4,277,741	4,118,041	3,242,532	2,551,880	2,429,239	2,448,064	2,546,104	2,397,412	2,351,010
Utility taxes	1,217,299	1,150,691	1,153,190	1,124,383	1,123,400	1,105,818	1,123,616	1,156,775	1,228,975	1,372,250
Other taxes	3,497,219	3,184,568	2,924,694	2,604,603	2,805,271	2,684,054	2,856,119	2,362,788	2,700,657	2,625,066
Intergovernmental revenue not restricted	3,942,960	3,961,782	3,859,380	3,747,854	3,747,722	3,735,738	3,860,269	4,030,210	3,878,955	3,523,634
Unrestricted investment earnings	164,585	143,186	134,650	127,210	129,640	132,522	213,671	568,689	789,526	556,039
Gain on sale of property	389,290	33,051	1,198	-	-	-	24,624	5,715	-	402,089
Other	586,008	554,303	606,657	411,355	603,696	324,136	375,139	812,702	279,223	218,274
Transfers	2,266,120	1,694,330	1,069,822	1,656,490	(3,338,110)	575,667	1,626,999	1,552,276	495,995	975,685
Total governmental activities	<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>	<u>54,260,592</u>	<u>53,741,170</u>	<u>49,347,302</u>	<u>48,687,159</u>
<i>Business-type activities:</i>										
Unrestricted investment earnings	158	172	168	4,121	8,049	23,297	179,714	706,658	928,710	271,303
Gain on sale of property	8,225	5,013	1,638	-	-	-	205,932	-	6,967	-
Other	-	-	-	-	-	346,520	21,924	130,909	20,149	-
Transfers	(2,266,120)	(1,694,330)	(1,069,822)	(1,656,490)	3,338,110	(575,667)	(1,626,999)	(1,552,276)	(495,995)	(975,685)
Total business-type activities	<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>	<u>(1,219,429)</u>	<u>(714,709)</u>	<u>459,831</u>	<u>(704,382)</u>
Total primary government	<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>	<u>\$ 53,041,163</u>	<u>\$ 53,026,461</u>	<u>\$ 49,807,133</u>	<u>\$ 47,982,777</u>
<b>Changes in Net Position</b>										
Total governmental activities	\$ 8,299,597	\$ (3,439,757)	\$ (9,216,196)	\$ 548,935	\$ (3,618,547)	\$ 1,643,048	\$ 377,072	\$ 2,143,851	\$ 1,118,364	\$ 6,387,540
Total business-type activities	4,554,008	3,940,068	4,967,800	(2,339,286)	1,440,121	(496,690)	(951,470)	2,670,056	3,637,124	(620,886)
Total primary government	<u>\$ 12,853,605</u>	<u>\$ 500,311</u>	<u>\$ (4,248,396)</u>	<u>\$ (1,790,351)</u>	<u>\$ (2,178,426)</u>	<u>\$ 1,146,358</u>	<u>\$ (574,398)</u>	<u>\$ 4,813,907</u>	<u>\$ 4,755,488</u>	<u>\$ 5,766,654</u>

**Notes:**

Source: City of Salem Finance Department

- (1) Education expenses of governmental activities includes \$5,481,200 of bond funds transferred to the School Division to fund capital projects.
- (2) In 2014, the City implemented GASB 65 requiring debt issuance costs to be expensed as incurred and also segregated health insurance into internal service funds.
- (3) Education expenses of governmental activities includes \$9,518,800 of bond funds transferred to the School Division to fund capital projects.
- (4) Electric expenses and Water and Sewage expenses of business-type activities were restated.

**TABLE 3**  
**UNAUDITED**

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

	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Post-GASB 54 implementation:</b>		(1)			
<b>General Fund</b>					
Nonspendable	\$ 514,556	\$ 421,117	\$ 447,097	\$ 497,206	\$ 554,962
Restricted	4,180,415	2,661,958	1,896,731	1,244,986	1,287,008
Committed	-	-	-	519,817	-
Assigned	505,633	465,178	941,626	1,256,103	1,588,768
Unassigned	9,797,393	5,271,609	3,517,718	3,469,721	3,351,935
Total general fund	<u>\$ 14,997,997</u>	<u>\$ 8,819,862</u>	<u>\$ 6,803,172</u>	<u>\$ 6,987,833</u>	<u>\$ 6,782,673</u>
<b>All Other Governmental Funds</b>					
Restricted	\$ 65,925	\$ 325,968	\$ 228	\$ 15,244	\$ 129,686
Committed	96,503	125,651	115,000	39,436	-
Assigned	-	8,291	-	-	-
Unassigned	-	-	(432,316)	-	-
Total all other governmental funds	<u>\$ 162,428</u>	<u>\$ 459,910</u>	<u>\$ (317,088)</u>	<u>\$ 54,680</u>	<u>\$ 129,686</u>
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Pre-GASB 54 implementation:</b>					
<b>General Fund</b>					
Reserved	\$ 1,038,347	\$ 916,227	\$ 893,623	\$ 1,357,034	\$ 1,431,926
Unreserved	5,183,434	5,486,537	7,086,974	6,547,440	6,419,834
Total general fund	<u>\$ 6,221,781</u>	<u>\$ 6,402,764</u>	<u>\$ 7,980,597</u>	<u>\$ 7,904,474</u>	<u>\$ 7,851,760</u>
<b>All Other Governmental Funds</b>					
Reserved	\$ 784,005	\$ 2,130,298	\$ 3,388,893	\$ 1,083,915	\$ 1,251,705
Unreserved, reported in:					
Capital projects fund	(1,051,141)	(2,031,615)	(3,152,261)	(189,129)	(463,348)
Total all other governmental funds	<u>\$ (267,136)</u>	<u>\$ 98,683</u>	<u>\$ 236,632</u>	<u>\$ 894,786</u>	<u>\$ 788,357</u>

Note:

Source: City of Salem Finance Department  
FY2011 was the first year the City implemented GASB 54 which revised fund balance classifications

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

**TABLE 4  
UNAUDITED**

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
		(1)	(2)							
<b>Revenues</b>										
Taxes	\$ 54,697,901	\$ 53,203,553	\$ 52,276,472	\$ 50,284,343	\$ 48,794,986	\$ 47,592,620	\$ 48,272,897	\$ 47,254,766	\$ 44,555,391	\$ 44,037,357
Permits, fees and licenses	394,827	218,804	198,742	202,342	218,094	243,035	228,687	303,958	293,004	294,314
Fines and forfeitures	127,002	126,761	153,584	160,816	164,161	159,179	171,056	159,489	159,363	150,860
Revenue from use of money and property	511,980	697,565	697,140	642,067	677,805	465,564	539,930	786,455	1,434,893	1,385,122
Charges for services	5,632,172	4,956,368	4,925,221	4,700,364	4,463,860	4,282,550	4,602,745	4,154,836	3,915,569	2,959,842
Other	153,748	160,095	247,149	104,701	284,324	172,872	195,505	152,478	47,673	32,544
Intergovernmental	11,638,740	11,289,569	13,129,214	11,462,504	12,562,674	12,525,033	12,526,047	10,859,986	10,336,870	8,720,129
Total revenues	<u>73,156,370</u>	<u>70,652,715</u>	<u>71,627,522</u>	<u>67,557,137</u>	<u>67,165,904</u>	<u>65,440,853</u>	<u>66,536,867</u>	<u>63,671,968</u>	<u>60,742,763</u>	<u>57,580,168</u>
<b>Expenditures</b>										
General government	6,062,763	5,689,510	5,881,344	5,792,852	4,900,770	5,232,405	6,380,771	4,891,569	4,694,442	4,994,542
Judicial administration	1,913,666	1,919,961	1,866,050	1,801,429	1,788,821	1,695,531	1,723,427	1,649,871	1,506,395	1,321,052
Public safety	15,779,717	16,358,165	16,371,685	15,353,250	14,792,022	14,358,932	14,371,192	14,397,297	13,358,739	12,707,985
Public works	10,709,120	11,087,740	11,502,485	11,988,380	11,656,775	11,101,013	12,113,469	12,156,138	11,434,040	9,400,116
Health and welfare	2,900,389	2,465,194	2,672,631	2,391,628	2,682,090	2,293,464	2,315,841	2,410,340	2,163,687	1,918,490
Education	19,151,270	25,103,243	30,295,228	18,471,653	18,420,000	18,420,000	18,420,000	17,995,000	17,095,000	16,266,005
Parks, recreation and cultural	4,401,263	4,323,040	4,508,319	4,403,170	4,203,452	4,204,705	4,716,767	4,464,456	4,354,144	4,316,920
Community development	1,062,184	857,219	829,081	981,483	879,709	618,217	1,148,291	469,835	639,535	815,991
Non-departmental	3,248,409	2,759,940	2,867,807	2,658,955	2,908,441	2,579,752	3,349,639	1,976,756	1,769,127	3,610,694
Capital projects	697,503	1,788,469	2,377,884	1,571,118	3,703,365	2,350,384	1,624,611	1,397,376	2,750,335	4,325,562
<i>Debt service:</i>										
Principal retirement	3,018,738	2,647,514	7,765,685	2,623,661	2,606,810	2,593,118	2,618,896	2,612,403	2,607,365	2,863,024
Interest	1,101,829	980,558	824,824	970,434	930,767	1,029,641	1,105,218	1,171,197	1,119,793	1,185,708
Bond Issuance Cost	10,377	15,500	45,750	31,900	117,689	-	-	-	-	-
Total expenditures	<u>70,057,228</u>	<u>75,996,053</u>	<u>87,808,773</u>	<u>69,039,913</u>	<u>69,590,711</u>	<u>66,477,162</u>	<u>69,888,122</u>	<u>65,592,238</u>	<u>63,492,602</u>	<u>63,726,089</u>
Excess (deficiency) of revenues over expenditures	3,099,142	(5,343,338)	(16,181,251)	(1,482,776)	(2,424,807)	(1,036,309)	(3,351,255)	(1,920,270)	(2,749,839)	(6,145,921)
<b>Other Financing Sources (Uses)</b>										
Proceeds from long-term debt	-	7,275,000	9,518,800	-	6,540,000	-	-	-	-	-
Proceeds from sale 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	505,014	-	-	-	-	-	-	-	-	-
Transfers in	7,766,233	6,832,903	5,626,851	6,458,723	5,683,661	4,985,609	6,043,796	6,474,312	7,536,323	8,235,360
Transfers out	(5,500,113)	(5,131,569)	(4,557,029)	(4,817,065)	(8,950,187)	(4,496,102)	(4,408,322)	(5,136,073)	(4,627,341)	(7,249,644)
Total other financing sources (uses)	<u>2,781,511</u>	<u>8,976,334</u>	<u>15,624,822</u>	<u>1,612,930</u>	<u>3,382,521</u>	<u>489,507</u>	<u>1,635,474</u>	<u>1,338,239</u>	<u>2,908,982</u>	<u>985,716</u>
Net change in fund balances	<u>\$ 5,880,653</u>	<u>\$ 3,632,996</u>	<u>\$ (556,429)</u>	<u>\$ 130,154</u>	<u>\$ 957,714</u>	<u>\$ (546,802)</u>	<u>\$ (1,715,781)</u>	<u>\$ (582,031)</u>	<u>\$ 159,143</u>	<u>\$ (5,160,205)</u>
Debt service as a percentage of noncapital expenditures	6.06%	4.93%	10.16%	5.37%	5.39%	5.76%	5.73%	6.04%	6.26%	7.06%

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 Assessed Value	Total Direct Tax Rate
	Assessed Value	Direct Tax Rate	Assessed Value	Direct Tax Rate	Assessed Value	Direct Tax Rate	Assessed Value	Direct Tax Rate	Assessed Value	Direct Tax Rate		
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	2,410,213,827	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
2009	1,912,957,600	1.18	263,305,279	3.20	80,517,625	3.20	36,468,242	1.18	1,655,642	1.18	2,294,904,388	1.48
2008	1,805,483,900	1.18	263,662,393	3.20	82,535,751	3.20	36,451,099	1.18	1,780,273	1.18	2,189,913,416	1.50
2007	1,601,239,600	1.18	254,765,656	3.20	86,685,532	3.20	34,992,259	1.18	1,632,022	1.18	1,979,315,069	1.52
2006	1,572,732,200	1.18	262,141,563	3.20	86,409,864	3.20	33,586,047	1.18	1,855,348	1.18	1,956,725,022	1.54

Note:

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



**TABLE 6**  
**UNAUDITED**

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

Calendar Year Ended December 31,	Taxes Levied for the Calendar Year	Collected within the Calendar Year of the Levy		Supplemental Assessments & Exonerations Levied in Subsequent Years	Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy			Amount	Percentage of Levy
2015	\$ 33,630,244	\$ 32,291,449	96.02%	\$ -	\$ -	32,291,449	96.02%
2014	32,905,743	31,229,276	94.91%	(50,979)	1,210,764	32,440,040	98.74%
2013	32,537,416	30,854,728	94.83%	97,108	1,526,546	32,381,274	99.22%
2012	32,672,916	31,351,991	95.96%	52,396	1,111,619	32,463,610	99.20%
2011	32,104,079	30,836,144	96.05%	108,182	1,122,196	31,958,340	99.21%
2010	31,627,310	30,440,194	96.25%	309,847	1,341,103	31,781,297	99.51%
2009	31,336,233	30,288,062	96.66%	124,862	1,101,686	31,389,748	99.77%
2008	29,846,597	28,917,802	96.89%	217,549	1,089,106	30,006,908	99.81%
2007	27,357,053	26,652,952	97.43%	361,155	1,024,394	27,677,346	99.85%
2006	27,035,930	26,209,290	96.94%	423,942	1,215,978	27,425,268	99.87%

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	2015			2006		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Lewis-Gale Hospital HCA (1)	\$ 36,118,600	1	1.80%	\$ 63,346,200	1	3.99%
Lewis Gale Clinic/HRT	22,095,300	2	1.10%			
Yokohama Industries	13,946,300	3	0.69%	16,126,100	2	1.02%
Lowes/VALO LLC	12,462,800	4	0.62%			
U.S. Food Service, Inc.	10,708,600	5	0.53%	12,222,400	3	0.77%
General Electric	10,655,700	6	0.53%	11,147,000	4	0.70%
Chateau Riviera Apartments/CSW Associates	9,694,200	7	0.48%	8,167,800	5	0.51%
Spartan Square, Inc.	8,953,000	8	0.44%	7,003,300	7	0.44%
Salem Terrace/White Whale	8,361,700	9	0.42%			
Carthy Corporation/Carter Machinery	7,586,000	10	0.38%	6,223,300	9	0.39%
Rowe Furniture/Salem Frame				7,511,800	6	0.47%
Wal-Mart, Inc.				6,309,500	8	0.40%
Salem Ridge				5,383,200	10	0.34%

Note:

Source: City of Salem Real Estate Valuation Department

(1) In 2005, Lewis-Gale Hospital HCA acquired the assets of Lewis-Gale Building Corporation

**TABLE 8**  
**UNAUDITED**

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

Customer	2015			2006		
	Services Billed	Rank	Percentage of Total Services Billed	Services Billed	Rank	Percentage of Total Services Billed
Lewis Gale Hospital HCA	\$1,975,763	1	5.03%	\$1,196,178	1	4.45%
Roanoke College	1,227,890	2	3.12%	760,745	2	2.83%
Graham White	907,011	3	2.31%	658,142	3	2.45%
Rowe Furniture/Salem Frame	844,367	4	2.15%	508,489	5	1.89%
U.S. Food Service, Inc.	716,188	5	1.82%	633,925	4	2.36%
Kroger	581,637	6	1.48%	368,804	7	1.37%
Carter Machinery	519,404	7	1.32%	339,573	9	1.26%
Sewell Products	517,148	8	1.32%	297,592	10	1.11%
Wal-Mart, Inc.	369,408	9	0.94%	235,171		
Old VA Brick Co.	283,070	10	0.72%	359,575	8	1.34%
Valleydale Foods				504,649	6	1.88%

Note:

Source: City of Salem Finance Department

**TABLE 9**  
**UNAUDITED**

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

Fiscal Year	Governmental Activities			Business-Type Activities		Total Primary Government
	General Obligation Bonds	Other Long-term Debt	Total	General Obligation Bonds		
	(1)	(1)				
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	
2009	26,141,121	250,000	26,391,121	58,850,591	85,241,712	
2008	28,543,117	375,000	28,918,117	61,654,565	90,572,682	
2007	30,938,620	500,000	31,438,620	64,301,352	95,739,972	
2006	30,827,306	625,000	31,452,306	66,387,967	97,840,273	

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)	
2015	\$ 2,428,048,133	3.39%	25,483	\$ 3,231	\$ 43,418	7.00%
2014	2,410,213,827	3.61%	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%
2009	2,294,904,388	3.71%	24,684	3,453	39,525	9.00%
2008	2,189,913,416	4.14%	24,673	3,671	40,760	9.00%
2007	1,979,315,069	4.84%	24,482	3,911	39,479	10.00%
2006	1,956,725,022	5.00%	24,508	3,992	38,194	10.00%

**Notes:**

Source: City of Salem Finance Department

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

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

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

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

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

**TABLE 10**  
**UNAUDITED**

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

Fiscal Year	Assessed Value of Real Property	Debt Limit 10% of Assessed Value	Amount of Debt Applicable to Limit				Legal Debt Margin
			Total General Obligation Bonds	Total Other Long-term Debt	Enterprise Bonds	Net Debt Applicable to Limit	
	(1)				(2)	(3)	
2015	\$ 2,052,563,692	\$ 205,256,369	\$ 82,344,557	\$ -	\$ (47,663,394)	\$ 34,681,163	16.90%
2014	2,044,415,909	204,441,591	86,899,525	-	(49,258,943)	37,640,582	18.41%
2013	2,039,729,559	203,972,956	83,322,451	-	(50,697,384)	32,625,067	15.99%
2012	2,015,454,684	201,545,468	79,148,626	-	(53,677,900)	25,470,726	12.64%
2011	2,011,649,345	201,164,935	83,375,412	-	(55,461,508)	27,913,904	13.88%
2010	1,977,816,489	197,781,649	79,768,952	125,000	(56,004,049)	23,889,903	12.08%
2009	1,949,425,842	194,942,584	84,991,712	250,000	(58,850,591)	26,391,121	13.54%
2008	1,841,934,999	184,193,500	90,197,682	375,000	(61,654,565)	28,918,117	15.70%
2007	1,636,231,859	163,623,186	95,239,972	500,000	(64,301,352)	31,438,620	19.21%
2006	1,606,318,247	160,631,825	97,215,273	625,000	(66,387,967)	31,452,306	19.58%

Notes:

Source: City of Salem Finance Department

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

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

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

**TABLE 11  
UNAUDITED**

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

<b>Fiscal Year Ended</b>	<b>Population</b>	<b>Total Personal Income (In Thousands)</b>	<b>Per Capita Personal Income</b>	<b>Public School Enrollment</b>	<b>Unemployment Rate</b>
(1)	(2)	(3)	(3)	(4)	(5)
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%
2009	24,684	4,620,761	39,525	3,905	6.3%
2008	24,673	4,743,543	40,760	3,911	3.6%
2007	24,482	4,563,905	39,479	3,966	3.0%
2006	24,508	4,392,229	38,194	3,902	2.9%

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 2014.

(2) Population is based on Intercensal estimates of the resident population for counties of Virginia: April 1, 2000 to July 1, 2010. US Census Bureau, Population Division. Population for 2012 and 2013 were obtained from 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 capital personal income was computed using Census Bureau midyear population estimates.

(4) Supervisor of Business, School Division

(5) Virginia Employment Commission

**TABLE 12**  
**UNAUDITED**

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

<b>Employer</b>	<b>2015</b>			<b>2006</b>		
	<b>Employees</b>	<b>Rank</b>	<b>Percentage of Total City Employment (1)</b>	<b>Employees</b>	<b>Rank</b>	<b>Percentage of Total City Employment (1)</b>
Veterans Administration Medical Center	1,920	1	9.49%	1,393	2	6.10%
Lewis-Gale Hospital HCA	1,450	2	7.17%	1,100	4	4.82%
Yokohama Industries	880	3	4.35%	885	6	3.88%
General Electric	701	4	3.47%	1,100	3	4.82%
Lewis-Gale Clinic	655	5	3.24%	1,456	1	6.38%
City of Salem Schools	522	6	2.58%	583	7	2.55%
Virginia Department of Transportation	502	7	2.48%	895	5	3.92%
City of Salem	496	9	2.45%	527	8	2.31%
Roanoke College	483	8	2.39%	420	10	1.84%
U.S. Food Service, Inc.	415	10	2.05%	465	9	2.04%

Notes:

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

(1) Calculated using data provided by Virginia Employment Commission

**TABLE 13**  
**UNAUDITED**

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

<b>Function</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
General government	69	67	66	66	69	67	69	71	69	67
Judicial administration	19	19	19	21	20	20	20	20	20	19
Public safety	157	159	162	160	161	162	167	165	164	162
Public works	88	94	94	100	105	110	112	113	111	115
Parks, recreation and cultural	32	31	32	32	32	33	33	26	25	25
Community development	3	3	3	3	3	3	3	3	3	4
Electric	29	27	26	26	28	29	29	29	29	28
Water and sewage	52	49	49	51	52	53	58	58	59	58
Civic Center	17	17	17	18	18	17	18	20	19	19
Catering and concessions	4	4	4	4	4	4	5	5	5	5
Total	<u>470</u>	<u>470</u>	<u>472</u>	<u>481</u>	<u>492</u>	<u>498</u>	<u>514</u>	<u>510</u>	<u>504</u>	<u>502</u>

Notes:

Source: City of Salem Finance Department

**TABLE 14**  
**UNAUDITED**

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

<b>Function</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>General government</b>										
<i>Finance</i>										
Accounts payable checks issued	8,601	9,280	8,937	11,002	12,260	13,595	12,104	13,991	14,617	15,638
<i>Human resources</i>										
Positions filled (full-time and temporary)	140	184	142	146	143	129	257	244	201	246
<i>Registrar</i>										
Number of registered voters	16,282	16,695	16,625	16,678	16,436	16,309	16,258	15,897	15,524	14,995
<i>Fleet</i>										
Pieces of equipment maintained	583	576	572	573	565	551	560	600	558	527
<b>Judicial administration</b>										
<i>Sheriff</i>										
Inmates housed	2,730	2,885	2,776	2,668	2,587	2,343	1,494	1,294	1,296	1,125
Inmate transports	1,137	1,240	1,062	1,069	1,276	1,879	1,594	1,545	1,427	1,391
Courts worked	614	699	686	648	691	676	695	624	639	611
<b>Public safety</b>										
<i>Police</i>										
Calls for service	32,798	32,203	39,519	36,549	33,903	34,342	35,159	34,526	33,776	30,163
Accidents	983	1,053	905	919	1,063	975	1,024	1,300	1,329	1,221
DUI Arrests	63	68	107	62	95	129	122	146	176	159
<i>Fire</i>										
Emergency responses - fire	3,203	3,181	3,337	3,241	3,661	3,270	3,441	3,083	2,715	3,006
Emergency responses - medic units	3,809	3,446	3,569	3,358	3,632	3,335	3,596	3,085	2,982	3,289
Hazardous conditions responses	80	77	125	105	137	134	161	182	146	82
<i>Building inspections</i>										
Residential construction permits	150	198	106	122	123	130	148	169	336	309
Commercial construction permits	139	148	110	116	124	63	71	103	93	92
<b>Public works</b>										
<i>Refuse collection</i>										
Refuse collected (tons per year)	80,827	82,905	80,609	81,427	81,485	83,607	88,365	77,027	90,405	81,379
Tons recycled	1,404	1,386	2,315	2,844	1,764	3,883	4,841	4,623	4,724	2,154
<i>Other public works</i>										
Tons of asphalt used in resurfacing	-	639	5,770	7,507	5,821	3,616	5,185	6,958	14,510	9,111
Square yards of milling completed	-	10,718	92,988	143,962	99,960	39,959	80,155	68,091	84,386	58,605
Tons of salt used	705	769	1,098	183	817	1,389	176	170	277	901
Leaves collected (loads)	360	293	316	369	494	507	448	323	421	422
<b>Parks, recreation and cultural</b>										
<i>Parks and recreation</i>										
Tournaments hosted	47	58	62	58	49	53	50	54	57	59
Special events held	26	24	24	24	24	25	24	24	25	21
Youth sports teams	155	164	170	205	225	210	195	252	186	184
Adult sports teams	27	29	39	37	44	49	48	59	48	40
<i>Library</i>										
Circulation	240,516	252,237	271,600	295,911	285,337	290,309	276,578	264,184	241,816	233,852
Children's program attendance	3,622	3,616	3,924	4,926	6,891	7,129	8,792	7,647	4,591	3,580
Patron visits to the library	178,323	195,878	211,605	226,696	232,559	245,807	239,745	233,524	234,379	228,560
New patrons	1,049	1,138	1,373	1,315	1,288	1,417	1,648	1,694	1,694	1,510
Internet sessions	27,571	28,965	33,885	51,033	52,397	58,517	50,711	62,650	55,689	32,650
<b>Electric</b>										
Number of customer accounts	13,021	13,204	13,198	13,202	13,163	13,131	13,175	13,130	13,032	12,968
<b>Water</b>										
Number of customer accounts	9,381	9,372	9,375	9,365	9,341	9,301	9,304	9,256	9,170	9,107
Million gallons sold to customers	989	876	838	955	1,004	977	1,003	1,067	1,043	1,090
<b>Sewage</b>										
Number of customer accounts	8,929	8,824	8,823	8,803	8,764	8,717	8,706	8,664	8,561	8,513
Waste/water treated (million gallons/day)	6.8	7.8	7.0	7.0	6.5	8.3	6.2	5.7	8.1	6.8
<b>Civic Center</b>										
Concerts	6	9	11	13	13	9	9	9	13	6
Meetings	778	721	614	792	936	1,156	1,216	1,295	1,081	1,209
Tickets sold	73,668	82,929	83,638	87,006	102,678	103,891	112,997	99,581	147,491	163,972
Arena utilization days	198	191	175	173	178	179	202	219	201	175

Notes:

Source: Various City of Salem Departments



TABLE 15  
UNAUDITED

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

Function	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Public safety</b>										
Police station	1	1	1	1	1	1	1	1	1	1
Law enforcement vehicles	46	48	47	47	47	46	49	50	48	45
Fire stations	3	3	3	3	3	3	3	3	3	3
Fire trucks	6	6	6	6	6	6	6	7	6	5
Ambulances	4	4	4	4	5	5	5	5	5	4
<b>Public works</b>										
Primary streets (lane miles)	68	68	68	68	68	68	68	68	68	65
Secondary streets (lane miles)	272	272	272	272	272	272	272	272	270	225
Alleys (lane miles)	12	12	12	12	12	12	12	12	12	11
Garbage trucks	16	14	13	12	12	12	12	13	13	10
<b>Parks, recreation and cultural</b>										
Community center/senior center	1	1	1	1	1	1	1	1	1	3
Parks/athletic fields	15	15	15	15	15	15	15	15	15	15
Acres of parks maintained	495	495	495	495	495	495	495	495	495	495
Library	1	1	1	1	1	1	1	1	1	1
Golf course	1	1	1	1	1	1	1	1	1	1
Dog park	1	1	1	1	0	0	0	0	0	0
<b>Electric</b>										
Substations	11	11	11	11	11	11	11	11	11	7
Overhead distribution lines (miles)	172	172	172	172	172	172	171	158	158	159
Underground distribution lines (miles)	38	38	38	38	38	38	38	33	33	33
Transmission lines (miles)	17	17	17	17	17	17	17	17	17	23
<b>Water and sewage</b>										
Water treatment plant	1	1	1	1	1	1	1	1	1	1
Water distribution lines (miles)	175	175	175	175	182	182	181	182	181	181
Sanitary sewer lines (miles)	170	170	170	177	177	177	171	176	176	174

Notes:

Source: City of Salem Finance Department

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## COMPLIANCE SECTION

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

**CITY OF SALEM, VIRGINIA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2015**

<b>Federal Grantor</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
<b><i>Pass-through Grantor: Commonwealth of Virginia</i></b>		
<b>Program Title</b>		
<b><u>Department of Agriculture</u></b>		
<b><i>Department of Agriculture and Nutrition Service</i></b>		
Food Insecurity Nutrition Incentive Grants Program	10.331	\$ 25
Supplemental Nutrition Assistance Program	10.551	4,098
<b><i>Department of Agriculture and Consumer Services</i></b>		
Food Distribution – Commodities	10.555	105,453
<b><i>Department of Education</i></b>		
National School Breakfast Program	10.553	140,079
National School Lunch Program	10.555	549,828
<b><u>Department of Justice</u></b>		
<b><i>Direct Payments</i></b>		
Bulletproof Vest Partnership Program	16.607	4,893
Byrne Justice Assistance Grant	16.738	1,336
Equitable Sharing Program	16.922	22,208
<b><i>Department of Criminal Justice Services</i></b>		
Crime Victim Assistance	16.575	54,655
<b><u>Department of Transportation</u></b>		
<b><i>Department of Transportation</i></b>		
Highway Planning and Construction	20.205	147,012
<b><i>Division of Motor Vehicles</i></b>		
State and Community Highway Safety	20.600	8,411
Alcohol Open Container Requirements	20.607	10,720
National Priority Safety Programs	20.616	3,902
<b><u>Department of Education</u></b>		
<b><i>Department of Education</i></b>		
Education Consolidation Improvement Act of 1981:		
Title I: Grants to Local Educational Agencies	84.010	447,066
Title I: Perkins Career and Technical Education	84.048	44,587
Title II: Part A, Improving Teacher Quality	84.367	110,906
Elementary and Secondary Education Act (ESEA):		
Special Education – Grants to States	84.027	706,572
Special Education – Preschool Grants	84.173	15,467
Vocational Education:		
Adult Education	84.002	312,680
Special Projects:		
Carol White PEP Grant	84.215	111,299
English Language Acquisition	84.365	14,318
<b><u>Department of Homeland Security</u></b>		
<b><i>Department of Emergency Management</i></b>		
Flood Mitigation Assistance	97.029	58,664
State Homeland Security Grant	97.067	31,517
<b>Total Expenditures of Federal Awards</b>		<b>\$ 2,905,696</b>

**Note 1: Basis of Accounting**

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

**Note 2: Nonmonetary Assistance**

Nonmonetary assistance is reported in the Schedule of Expenditures of Federal Awards at the fair market value of the food commodities disbursed. At June 30, 2015, the Component Unit – School Division had food commodities in inventory of \$18,386.

**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*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Salem, Virginia (the "City"), as of and for the year ended June 30, 2015, 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 17, 2015.

**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 17, 2015

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

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of Salem, Virginia's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2015. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Opinion on Each Major Federal Program***

In our opinion, the City 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, 2015.

## Report on Internal Control Over Compliance

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

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

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 17, 2015



**CITY OF SALEM, VIRGINIA**  
**SUMMARY OF COMPLIANCE MATTERS**  
**June 30, 2015**

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

**STATE COMPLIANCE MATTERS**

Code of Virginia:

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

State Agency Requirements:

Education

**FEDERAL COMPLIANCE MATTERS**

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

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

**CITY OF SALEM, VIRGINIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2015**

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

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

<u>Name of Programs</u>	<u>CFDA#</u>
Child Nutrition Cluster	10.553, 10.555
Title I: Grants to Local Education Agencies	84.010

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

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

None.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS**

None.

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

None.

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

Rosemarie B. Jordan, CPA

Director of Finance

**Accounting/Accounts Payable/Purchasing**

Vickie L. Akers

Accounting Assistant

Wendy D. Boggess

Buyer

Ellen T. Bowen

Senior Accountant

Yen T. Ha

Senior Accountant

Amy R. Morris, CPA

Financial Systems Accountant

Mary Ann Penney, CPA

Accounting Supervisor

Tammy H. Todd, CPA

Assistant Director of Finance

Karen M. Vaught

Accounting Technician

**Administrative**

Alyson R. Chaisson

Finance Administrative Secretary/  
Accounting Technician

**Payroll**

Tara N. Pugh

Payroll Technician

Carrington R. Sumner

Payroll Manager