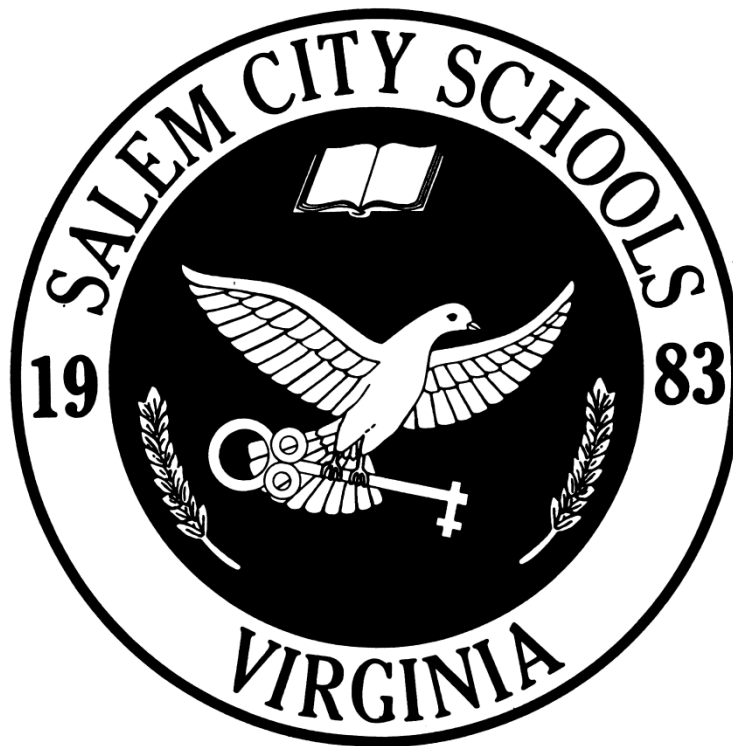


CITY OF SALEM SCHOOL DIVISION
(A Component Unit of the City of Salem)



ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2011

CITY OF SALEM SCHOOL DIVISION CENTRAL OFFICE
CITY OF SALEM DEPARTMENT OF FINANCE

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INTRODUCTORY SECTION

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November 22, 2011

Members of the Board of the City of Salem School Division Salem, Virginia

We are pleased to present to you the Annual Financial Report of the City of Salem School Division (School Division) for the fiscal year ended June 30, 2011. This report was prepared by the City of Salem Department of Finance in conformity with generally accepted accounting principles (GAAP) as promulgated by the Government Accounting Standards Board (GASB).

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the School Division. 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 School Division as measured by the financial activity of various funds. All disclosures necessary to enable the reader to gain the maximum understanding of the School Division's activity have been included. The independent certified public accounting firm of Brown, Edwards & Company, L.L.P. has audited the basic financial statements contained herein.

The Reporting Entity and Services Provided

The School Division is reported as a discretely presented component unit of the City of Salem, Virginia (City). Although the School Division is a legally separate entity, it is fiscally dependent upon the City. The City levies taxes for School Board operations and issues debt for major school capital projects. The City appropriates the School Division budget on an annual basis at the total appropriation level. In addition, the City Council appoints the five-member School Board. The School Division exercises financial accountability over the general operations of the school system, as well as the school cafeteria fund.

Profile of the School System

The School Division is a small city public education system for approximately 4,000 students. Salem's student population is represented by several ethnic categories. Approximately 87% of the students are Caucasian, 14% are African-American, 3% are Hispanic, 3% are Asian, and 1% are in other categories. (Students may report more than one category, which is reflected in the percentages shown exceeding 100%). Facilities include a high school, a middle school, four elementary schools, an alternative education center and a central administrative office. Salem's School Division is recognized as a high achieving school system on the basis of standardized testing and the percentage of students who attend post secondary educational institutions.

Specialized programs are offered for gifted students including an International Baccalaureate program for high school students. In addition, programs are offered for students with alternative education needs, vocational aspirations and disabilities. The School Division participates in a regional special education program in order to offer certain specialized special education services to students with disabilities.

Approximately 28.8% of Salem's students qualify for free and reduced lunches (June 2011) under the National School Lunch Program. Individual school percentages range from 21% to 43%.

The school system budget for fiscal year 2011 was based on a projected average daily student membership of 3,830. Actual average daily membership for the period through March 31 was 3,859. Average daily membership for most state revenue funding formulas is computed based on the period which begins on the first student day and extends through March 31.

Local Economic Condition and Outlook

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

Chartered by the Commonwealth of Virginia as a town in 1806 and as a city in 1968, Salem encompasses a land area of 14.4 square miles. The City's 2011 estimated population, 25,357, accounts for approximately 8.2% of the population in its metropolitan statistical area (MSA), which includes the neighboring City of Roanoke and Counties of Botetourt, Craig, Franklin and Roanoke.

Despite continuing financial challenges during fiscal year 2011, Salem continues to provide an atmosphere and quality of life conducive to families and businesses. Over the years, Salem has been able to maintain stable property tax rates. Salem's unemployment rate of 6.1%, a decrease from the prior year, is below the state and national unemployment rates of 6.3% and 9.3%, respectively. A strong educational system providing a well-educated and skilled workforce along with generally lower operating costs is a key reason why employers have chosen to relocate in Salem and the rest of the Valley. The City's effort to retain existing business and industry is an integral part of its economic development efforts.

Major Initiatives and Accomplishments

The School Board is committed to serving the needs of every child in the school system based on the child's needs. The Board's vision statement embodies the sentiment "Children First!" Salem schools also identify individualized instruction as central to the mission statement: "Every Child; Every Day."

During fiscal year 2011, a number of notable activities occurred in the division:

- All six Salem schools were fully accredited by the Virginia Department of Education and the Southern Association of Colleges and Schools (SACS)
 - The district successfully completed the Advance ED District Accreditation process in FY 2011 by hosting a Quality Assurance Team from SACS
- All six Salem schools exceeded all Adequate Yearly Progress (AYP) benchmarks under the *No Child Left Behind Act* based on testing in the 2010-2011 school year.
- Andrew Lewis Middle School earned the Governor's Award for Educational Excellence for the third consecutive year, one of only fourteen middle schools in Virginia to earn this prestigious honor.
- The Virginia Board of Education recognized South Salem Elementary, West Salem Elementary, G. W. Carver Elementary, East Salem Elementary, and the division overall with its Board of Education Excellence Award.
- Salem was recognized by the Virginia Department of Education as a "Distinguished Title I School Division" by exceeding all achievement objectives in reading and mathematics under the *No Child Left Behind Act* for the fifth consecutive year.
- G. W. Carver and East Salem Elementary Schools were again recognized as "Distinguished Title I Schools" for the seventh consecutive year.
- Salem teachers continue to achieve national recognition with 19 National Board Certified teachers on staff.

- Salem was the first school system in Virginia to add a Personal Finance graduation requirement. The Virginia Department of Education took note and added it as a graduation requirement for all Virginia students beginning with freshmen entering high school in 2012.
- The Salem Education Foundation and the City of Salem awarded scholarships for over \$156,600 to 82 graduating seniors of the Salem High Class of 2011.
- Salem City Schools continued its participation as one of seven charter members of the Eastern States Consortium for Learning and School Excellence, a select group of school districts in the eastern United States that develop and disseminate best practices.
- Salem initiated the Growth Project late in fiscal year 2011 to develop measures of student growth, revise the professional employee evaluation instrument, and examine forms of strategic compensation in order to better individualize instruction, monitor student outcomes, and position the division for imminent changes in education.
- The School Division continues to emphasize building improvements on an on-going basis as part of its \$60 million Capital Improvement Plan, including the following projects: regular school bus replacements, new roofing at the AllMS alternative education center, middle school gym repairs, rest room upgrades, new library software, ongoing computer replacements, interactive whiteboard installations, and phased band instrument replacement. The division has completed a building study of South Salem Elementary School and anticipates bidding construction of a new school in spring 2012.
- The City of Salem and Virginia Western Community College continued their partnership under the Salem City Community College Access Program to provide free tuition for qualifying graduates.
- Salem schools were a VSBA silver-certified Green School Division in 2011.
- Salem students continued to excel academically and in extracurricular areas:
 - 162 graduating seniors completed at least one dual enrolled course while in high school.
 - Salem High had 13 IB diploma candidates, 64 IB certificate candidates, and 42 Distinguished Scholars in the Class of 2011.
 - In 2010-2011, 342 high school students took at least one IB course and 642 (51%) took at least one dual enrollment course.
 - The high school Forensics Team won the VHSL Group AA State championship for the 6th consecutive year.
 - Salem High School won state sports championships in Group AA Singles Tennis for the 4th consecutive year, Group AA Doubles Tennis for the 3rd consecutive year, VHSL AA Tennis championship as a team, and Group AA individual wrestling championship for the 2nd consecutive year.
 - Average SAT scores for Salem students in both the math and verbal sections continued to meet or exceed state and national averages.
 - The Salem High yearbook staff was one of only two Virginia schools and fifteen nationally to win the Gold Crown at the Columbia Scholastic Press Association national yearbook event.
 - A high school student was selected to participate in the Virginia Aerospace Science and Technology Scholars Academy at NASA.
- Salem teachers continue to receive recognition:
 - Sheri Shupe, middle school science teacher, was the division teacher of the year and received a monetary award from the Salem Education Foundation as did the individual school Teachers of the Year.
 - Dwayne Gauck was selected as the Chemistry Teacher of the Year by James Madison University.
 - Math teacher Elizabeth Gilpin was recognized for professional publications.
 - VAFEP named Carolyn Pillis as the Title I Teacher of the Year.
 - Andrew Lewis Principal Jerry Campbell was named Virginia's Middle School Principal of the Year.

Cash Management

The City is the custodian of all cash and investments of the School Division except certain petty cash, cash in hand or banks and investments of the School Activity Funds. The City uses a pooled cash concept to allow greater investment flexibility and consequently a better return on investments. Cash from all funds except those restricted for specific purposes is pooled for investment purposes with

maturities planned to coincide with cash needs. Funds not immediately needed (30 days or greater) are invested in certificates of deposit or other approved investments, while funds available for periods of less than 30 days are invested with the City's lead bank as a part of its cash management program. All School Division funds are collateralized in accordance with the Virginia Security for Public Deposits Act or covered by Federal Depository Insurance.

Risk Management

The School Division utilizes a variety of techniques to identify and monitor risks and exposures for the School Division activities. Risk management is a function of the Assistant Superintendent and the Director of Business. The School Division is insured for most general liability and property coverage through the Virginia Municipal League (VML) Self Insurance Association. In addition, worker's compensation is insured through School Systems of Virginia. The City is self-insured for health coverage, which includes School Division employees. Note 8 of the financial statements provides an outline of the School Division's risk management coverage.

Independent Audit

Brown, Edwards & Company, L.L.P. has performed an annual audit of the 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 School Division, is contained in the Financial Section of this report. Other auditor's reports are included in the Compliance Section.

Acknowledgements

We would like to express our appreciation to the staff of the School Division and the Department of Finance for the dedication and professionalism demonstrated daily assuring the financial integrity of the School Division and the preparation of this report. We would also like to express our appreciation to you, School Board, for the continued insight you bring to this School Division 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.

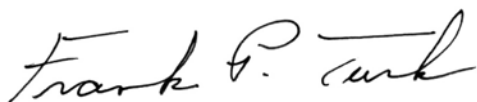
Respectfully Submitted,



H. Alan Seibert
Superintendent



Michael R. Crew
Director of Business



Frank P. Turk
Director of Finance

**CITY OF SALEM SCHOOL DIVISION
DIRECTORY OF PRINCIPAL OFFICIALS
JUNE 30, 2011**

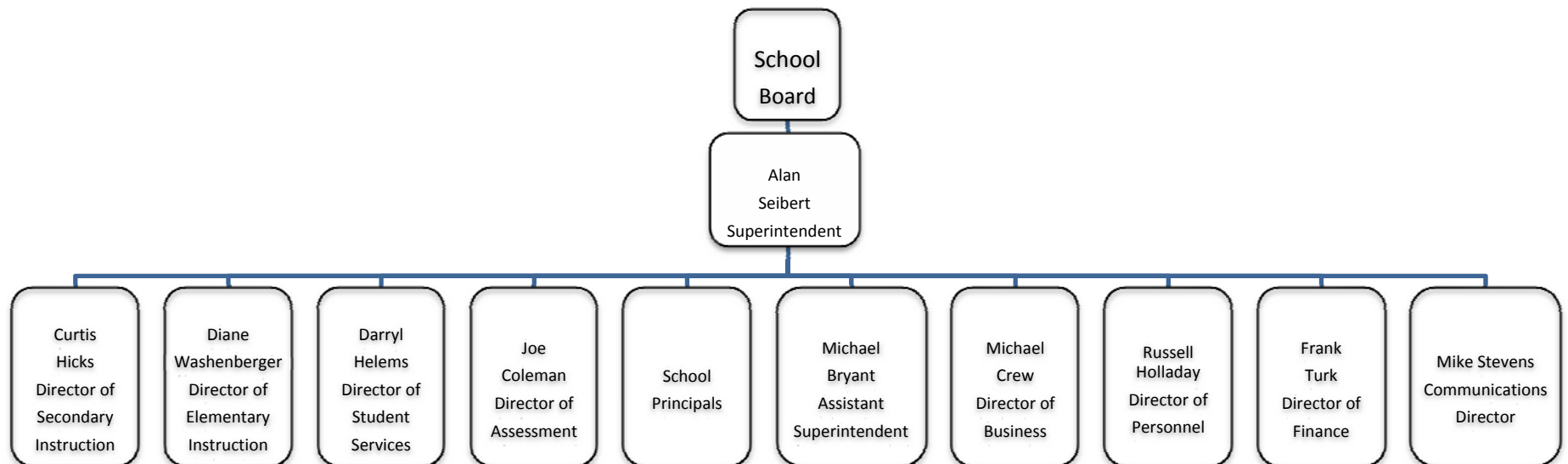
MEMBERS OF SCHOOL BOARD

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

SCHOOL ADMINISTRATION

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

CITY OF SALEM SCHOOL DIVISION
ORGANIZATIONAL CHART
JUNE 30, 2011



FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Honorable Members of the
Board of the City of Salem School Division
Salem, Virginia

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Salem School Division ("School Division"), a component unit of the City of Salem, Virginia, as of and for the year ended June 30, 2011, which collectively comprise the School Division's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Division's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Salem School Division, as of June 30, 2011, and the respective changes in financial position, and the budgetary comparisons for the operating and cafeteria funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2011 on our consideration of the School Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The School Division has not presented a management discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the School Division's financial statements as a whole. The introductory section and other information sections are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory and other information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on them.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 22, 2011

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BASIC FINANCIAL STATEMENTS

**CITY OF SALEM SCHOOL DIVISION
STATEMENT OF NET ASSETS
JUNE 30, 2011**

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 7,689,916
Receivables	1,775
Due from other governmental units	1,380,231
Inventories	66,139
Prepaid items	37,099
<i>Capital assets:</i>	
Non-depreciable	1,334,005
Depreciable, net	<u>36,551,651</u>
Total assets	<u>47,060,816</u>
LIABILITIES	
Accounts payable and accrued liabilities	267,250
Accrued payroll and related liabilities	3,563,009
Self insurance claims liability	372,840
Due to primary government	33,132
Unearned revenue	20,925
<i>Long-term liabilities due in less than one year:</i>	
Compensated absences	334,560
<i>Long-term liabilities due in more than one year:</i>	
Compensated absences	<u>537,440</u>
Total liabilities	<u>5,129,156</u>
NET ASSETS	
Invested in capital assets	37,885,656
Unrestricted	<u>4,046,004</u>
Total net assets	<u><u>\$ 41,931,660</u></u>

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

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

				Net (Expense) Revenue and Changes in Net Assets
Program Revenues				
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<i>Governmental activities:</i>				
Central administration	\$ 1,466,696	\$ -	\$ -	\$ (1,466,696)
Centralized instruction costs	2,997,309	495,524	-	(2,501,785)
Instructional costs	29,758,175	173,153	4,054,707	(25,530,315)
Attendance and health services	838,160	-	-	(838,160)
Transportation	1,303,303	-	-	(1,303,303)
Food services	1,737,457	922,353	775,348	(39,756)
Federal grants programs	2,807,159	-	2,329,130	(478,029)
Non-departmental	250,000	-	-	(250,000)
Total governmental activities	<u>\$ 41,158,259</u>	<u>\$ 1,591,030</u>	<u>\$ 7,159,185</u>	<u>\$ (32,408,044)</u>
<i>General revenues:</i>				
	Payments from City of Salem			\$ 18,420,000
	State aid			12,815,820
	Other			506,538
	Total general revenues			<u>31,742,358</u>
	Change in net assets			(665,686)
	Net assets, beginning			<u>42,597,346</u>
	Net assets, ending			<u>\$ 41,931,660</u>

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

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

	<u>Special Revenue Funds</u>		<u>Capital Projects</u>	<u>Total Governmental Funds</u>
	<u>Operating</u>	<u>Cafeteria</u>		
ASSETS				
Cash and cash equivalents	\$ 6,457,098	\$ 429,830	\$ 802,988	\$ 7,689,916
Receivables	-	1,775	-	1,775
Due from other funds	7,816	-	-	7,816
Due from other governmental units	1,339,065	41,166	-	1,380,231
Inventories	-	66,139	-	66,139
Prepaid items	37,099	-	-	37,099
Total assets	<u>\$ 7,841,078</u>	<u>\$ 538,910</u>	<u>\$ 802,988</u>	<u>\$ 9,182,976</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 135,071	\$ 22,287	\$ 109,892	\$ 267,250
Accrued payroll and related liabilities	3,512,319	106,466	-	3,618,785
Self insurance claims liability	372,840	-	-	372,840
Due to other funds	-	7,816	-	7,816
Due to primary government	26,241	6,891	-	33,132
Deferred revenue	-	20,925	-	20,925
Total liabilities	<u>4,046,471</u>	<u>164,385</u>	<u>109,892</u>	<u>4,320,748</u>
FUND BALANCES				
Nonspendable	37,099	66,139	-	103,238
Committed	1,225,000		693,096	1,918,096
Assigned	2,532,508	308,386	-	2,840,894
Total fund balances	<u>3,794,607</u>	<u>374,525</u>	<u>693,096</u>	<u>4,862,228</u>
Total liabilities and fund balances	<u>\$ 7,841,078</u>	<u>\$ 538,910</u>	<u>\$ 802,988</u>	

RECONCILIATION TO THE STATEMENT OF NET ASSETS

Capital assets used in governmental activities are not considered current financial resources and, therefore, are not reported in the governmental funds.	37,885,656
Long-term liabilities (compensated absences) are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(816,224)
Net assets of governmental activities	<u>\$ 41,931,660</u>

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

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

	Special Revenue Funds		Capital Projects	Total Governmental Funds
REVENUES	Operating	Cafeteria		
<i>Intergovernmental:</i>				
City of Salem	\$ 18,420,000	\$ -	\$ -	\$ 18,420,000
Commonwealth of Virginia	16,870,527	26,917	-	16,897,444
Federal Government	2,329,130	748,431	-	3,077,561
<i>Other:</i>				
Charges for services	-	922,353	-	922,353
Other	1,154,600	23,145	-	1,177,745
Total revenues	<u>38,774,257</u>	<u>1,720,846</u>	<u>-</u>	<u>40,495,103</u>
EXPENDITURES				
Central administration	1,414,020	-	-	1,414,020
Centralized instruction costs	3,008,025	-	-	3,008,025
Instructional costs	27,890,640	-	-	27,890,640
Attendance and health services	838,160	-	-	838,160
Transportation	1,297,167	-	-	1,297,167
Food services	-	1,746,782	-	1,746,782
Federal grants programs	2,824,695	-	-	2,824,695
Non-departmental	250,000	-	-	250,000
Capital projects	-	-	1,373,173	1,373,173
Total expenditures	<u>37,522,707</u>	<u>1,746,782</u>	<u>1,373,173</u>	<u>40,642,662</u>
Excess (deficiency) of revenues over expenditures	<u>1,251,550</u>	<u>(25,936)</u>	<u>(1,373,173)</u>	<u>(147,559)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	25,000	964,832	989,832
Transfers out	(989,832)	-	-	(989,832)
Total other financing sources (uses)	<u>(989,832)</u>	<u>25,000</u>	<u>964,832</u>	<u>-</u>
Net change in fund balances	<u>261,718</u>	<u>(936)</u>	<u>(408,341)</u>	<u>(147,559)</u>
Fund balances, beginning	<u>3,532,889</u>	<u>375,461</u>	<u>1,101,437</u>	
Fund balances, ending	<u>\$ 3,794,607</u>	<u>\$ 374,525</u>	<u>\$ 693,096</u>	

RECONCILIATION TO THE STATEMENT OF ACTIVITIES

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	1,286,754
Depreciation expense	(1,770,694)

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

Proceeds from sale of assets	(4,934)
Loss from sale of assets	(39,968)

Compensated absences 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 net assets of governmental activities	10,716
	<u>\$ (665,686)</u>

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

CITY OF SALEM SCHOOL DIVISION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - SPECIAL REVENUE FUND - OPERATING FUND
YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				Positive
				(Negative)
<i>Intergovernmental:</i>				
City of Salem	\$ 18,420,000	\$ 18,420,000	\$ 18,420,000	\$ -
Commonwealth of Virginia	16,456,159	16,601,005	16,870,527	269,522
Federal Government	2,238,646	2,640,740	2,329,130	(311,610)
<i>Other:</i>				
Other	1,138,097	1,294,235	1,154,600	(139,635)
Total revenues	<u>38,252,902</u>	<u>38,955,980</u>	<u>38,774,257</u>	<u>(181,723)</u>
EXPENDITURES				
Central administration	1,450,850	1,495,174	1,414,020	81,154
Centralized instruction costs	3,127,450	3,187,693	3,008,025	179,668
Instructional costs:				
Salem High School	9,761,774	9,751,302	9,380,598	370,704
Andrew Lewis Middle School	6,361,696	6,478,175	6,078,634	399,541
G.W. Carver Elementary School	3,367,994	3,396,675	3,342,917	53,758
West Salem Elementary School	3,034,278	3,093,792	2,951,348	142,444
South Salem Elementary School	3,051,021	3,086,738	2,984,114	102,624
East Salem Elementary School	3,270,602	3,281,181	3,153,029	128,152
Attendance and health services	846,705	851,973	838,160	13,813
Transportation	1,197,690	1,411,893	1,297,167	114,726
Federal grants programs	2,782,842	3,233,482	2,824,695	408,787
Non-departmental	-	-	250,000	(250,000)
Total expenditures	<u>38,252,902</u>	<u>39,268,078</u>	<u>37,522,707</u>	<u>1,745,371</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>(312,098)</u>	<u>1,251,550</u>	<u>1,563,648</u>
OTHER FINANCING USES				
Transfers out	-	(989,832)	(989,832)	-
Total other financing uses	<u>-</u>	<u>(989,832)</u>	<u>(989,832)</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ (1,301,930)</u>	<u>\$ 261,718</u>	<u>\$ 1,563,648</u>

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

CITY OF SALEM SCHOOL DIVISION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - SPECIAL REVENUE FUND - CAFETERIA FUND
YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				Positive
				(Negative)
<i>Intergovernmental:</i>				
Commonwealth of Virginia	\$ 22,800	\$ 22,800	\$ 26,917	\$ 4,117
Federal Government	543,000	674,316	748,431	74,115
<i>Other:</i>				
Charges for services	1,032,000	1,032,000	922,353	(109,647)
Other	36,700	52,556	23,145	(29,411)
Total revenues	<u>1,634,500</u>	<u>1,781,672</u>	<u>1,720,846</u>	<u>(60,826)</u>
EXPENDITURES				
Food services:				
Salem High School	490,419	535,913	512,532	23,381
Andrew Lewis Middle School	411,839	445,653	431,430	14,223
G.W. Carver Elementary School	198,321	215,334	228,210	(12,876)
West Salem Elementary School	162,902	184,003	171,392	12,611
South Salem Elementary School	174,367	203,602	198,421	5,181
East Salem Elementary School	196,652	222,167	204,797	17,370
Total expenditures	<u>1,634,500</u>	<u>1,806,672</u>	<u>1,746,782</u>	<u>59,890</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>(25,000)</u>	<u>(25,936)</u>	<u>(936)</u>
OTHER FINANCING SOURCES				
Transfers in	-	25,000	25,000	-
Total other financing sources	<u>-</u>	<u>25,000</u>	<u>25,000</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (936)</u>	<u>\$ (936)</u>

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

**CITY OF SALEM SCHOOL DIVISION
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2011**

	<u>OPEB Trust Fund</u>
ASSETS	
Investments held by trustee, fair value for other pooled funds	\$ 460,426
Total assets	<u>460,426</u>
NET ASSETS	
Held in trust for other postemployment benefits	<u><u>\$ 460,426</u></u>

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

CITY OF SALEM SCHOOL DIVISION
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2011

	<u>OPEB Trust Fund</u>
ADDITIONS	
Employer contributions	\$ 129,617
<i>Investment Income:</i>	
Increase in fair value of investments	57,257
Interest and dividends	147
Less investment expenses	<u>(859)</u>
Total additions	<u>186,162</u>
 Net increase in plan net assets	 <u>186,162</u>
 Net assets held in trust for other postemployment benefits, beginning	 <u>274,264</u>
Net assets held in trust for other postemployment benefits, ending	<u><u>\$ 460,426</u></u>

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

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

1. Summary of Significant Accounting Policies

The Financial Reporting Entity

The City of Salem School Division (School Division), established in 1983, is a legally separate entity from the City of Salem (City). The School Division operates a high school, a middle school, four elementary schools and an alternative education center. City Council appoints School Board members and provides fiscal assistance through tax levies for operating activities and debt issuance for capital projects. The City reports the School Division as a discretely presented component unit.

School Board members are occasionally appointed to various committees as provided under state and local laws and ordinances. However, the committees are advisory in nature and the School Division is not financially accountable for these committees; therefore, they are not included in the School Division financial statements.

Government-Wide Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the School Division. *Governmental activities* are normally supported by intergovernmental revenues.

The **statement of net assets** presents the governmental activities on the accrual basis of accounting, which incorporates long-term assets and long-term liabilities.

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. Items not properly included 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 funds. The operation of each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances/net assets, revenues and expenditures/expenses, as appropriate.

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 two broad fund categories as follows:

Governmental Funds account for expendable financial resources. The School Division reports the following major governmental funds:

- The special *revenue funds* account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. Special revenue funds include the operating and cafeteria funds.
- The *capital projects fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities.

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

- The *OPEB trust fund* accounts for the receipt and disbursement of assets held in trust for the other postemployment benefit (OPEB) plan of the School Division.

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

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

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

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

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 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 60 days of year-end. 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, 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 at the bottom of 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.

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

Fiduciary fund financial statements are reported using the *change in net assets and financial position measurement focus* and the *accrual basis of accounting*.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989 are generally followed in the government-wide financial statements to the extent those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Budgets and Budgetary Accounting

The School Division's budget is presented and adopted in accordance with accounting principles generally accepted in the United States of America. The budget is a written document which presents the Board's plan for the allocation of the available financial resources into an explicit expenditure plan to sustain and improve the educational function of the School Division. The budget is based upon the educational needs and financial ability of the division, as cooperatively identified by the superintendent and his staff, the Board and the community. The following procedures are used by the School Division in establishing the budgetary data reflected in the financial statements:

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

1. Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (Continued)

- In February, the Superintendent submits to the School Board a proposed operating and capital budget for the fiscal year commencing the following July 1. This budget includes proposed expenditures and the means of financing them for the operating and cafeteria funds. The capital projects fund utilizes a project length budget in lieu of an annual budget; therefore no annual budgets for capital projects are presented.
- Public hearings are conducted to obtain citizen comments.
- Prior to March 31, the budget is adopted through passage of a resolution. The budget is then presented to the City Manager to be incorporated in the City budget. Prior to May 15, City Council approves the School Division budget.
- The School Board, with the concurrence of City Council, may amend the budget providing for additional expenditures and the means for financing them. The School Board approved additional appropriations of \$2,177,181 during the current year primarily for grants, new capital projects, reappropriation of fund balance for encumbrances, and unforeseen operating expenditures.
- The appropriations ordinance places legal restrictions on expenditures at the fund level. City Council has adopted the policy of appropriating the School Division budget in total rather than by categories. The School Board is authorized to transfer budget amounts within the fund at its discretion.
- The Superintendent is authorized to transfer budget amounts within and between the major categories subject to School Board approval.
- Formal budgetary integration is employed as a management control device for the operating and cafeteria funds.
- All appropriations lapse on June 30 except for the capital projects fund, which carries unexpended balances into the following year.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the special revenue and capital projects funds. Encumbrances outstanding at year-end are reported as assignments of fund balances in the Special Revenue funds and as commitments of fund balance in the Capital Projects fund.

Interfund Receivables and Payables

Outstanding balances between funds are reported as due to/from other funds. Outstanding balances between the School Division and the City are reported as due to/from primary government.

Inventory

Cafeteria fund inventories consist of food and supplies. Inventories are valued at cost using the first-in, first-out (FIFO) method, except for commodities received from the federal government which are valued at market. Disbursements for inventory are considered to be expenditures at the time of use (consumption method of accounting). Inventories are offset by fund balance classification which indicates that they do not constitute spendable resources.

Prepaid Items

Prepaid items include costs incurred as of year-end which are directly related to the subsequent fiscal year and consist primarily of software maintenance fees. Such costs are expensed in the subsequent fiscal year to obtain a proper matching of revenues and expenses/expenditures. Prepaid items are offset by fund balance classification which indicates that they do not constitute spendable resources.

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

1. Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the School Division as assets with an initial individual cost of more than \$0 for land, \$2,000 for furniture and equipment or \$5,000 for buildings and improvements 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 School Division 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 constructed.

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

Furniture and equipment	5-15 years
Buildings and improvements	10-45 years

Capital Assets and Related Debt Reporting

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

Unearned and Deferred Revenue

In the statement of net assets, unearned revenue arises when assets are received before revenue recognition criteria are satisfied. In the balance sheet, deferred revenue arises when assets are recognized but are not available to finance expenditures of the current fiscal period or when assets are received before revenue recognition criteria are satisfied. Unearned and deferred revenue primarily consists of payments made in advance for cafeteria meals.

Compensated Absences

The School Division has policies which allow for the accumulation and vesting of limited amounts of vacation and sick leave until termination or retirement. Amounts of such absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds when the amounts are due for payment.

Other Postemployment Benefits

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

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

1. Summary of Significant Accounting Policies (Continued)

Fund Equity

Fund balance is divided into five classifications based primarily on the extent to which the School Division 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, such as prepaid items and inventory. 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 of Salem School Division, 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 of Salem School Division intends to use for a specified purpose; intent can be expressed by the governing body or by the School Board which has been designated this authority.
- **Unassigned** – Amounts that are available for any purpose; positive amounts are reported only in the general fund.

The School Board establishes fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. Assigned fund balance is established by the School Board through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

Restricted Amounts

The City of Salem School Division 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.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Significant encumbrances as of June 30, 2011 total \$78,046 in the school operating fund, \$12,354 in the cafeteria fund, and \$222,383 in the capital projects fund.

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 SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

2. Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the Code of Virginia . Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. The City's bank services contract with its lead bank requires the pledging of additional security held by a third party to collateralize 100% of the City's deposits. Accordingly, all deposits are considered fully collateralized.

3. Interfund Balances and Transfers

The composition of the interfund receivables and payables is shown in the table below. The amount due from the cafeteria fund to the operating fund relates to salaries and benefits.

Receivable Fund	Payable Fund	Amount
Operating Fund	Cafeteria Fund	\$ 7,816

The composition of the interfund transfers is shown in the table below. The primary purpose of the transfers to the cafeteria and capital projects funds are to finance the purchase of equipment and the cost of capital expenditures, respectively.

Transfers Out	Transfers In	Amount
Operating Fund	Cafeteria Fund	\$ 25,000
Operating Fund	Capital Projects Fund	964,832
		<u>\$ 989,832</u>

4. Due from Other Governmental Units

Amounts due from other governmental units are as follows:

	Operating Fund	Cafeteria Fund	Governmental Activities
Commonwealth of Virginia			
Sales tax	\$ 554,743	\$ -	\$ 554,743
Federal Government			
American Recovery and Reinvestment Act of 2009	328,864	-	328,864
Special Education – Grants to States	307,299	-	307,299
National School Breakfast and Lunch Programs	-	41,166	41,166
Title I: Grants to Local Educational Agencies	75,351	-	75,351
Title II: Part A, Improving Teacher Quality State Grants	27,987	-	27,987
Title II: Education for Economic Security	1,439	-	1,439
Other	43,382	-	43,382
	<u>\$ 1,339,065</u>	<u>\$ 41,166</u>	<u>\$ 1,380,231</u>

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

5. Capital Assets

Capital asset activity for the year was as follows:

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

Depreciation expense was charged to functions as follows:

Central administration	\$ 53,995
Instructional costs	1,561,332
Transportation	<u>155,367</u>
Total depreciation expense	<u>\$ 1,770,694</u>

6. Long-Term Liabilities

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated absences	\$ 905,746	\$ 90,023	\$ (123,769)	\$ 872,000	\$ 334,560
Other postemployment benefits	-	326,317	(326,317)	-	-
	<u>\$ 905,746</u>	<u>\$ 416,340</u>	<u>\$ (450,086)</u>	<u>\$ 872,000</u>	<u>\$ 334,560</u>

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

7. Fund Balances

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

	School Operating Fund	Cafeteria Fund	Capital Projects Fund
Fund Balances:			
Nonspendable:			
Inventories	\$ -	\$ 66,139	\$ -
Prepaid items	37,099	-	-
Committed To:			
Capital Projects	-	-	693,096
School Building Construction	1,225,000	-	-
Assigned To:			
General Education	2,532,508	-	-
School Food Service	-	308,386	-
	<u>\$ 3,794,607</u>	<u>\$ 374,525</u>	<u>\$ 693,096</u>

8. 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 \$95,927 for the School Division.

General Liability and Other

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

Healthcare

The City's professionally administered self-insurance program provides health coverage for employees of the City and School Division on a cost-reimbursement basis. All active employees, retired City employees and retired School employees pay a premium equivalent for participation. Effective October 1, 2010, the premium equivalent represented a minimum of 5% active or retired employee participation. Effective October 1, 2011, the premium will increase to 10% for 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 \$125,000 per covered individual and approximately \$6,695,032 in the aggregate.

During the current fiscal year total claim expenses of \$5,884,636, which did not exceed the stop loss provisions, were incurred. This represents claims processed and an estimate for claims incurred but not reported (IBNR) as of June 30, 2011. The assigned portion of fund balance for self-insurance

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

8. Risk Management (Continued)

Healthcare (Continued)

equaled \$1,003,101 at year-end. The estimated liability for both the City and School Division was \$798,857 at year-end.

Changes in the reported liability during the last three fiscal years are as follows:

Year Ended June 30	Beginning Balance	Claim Expenses	Claim Payments	Ending Balance
2011	\$ 685,650	\$ 5,884,636	\$ 5,771,429	\$ 798,857
2010	\$ 618,152	\$ 5,417,326	\$ 5,349,828	\$ 685,650
2009	\$ 342,503	\$ 4,977,225	\$ 4,701,576	\$ 618,152

Other

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

9. Pension Plan

Plan Description

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

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

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

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty

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

9. Pension Plan (Continued)

Plan Description (Continued)

members is 1.70%. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5%; under Plan 2, the COLA cannot exceed 6%. During years of no inflation or deflation, the COLA is 0%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2010-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. This 5% member contribution has been assumed by the School Division. In addition, the School Division is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The School Division's non-professional employee contribution rate for the fiscal year ended June 30, 2011 was 11.49% of the annual covered payroll (including the employee share of 5% paid by the employer).

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

Annual Pension Cost

For the fiscal year ended June 30, 2011, the School Division's annual pension cost of \$142,127 for VRS was equal to its required and actual contributions.

**Three-Year Trend Information
Non-Professional Staff**

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2011	\$ 142,127	100%	\$ -
June 30, 2010	\$ 136,108	100%	\$ -
June 30, 2009	\$ 162,549	100%	\$ -

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

9. Pension Plan (Continued)

Annual Pension Cost (Continued)

The required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) an investment rate of return (net of administrative expenses) of 7.0%, (b) projected salary increases ranging from 3.75% to 5.60% per year and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%. The actuarial value of the School Division's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The School Division's unfunded actuarial accrued liabilities (UAAL) are being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period for the June 30, 2009 actuarial valuation was 20 years.

Funded Status and Funding Progress

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

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

10. Other Postemployment Benefits

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, established standards for the measurement, recognition and display of OPEB expense and related liabilities in the financial statements. In addition to salary, many employees earn benefits over their years of service that will not be received until they retire. The cost of these postemployment benefits is 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. The School Division prospectively adopted the requirements of GASB 45 during the fiscal year ended June 30, 2009.

Plan Description

The School Division participates in a single-employer defined benefit healthcare plan (Retiree Health Plan) administered and sponsored by the City of Salem. Full-time employees retiring from the School Division with at least 15 years of service and receiving an early or regular retirement benefit from the VRS are eligible to participate in the Retiree Health Plan until they reach age 65.

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.

School Division retirees do not receive any premium subsidy and are responsible for paying the entire premium.

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

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

10. Other Postemployment Benefits (Continued)

Plan Description (Continued)

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

As of June 30, 2011, the date of the latest actuarial valuation for the School Division, plan participation consisted of:

Active employees	528
Retired participants	67
Total participants	<u>595</u>

Funding Policy

The Retiree Health Plan is funded through member and employer contributions. Retirees receiving benefits contributed 100% of the health insurance premium rate. Retirees contributed \$196,700 of the total premiums through their required contributions of between \$95 and \$1,224 monthly, depending on the type of coverage.

Based on the June 30, 2011 actuarial valuation, the School Division contributed \$326,317 to the Retiree Health Plan. Included in this amount is a current year contribution of \$129,617 to the Virginia Pooled OPEB Trust. It is the School Division's intent to fully fund the annual required contribution (ARC) each year.

Annual OPEB Cost and Net OPEB Obligation

The 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 School Division's annual OPEB cost; amount contributed and changes in the net OPEB obligation for the fiscal year ended June 30, 2011.

Annual required contribution	\$ 326,317
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>326,317</u>
Contributions made	<u>(326,317)</u>
Increase in net OPEB obligation	-
Net OPEB obligation, beginning	-
Net OPEB obligation, ending	<u>\$ -</u>

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

10. Other Postemployment Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2011	\$ 326,317	100.0%	\$ -
June 30, 2010	\$ 277,617	100.0%	\$ -

Funded Status and Funding Progress

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

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

Methods and Assumptions

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

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

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

10. Other Postemployment Benefits (Continued)

Methods and Assumptions (Continued)

The actuarial methods and assumptions, which are the basis for the June 30, 2011 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.

Actuarial methods

Actuarial cost method	Projected Unit Credit
Amortization method	Level percent of payroll
Amortization period	Open over 30 years
Asset valuation method	Cost basis
Liability valuation method	Closed group

Actuarial assumptions

Investment rate of return	7.00%
Projected annual salaries increase	2.50%
Healthcare cost trend rate	10% for fiscal year 2011 grading to 5% for fiscal year 2016

11. Commitments and Contingencies

Construction Commitments

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

	Spent to Date	Remaining Contract
AIMS Building A/E	\$ 54,038	\$ 21,681
Andrew Lewis Pilaster Repairs	39,954	31,629
	<u>\$ 93,992</u>	<u>\$ 53,310</u>

Operating Leases

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

June 30, 2012	\$ 51,802
June 30, 2013	20,456
June 30, 2014	17,202
June 30, 2015	1,535
June 30, 2016	-
	<u>\$ 90,995</u>

Special Purpose Grants

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

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

12. Jointly Governed Organizations

The Counties of Botetourt, Craig and Franklin, the City of Roanoke and the School Division jointly participate in a regional education program for severely disabled students operated by the Roanoke Valley Regional Board (Regional Board). The Regional Board is governed by a five-member board, one from each participating locality. The School Division has control over budget and financing only to the extent of representation by the one board member appointed. Each locality's financial obligation is based on their proportionate share of students attending the regional program. For the year ended June 30, 2011, the School Division remitted \$473,567 to the Regional Board for services. Financial statements may be obtained from the Roanoke Valley Regional Board at 12 Barron Drive, Suite 1, Troutville, Virginia 24175.

13. New Accounting Standards

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

The GASB has issued Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*, which provides guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2012. Management has not completed the process of evaluating the impact that will result from adoption of the standard, and is therefore unable to disclose the impact of adoption.

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

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF SALEM SCHOOL DIVISION
REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS
JUNE 30, 2011**

**DEFINED BENEFIT PENSION PLAN
Non-Professional Staff**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (Asset) (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as of Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
June 30, 2010	\$ 4,130,907	\$ 4,030,617	\$ (100,290)	102.49%	\$ 1,258,062	-7.97%
June 30, 2009	\$ 4,144,935	\$ 4,243,552	\$ 98,617	97.68%	\$ 1,538,657	6.41%
June 30, 2008	\$ 4,082,565	\$ 3,973,551	\$ (109,014)	102.74%	\$ 1,440,433	-7.57%

**OTHER POSTEMPLOYMENT BENEFITS
All Staff**

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

**CITY OF SALEM SCHOOL DIVISION
REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYER CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2011**

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

OTHER INFORMATION SECTION

This part of the School Division's annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the government's overall health. The information included in this section is not audited.

Page

Financial Trends

These schedules contain trend information to help the reader understand how the School Division's financial performance and well-being have changed over time.

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Operating Information

These schedules contain education and infrastructure data to help the reader understand how the information in the School Division's financial report relates to how well it educates its students.

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**TABLE 1
UNAUDITED**

**CITY OF SALEM SCHOOL DIVISION
NET ASSETS BY COMPONENT
LAST EIGHT FISCAL YEARS**

	2011	2010	2009	2008	2007	2006 ⁽¹⁾	2005	2004
<u>Governmental activities</u>								
Invested in capital assets	\$ 37,885,656	\$ 38,414,499	\$ 38,497,717	\$ 39,836,700	\$ 40,661,691	\$ 41,809,002	\$ 41,972,423	\$ 40,787,619
Unrestricted	4,046,004	4,182,847	3,499,453	2,117,375	1,778,144	1,193,675	2,245,322	5,837,174
Total school division net assets	<u>\$ 41,931,660</u>	<u>\$ 42,597,346</u>	<u>\$ 41,997,170</u>	<u>\$ 41,954,075</u>	<u>\$ 42,439,835</u>	<u>\$ 43,002,677</u>	<u>\$ 44,217,745</u>	<u>\$ 46,624,793</u>

Notes:

Source: City of Salem Finance Department

Information is presented beginning with FY04, the year the School Division implemented GASB 34.

⁽¹⁾ As restated.

TABLE 2
UNAUDITED

CITY OF SALEM SCHOOL DIVISION
CHANGES IN NET ASSETS
LAST EIGHT FISCAL YEARS

	2011	2010	2009	2008	2007	2006	2005	2004
EXPENSES								
Central administration	\$ 1,466,696	\$ 1,514,899	\$ 1,553,796	\$ 1,531,730	\$ 1,584,163	\$ 1,433,354	\$ 1,298,985	\$ 1,232,900
Centralized instruction costs	2,997,309	3,172,287	3,337,312	2,918,668	3,034,138	2,832,043	2,645,018	2,259,623
Instructional costs	29,758,175	29,386,590	32,198,604	31,246,512	30,009,920	28,633,385	26,938,020	24,797,425
Attendance and health services	838,160	853,611	865,647	875,542	856,256	824,682	737,688	618,745
Transportation	1,303,303	1,251,032	1,260,368	1,219,250	1,206,958	1,201,452	1,133,951	969,439
Food services	1,737,457	1,695,734	1,753,307	1,749,928	1,641,335	1,596,278	1,513,985	1,416,059
Federal grants programs	2,807,159	4,269,293	1,738,798	1,677,153	1,949,581	1,655,441	1,323,474	1,282,019
Non-departmental	250,000	250,000	295,753	266,490	273,835	-	-	-
Total governmental activities	41,158,259	42,393,446	43,003,585	41,485,273	40,556,186	38,176,635	35,591,121	32,576,210
PROGRAM REVENUES								
Charges for services	1,591,030	1,716,362	1,557,348	1,499,500	1,570,518	1,476,768	1,306,932	1,194,511
Operating grants and contributions	7,159,185	8,728,103	6,683,475	6,847,722	6,560,448	5,594,779	4,862,166	4,556,461
Capital grants and contributions	-	-	-	-	-	-	710,056	14,509,501
Total governmental activities	8,750,215	10,444,465	8,240,823	8,347,222	8,130,966	7,071,547	6,879,154	20,260,473
NET EXPENSE	(32,408,044)	(31,948,981)	(34,762,762)	(33,138,051)	(32,425,220)	(31,105,088)	(28,711,967)	(12,315,737)
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS								
Payments from City of Salem	18,420,000	18,420,000	18,420,000	17,995,000	17,095,000	16,266,005	15,618,081	15,340,564
State aid	12,815,820	13,691,655	15,967,532	14,068,288	14,317,578	12,618,480	11,879,544	10,036,418
Other	506,538	437,502	418,325	589,003	449,800	412,632	130,337	182,448
Total governmental activities	31,742,358	32,549,157	34,805,857	32,652,291	31,862,378	29,297,117	27,627,962	25,559,430
CHANGE IN NET ASSETS	\$ (665,686)	\$ 600,176	\$ 43,095	\$ (485,760)	\$ (562,842)	\$ (1,807,971)	\$ (1,084,005)	\$ 13,243,693

Notes:

Source: City of Salem Finance Department

Information is presented beginning with FY04, the year the School Division implemented GASB 34.

TABLE 3
UNAUDITED

CITY OF SALEM SCHOOL DIVISION
FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS

	2011 (3)	2010	2009	2008	2007	2006 (1)	2005	2004	2003	2002 (2)
FUND BALANCES										
<u>Operating Fund</u>										
Nonspendable	\$ 37,099	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Committed	1,225,000	-	-	-	-	-	-	-	-	-
Assigned	2,532,508	-	-	-	-	-	-	-	-	-
Reserved for prepaid items	-	14,083	-	-	-	-	-	-	-	-
Reserved for encumbrances	-	137,159	335,759	95,531	19,946	65,328	238,626	126,228	25,470	43,666
Designated for future projects	-	300,000	200,000	100,000	-	-	-	-	-	-
Designated for revenue stabilization	-	500,000	-	-	-	-	-	-	-	-
Unreserved, undesignated	-	2,581,647	2,663,276	1,667,848	1,820,766	763,269	1,334,703	1,673,236	2,106,524	1,517,147
Total operating fund	<u>\$ 3,794,607</u>	<u>\$ 3,532,889</u>	<u>\$ 3,199,035</u>	<u>\$ 1,863,379</u>	<u>\$ 1,840,712</u>	<u>\$ 828,597</u>	<u>\$ 1,573,329</u>	<u>\$ 1,799,464</u>	<u>\$ 2,131,994</u>	<u>\$ 1,560,813</u>
<u>Cafeteria Fund</u>										
Nonspendable	\$ 66,139	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Assigned	308,386	-	-	-	-	-	-	-	-	-
Reserved for inventories	-	40,753	60,389	68,195	44,963	40,378	27,618	35,117	41,470	46,652
Reserved for encumbrances	-	15,856	21,646	-	19,364	23,090	-	-	-	-
Unreserved, undesignated	-	318,852	283,711	306,211	365,182	304,039	268,255	237,847	184,227	160,124
Total operating fund	<u>\$ 374,525</u>	<u>\$ 375,461</u>	<u>\$ 365,746</u>	<u>\$ 374,406</u>	<u>\$ 429,509</u>	<u>\$ 367,507</u>	<u>\$ 295,873</u>	<u>\$ 272,964</u>	<u>\$ 225,697</u>	<u>\$ 206,776</u>
<u>Capital Projects Fund</u>										
Committed	\$ 693,096	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Reserved for encumbrances	-	570,935	546,909	224,185	113,976	454,474	545,429	2,644,163	8,132,438	912,033
Unreserved, undesignated	-	530,502	174,371	406,753	41,903	73,315	380,014	1,501,117	(10,401,797)	(67,813)
Total operating fund	<u>\$ 693,096</u>	<u>\$ 1,101,437</u>	<u>\$ 721,280</u>	<u>\$ 630,938</u>	<u>\$ 155,879</u>	<u>\$ 527,789</u>	<u>\$ 925,443</u>	<u>\$ 4,145,280</u>	<u>\$ (2,269,359)</u>	<u>\$ 844,220</u>
 Total school division	 <u>\$ 4,862,228</u>	 <u>\$ 5,009,787</u>	 <u>\$ 4,286,061</u>	 <u>\$ 2,868,723</u>	 <u>\$ 2,426,100</u>	 <u>\$ 1,723,893</u>	 <u>\$ 2,794,645</u>	 <u>\$ 6,217,708</u>	 <u>\$ 88,332</u>	 <u>\$ 2,611,809</u>

Notes:

Source: City of Salem Finance Department

⁽¹⁾ As restated.

⁽²⁾ Beginning in FY02, in accordance with the requirements of GASB and Virginia Auditor of Public Accounts, debt issued by the City of Salem for school purposes is reported by the City of Salem.

⁽³⁾ Beginning in FY11, fund balances have been reclassified according to the requirements of GASB 54, *Fund Balance Reporting and Government Fund Type Definitions*.

**TABLE 4
UNAUDITED**

**CITY OF SALEM SCHOOL DIVISION
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS**

REVENUES	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002 ⁽¹⁾
<u>Operating Fund</u>										
<i>Intergovernmental:</i>										
City of Salem	\$ 18,420,000	\$ 18,420,000	\$ 18,420,000	\$ 17,995,000	\$ 17,095,000	\$ 16,266,005	\$ 15,618,081	\$ 15,340,564	\$ 14,747,635	\$ 14,869,925
Commonwealth of Virginia	16,870,527	17,699,073	20,616,013	19,088,988	18,692,569	16,027,190	15,466,814	13,338,787	13,110,214	12,963,390
Federal Government	2,329,130	4,011,637	1,373,482	1,203,850	1,608,121	1,649,423	1,330,801	1,276,366	1,086,974	1,094,449
<i>Other:</i>	1,154,600	1,162,811	917,538	917,978	898,481	793,134	444,824	483,860	392,732	350,377
Total operating fund	<u>38,774,257</u>	<u>41,293,521</u>	<u>41,327,033</u>	<u>39,205,816</u>	<u>38,294,171</u>	<u>34,735,752</u>	<u>32,860,520</u>	<u>30,439,577</u>	<u>29,337,555</u>	<u>29,278,141</u>
<u>Cafeteria Fund</u>										
<i>Intergovernmental:</i>										
Commonwealth of Virginia	26,917	26,132	25,861	26,735	23,974	23,403	23,995	23,611	23,074	22,545
Federal Government	748,431	682,916	635,652	596,438	553,362	513,243	485,458	463,616	421,359	403,160
<i>Other:</i>										
Charges for services	922,353	974,623	1,022,831	1,029,365	1,075,195	1,059,334	971,131	886,464	808,769	809,456
Other	23,145	16,497	35,303	42,287	50,807	36,732	21,310	6,635	14,616	9,128
Total cafeteria fund	<u>1,720,846</u>	<u>1,700,168</u>	<u>1,719,647</u>	<u>1,694,825</u>	<u>1,703,338</u>	<u>1,632,712</u>	<u>1,501,894</u>	<u>1,380,326</u>	<u>1,267,818</u>	<u>1,244,289</u>
<u>Capital Projects Fund</u>										
<i>Intergovernmental:</i>										
City of Salem	-	-	-	-	-	-	-	14,000,000	-	-
<i>Other:</i>	-	-	-	98,872	-	-	-	-	-	-
Total capital projects fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>98,872</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,000,000</u>	<u>-</u>	<u>-</u>
EXPENDITURES										
<u>Operating Fund</u>										
Central administration	1,414,020	1,461,269	1,505,723	1,467,700	1,530,878	1,379,411	1,243,400	1,165,163	1,135,702	1,089,895
Centralized instruction costs	3,008,025	3,136,131	3,231,442	2,922,251	3,034,138	2,832,043	2,645,018	2,259,623	2,207,533	2,141,778
<i>Instructional costs:</i>										
Salem High School	9,380,598	8,931,027	10,325,423	9,926,412	9,623,456	9,249,942	8,496,377	8,002,095	7,741,548	7,612,704
Andrew Lewis Middle School	6,078,634	5,966,676	6,859,192	6,742,401	6,457,778	6,168,605	5,762,444	5,389,410	5,048,266	5,012,621
G.W. Carver Elementary School	3,342,917	3,515,038	3,492,995	3,420,249	3,245,015	2,932,289	2,721,906	2,601,177	2,453,824	2,384,450
West Salem Elementary School	2,951,348	2,940,070	3,258,221	3,184,307	3,095,087	2,912,562	2,693,822	2,484,294	2,384,099	2,319,123
South Salem Elementary School	2,984,114	3,174,639	3,191,943	3,149,596	2,851,713	2,735,922	2,517,767	2,382,162	2,263,232	2,299,409
East Salem Elementary School	3,153,029	3,274,535	3,397,788	3,155,854	3,049,965	2,814,731	2,755,801	2,549,632	2,433,991	2,434,600
Attendance and health services	838,160	853,611	865,647	875,542	856,256	824,682	737,688	618,745	592,041	539,368
Transportation	1,297,167	1,426,223	1,209,606	1,324,034	1,072,352	1,071,437	1,007,797	860,523	884,174	832,204
Federal grants programs	2,824,695	4,456,948	1,746,188	1,688,454	1,949,581	1,655,441	1,323,474	1,282,019	1,075,705	1,016,591
Non-departmental	250,000	250,000	295,753	266,490	273,835	-	-	-	-	-
Capital outlay/lottery revenue	-	-	-	-	-	-	-	27,595	20,036	625,950
Total operating fund	<u>\$ 37,522,707</u>	<u>\$ 39,386,167</u>	<u>\$ 39,379,921</u>	<u>\$ 38,123,290</u>	<u>\$ 37,040,054</u>	<u>\$ 34,577,065</u>	<u>\$ 31,905,494</u>	<u>\$ 29,622,438</u>	<u>\$ 28,240,151</u>	<u>\$ 28,308,693</u>

**TABLE 4
(CONTINUED)**

**CITY OF SALEM SCHOOL DIVISION
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS**

EXPENDITURES	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002 ⁽¹⁾
<u>Cafeteria Fund</u>										
Food services	\$ 1,746,782	\$ 1,729,453	\$ 1,753,307	\$ 1,749,928	\$ 1,641,336	\$ 1,596,278	\$ 1,513,985	\$ 1,416,059	\$ 1,309,897	\$ 1,193,497
Total cafeteria fund	1,746,782	1,729,453	1,753,307	1,749,928	1,641,336	1,596,278	1,513,985	1,416,059	1,309,897	1,193,497
<u>Capital Projects Fund</u>										
Capital projects	1,373,173	1,154,343	496,114	683,672	613,912	1,543,073	4,365,998	8,652,031	3,809,660	199,347
Total capital projects fund	1,373,173	1,154,343	496,114	683,672	613,912	1,543,073	4,365,998	8,652,031	3,809,660	199,347
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES										
Operating Fund	1,251,550	1,907,354	1,947,112	1,082,526	1,254,117	158,687	955,026	817,139	1,097,404	969,448
Cafeteria Fund	(25,936)	(29,285)	(33,660)	(55,103)	62,002	36,434	(12,091)	(35,733)	(42,079)	50,792
Capital Projects Fund	(1,373,173)	(1,154,343)	(496,114)	(584,800)	(613,912)	(1,543,073)	(4,365,998)	5,347,969	(3,809,660)	(199,347)
	(147,559)	723,726	1,417,338	442,623	702,207	(1,347,952)	(3,423,063)	6,129,375	(2,754,335)	820,893
OTHER FINANCING SOURCES (USES)										
<u>Operating Fund</u>										
Transfers out	(989,832)	(1,573,500)	(611,456)	(1,059,859)	(242,002)	(1,180,419)	(1,043,955)	(1,149,669)	(757,081)	(1,292,465)
Total operating fund	(989,832)	(1,573,500)	(611,456)	(1,059,859)	(242,002)	(1,180,419)	(1,043,955)	(1,149,669)	(757,081)	(1,292,465)
<u>Cafeteria Fund</u>										
Transfers in	25,000	39,000	25,000	-	-	35,000	35,000	83,000	61,000	-
Total cafeteria fund	25,000	39,000	25,000	-	-	35,000	35,000	83,000	61,000	-
<u>Capital Projects Fund</u>										
Transfers in	964,832	1,534,500	586,456	1,059,859	242,002	1,145,419	1,008,955	1,066,669	696,081	1,035,886
Total capital projects fund	964,832	1,534,500	586,456	1,059,859	242,002	1,145,419	1,008,955	1,066,669	696,081	1,035,886
NET CHANGE IN FUND BALANCES										
Operating Fund	261,718	333,854	1,335,656	22,667	1,012,115	(1,021,732)	(88,929)	(332,530)	340,323	(323,017)
Cafeteria Fund	(936)	9,715	(8,660)	(55,103)	62,002	71,434	22,909	47,267	18,921	50,792
Capital Projects Fund	(408,341)	380,157	90,342	475,059	(371,910)	(397,654)	(3,357,043)	6,414,638	(3,113,579)	836,539
	\$ (147,559)	\$ 723,726	\$ 1,417,338	\$ 442,623	\$ 702,207	\$ (1,347,952)	\$ (3,423,063)	\$ 6,129,375	\$ (2,754,335)	\$ 564,314

Notes:

Source: City of Salem Finance Department

⁽¹⁾ Beginning in FY02, in accordance with the requirements of GASB and Virginia Auditor of Public Accounts, debt issued by the City of Salem for school purposes is reported by the City of Salem.

**TABLE 5
UNAUDITED**

**CITY OF SALEM SCHOOL DIVISION
MEMBERSHIP AND PER PUPIL SPENDING
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30	Membership September 30 ⁽¹⁾	Average Daily Membership March 31 ⁽¹⁾	Membership June 30 ⁽¹⁾	Average Daily Membership June 30 ⁽²⁾	Average Daily Attendance March 31 ⁽³⁾	Special Education Child Count December 1 ⁽⁴⁾	Salem Per Pupil Expenditures ⁽²⁾	State Average Per Pupil Expenditures ⁽²⁾	Composite Index
2011	3,932	3,859	3,892	3,896	3,702	503	N/A	N/A	0.3516
2010	3,905	3,915	3,907	3,935	3,788	496	\$10,152	\$11,020	0.3518
2009	3,930	3,900	3,905	3,919	3,767	486	\$10,289	\$11,316	0.3518
2008	3,948	3,922	3,911	3,936	3,778	474	\$ 9,939	\$11,037	0.3768
2007	3,978	3,968	3,966	3,966	3,827	480	\$ 9,468	\$10,584	0.3768
2006	3,893	3,890	3,902	3,908	3,755	471	\$ 9,034	\$ 9,755	0.3905
2005	3,944	3,915	3,882	3,918	3,758	484	\$ 8,386	\$ 9,202	0.3905
2004	3,910	3,894	3,888	3,903	3,745	508	\$ 8,131	\$ 8,552	0.4166
2003	3,940	3,921	3,910	3,927	3,755	488	\$ 7,744	\$ 8,182	0.4166
2002	4,030	4,010	3,981	4,007	3,861	523	\$ 7,050	\$ 7,836	0.4370

School Triennial Census Count (including special education count) used as Basis for State Sales Tax Allocation ⁽⁵⁾

2010 ⁽⁶⁾	4,264
2008	4,328
2005	4,218
2002	4,618
1999	4,590

Notes:

N/A Not available

⁽¹⁾ Superintendent's Annual Report Table 1 and Virginia Department of Education web site (excludes part-time students)

⁽²⁾ Superintendent's Annual Report Table 15

⁽³⁾ Superintendent's Annual Report Table 8

⁽⁴⁾ Director of Student Services and Virginia Department of Education web site

⁽⁵⁾ Director of Assessment and Technology

⁽⁶⁾ Starting in 2011, the Weldon Cooper Center at UVA will estimate school age population in Virginia. This is the initial estimate as of July 1, 2010

**TABLE 6
UNAUDITED**

**CITY OF SALEM SCHOOL DIVISION
TEACHER BASE SALARIES AND AVERAGE SALARIES
LAST NINE FISCAL YEARS**

Fiscal Year Ended June 30	Minimum Salary ⁽¹⁾	Maximum Salary ⁽¹⁾	Salem Average Salary ⁽²⁾	Commonwealth Average Salary ⁽²⁾
2011	\$40,392	\$57,914	\$53,186	N/A
2010	\$40,392	\$58,638	\$53,912	\$51,894
2009	\$40,392	\$60,104	\$53,912	\$52,309
2008	\$39,600	\$62,605	\$52,085	\$50,511
2007	\$38,600	\$60,780	\$51,211	\$49,164
2006	\$37,300	\$59,010	\$49,864	\$47,220
2005	\$35,325	\$56,740	\$47,848	\$45,377
2004	\$34,100	\$54,555	\$47,092	\$43,936
2003	\$33,200	\$52,915	\$44,492	\$42,677

Notes:

N/A Not available

⁽¹⁾ Salary Schedules. Includes salary for teacher with Bachelor's degree only.

⁽²⁾ Superintendent's Annual Report Table 19, latest Annual School Report, and Virginia Department of Education web site.

**TABLE 7
UNAUDITED**

**CITY OF SALEM SCHOOL DIVISION
SCHOOL BUILDING INFORMATION
JUNE 30, 2011**

School Name	Square Footage
Salem High School	220,812
Andrew Lewis Middle School	183,000
G.W. Carver Elementary School	83,000
West Salem Elementary School	73,000
South Salem Elementary School	49,000
East Salem Elementary School	53,714
AIIMS Alternative Education Center	3,500
Central Administration Office	16,000

Note:

Source: Director of Business

TABLE 8
UNAUDITED

CITY OF SALEM SCHOOL DIVISION
ACCREDITATION STATUS UNDER NO CHILD LEFT BEHIND ACT
2010-2011 SCHOOL YEAR

School Name	Virginia Accreditation Status	Met Adequate Yearly Progress (AYP) Requirements?
Salem High School	Fully Accredited	Yes
Andrew Lewis Middle School	Fully Accredited	Yes
G.W. Carver Elementary School	Fully Accredited	Yes
West Salem Elementary School	Fully Accredited	Yes
South Salem Elementary School	Fully Accredited	Yes
East Salem Elementary School	Fully Accredited	Yes
Division		No

Notes:

Source: Director of Business

All six Salem schools and the Division are also fully accredited by the Southern Association of Colleges and Universities (SACS).

TABLE 9
UNAUDITED

CITY OF SALEM SCHOOL DIVISION
SCHOLASTIC APTITUDE TEST (SAT) SCORES
LAST TEN YEARS

Fiscal Year Ended June 30	Number of Students Who Took SATs	Combined Score for Verbal and Math		
		Salem	Virginia	National
2011	162	1,028	1,021	1,011
2010	163	1,056	1,024	1,017
2009	145	1,037	1,043	1,037
2008	185	1,045	1,023	1,017
2007	188	1,034	1,022	1,017
2006	160	1,013	1,025	1,021
2005	197	1,035	1,030	1,028
2004	180	1,065	1,024	1,026
2003	183	1,059	1,024	1,026
2002	161	1,042	1,016	1,020

Note:

Source: Director of Assessment

**TABLE 10
UNAUDITED**

**CITY OF SALEM SCHOOL DIVISION
VIRGINIA STANDARDS OF LEARNING (SOL) TEST RESULTS
PERCENT OF STUDENTS WITH PASSING SCORES
LAST THREE YEARS**

		2011		2010		2009	
	Grade	Salem	Virginia	Salem	Virginia	Salem	Virginia
<i><u>Elementary and Middle School:</u></i>							
English: Reading	3	95	83	86	83	92	86
Mathematics	3	97	91	95	92	96	89
Science	3	98	90	97	91	97	89
History and Social Sciences	3	97	85	98	93	99	93
English: Reading	4	97	85	95	88	93	89
Mathematics	4	95	87	94	88	92	86
Virginia Studies	4	90	89	94	87	92	88
English: Reading	5	94	89	95	90	97	92
English: Writing	5	89	87	94	88	94	86
Mathematics	5	92	89	95	90	95	90
Science	5	92	87	93	88	96	88
US History to 1877	5	89	81	92	78	88	74
English: Reading	6	94	87	95	88	93	86
Mathematics	6	59	73	80	77	82	73
US History 1877 to Present	6	84	85	93	91	97	92
English: Reading	7	98	89	96	89	97	88
Mathematics	7	91	77	90	75	88	71
Civics and Economics	7	92	84	92	86	92	84
English: Reading	8	96	90	93	90	91	87
English: Writing	8	94	88	96	91	96	89
Mathematics	8	93	82	89	87	88	85
Science	8	98	92	95	92	94	90
<i><u>High School and End of Course:</u></i>							
English: Reading	9-12	95	94	96	94	96	95
English: Writing	9-12	95	93	95	92	96	92
Algebra I	9-12	98	94	98	94	95	94
Algebra II	9-12	97	91	95	91	95	91
Geometry	9-12	94	87	96	88	92	87
Biology	9-12	94	90	96	89	94	88
Chemistry	9-12	99	93	100	93	100	93
Earth Science	9-12	93	89	90	88	93	87
Virginia and US History	9-12	93	89	97	95	98	95
World History I	9-12	88	81	98	93	95	93
World History II	9-12	88	82	95	92	95	93
World Geography	9-12	95	85	92	86	94	86

Note:

Source: Director of Assessment and Virginia School Report Card, as published on-line by the Virginia Department of Education.

COMPLIANCE SECTION

**CITY OF SALEM SCHOOL DIVISION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2011**

<u>Federal Grantor/Pass-through Grantor</u> <u>(Commonwealth of Virginia)/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Agriculture</u>		
<i>Department of Agriculture and Consumer Services</i>		
Food Distribution – Commodities	10.555	\$ 131,316
<i>Department of Education</i>		
School Breakfast Program	10.553	124,594
National School Lunch Program	10.555	492,521
<u>Department of Education</u>		
<i>Department of Education</i>		
Adult Education – Basic Grants to States	84.002	77,219
Title I Grants to Local Educational Agencies	84.010	349,418
Title I - Distinguished Schools	84.010	6,035
Special Education – Grants to States	84.027	745,847
Career and Technical Education – Basic Grants to States	84.048	43,899
Special Education – Preschool Grants	84.173	17,119
Safe and Drug - Free Schools and Communities – State Grants	84.186	891
Educational Technology State Grants	84.318	3,518
English Language Acquisition Grants	84.365	7,517
Improving Teacher Quality State Grants	84.367	141,646
ARRA: Education Technology State Grants	84.386	
ARRA: Title I Grants to Local Educational Agencies	84.389	55,584
ARRA: Special Education – Grants to States	84.391	403,593
ARRA: Special Education – Preschool Grants	84.392	7,645
ARRA: State Fiscal Stabilization Fund – Education State Grants	84.394	467,557
Total Expenditures of Federal Awards		<u>\$ 3,075,919</u>

Note 1 - Basis of Accounting

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

Note 2 - Nonmonetary Assistance

Nonmonetary assistance is reported in the Schedule of Expenditures of Federal Awards at the fair market value of the food commodities disbursed. At June 30, 2011, the School Division had food commodities in inventory of \$47,733.

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

Honorable Members of the
Board of the City of Salem School Division
Salem, Virginia

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Salem School Division ("School Division"), a component unit of the City of Salem, Virginia, as of and for the year ended June 30, 2011, which collectively comprise the School Division's basic financial statements and have issued our report thereon dated November 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Division's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School Division's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School Division's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School Division's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including certain provisions of the compliance matters described in the Summary of Compliance Matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.**

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 22, 2011

CITY OF SALEM SCHOOL DIVISION
SUMMARY OF COMPLIANCE MATTERS
June 30, 2011

As more fully described in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the School Division'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
Local Retirement Systems
Procurement Laws
Uniform Disposition of Unclaimed Property Act

State Agency Requirements:

Education