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CITY OF SALEM SCHOOL DIVISION SALEM, VIRGINIA

(A Component Unit of the City of Salem)

Comprehensive Annual Financial Report
Year Ended June 30, 2018

Cover design by Mike Stevens

City of Salem School Division

(A Component Unit of the City of Salem, Virginia)

Comprehensive Annual Financial Report For the Year Ended June 30, 2018



Prepared by:

City of Salem School Division Business Office
City of Salem Department of Finance

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INTRODUCTORY SECTION

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CITY OF SALEM SCHOOL DIVISION

510 SOUTH COLLEGE AVENUE

SALEM, VIRGINIA 24153

540-389-0130

www.salem.k12.va.us

November 16, 2018

To the Honorable Chairman and Members of the Board of the City of Salem School Division,
And the Citizens of the City of Salem, Virginia:

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the City of Salem School Division (School Division), a component unit of the City of Salem, Virginia for the fiscal year ended June 30, 2018. This report was prepared by the City of Salem Department of Finance and the City of Salem School Division Business Office in conformity with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Governmental Accounting Standards Board (GASB).

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management. 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 the various funds. All disclosures necessary to enable the reader to gain an understanding of the School Division's financial activities have been included. The independent certified public accounting firm of Cherry Bekaert LLP has audited the basic financial statements contained herein.

The School Division has established a comprehensive internal control framework that is designed both to protect the School Board's assets from loss, theft, or misuse and to properly record and adequately document transactions to compile information for the presentation of the School Division's financial statements in conformity with GAAP. Since the cost of internal controls should not outweigh their benefits, the School Division's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of management's discussion and analysis (MD&A). This letter of transmittal is designed to complement MD&A, as well as the independent auditor's report, financial statements and schedules. The statistical section includes selected financial and demographic information, presented on a multi-year basis, where possible. The compliance section includes reports by the independent auditor on compliance and internal control.

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, City Council appoints the five member School Board. The School Division exercises financial accountability over the general operations of the school system.

Profile of the School System

The School Division is the 68th largest of 132 school divisions in the Commonwealth of Virginia. The City of 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, and passenger/freight service through the Roanoke-Blacksburg Regional Airport making it part of the principal trade, industrial, transportation, medical and cultural center of western Virginia. Salem has 25,862 citizens.

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 appointed five-member School Board, vested with legislative powers, appoints the Superintendent, the executive and administrative head of the public school division. The School Division is fiscally dependent (i.e., it does not have taxing, levying, or borrowing authority) and is a legally separate component unit of the City of Salem. City Council approves the School Division's operating budget, levies the necessary taxes to finance operations, and approves the borrowing of money and issuance of bonds when necessary.

Prior to April 1 of each year, the School Board adopts the next fiscal year's budget and submits it to City Council for approval. The final adoption and appropriation occurs in May of each year. The fiscal year begins on July 1 of each year when the newly adopted budget becomes available for spending. City Council has adopted the policy of appropriating the annual School Division budget in total rather than by categories. The School Board is authorized to transfer budget amounts within the various funds at its discretion. The Superintendent is authorized to transfer budget amounts within and between the major categories subject to School Board approval.

Most of the School Division's buildings were built between the 1930's and the 1960's. Two facilities are older than 75 years, Andrew Lewis Middle School and G.W. Carver Elementary School. A new South Salem Elementary School opened in 2013, replacing a building that was completed in 1964.

The School Division is responsible for elementary and secondary education (kindergarten through twelfth grade) within the City. Total March 31 average daily membership (ADM) in fiscal year 2018 was 3,872 and projected budgeted enrollment for fiscal year 2019 is 3,790. Students between the grades of kindergarten and twelfth are offered a broad range of services including regular education, special education, career and technical education, gifted education and an International Baccalaureate program at four elementary schools, one middle school, one high school and an alternative and adult education center. The School Division also offers a preschool class at East Salem Elementary for economically disadvantaged children utilizing the Virginia Pre-School Initiative grant. Schools are supported by the central office, which provides a broad range of services including instructional curriculum development and support, student support, special education services, staff development, reporting and evaluation, pupil transportation, facilities, human resources, finance, technology and school nutrition services.

The School Division is represented by several ethnic categories. Approximately 75% of the students are Caucasian, 12% are African-American, 5% are Hispanic, 2% are Asian, and 6% are in other categories (including mixed). Approximately 37% of Salem's students on a division-wide basis qualify for free and reduced lunches under the National School Lunch Program. Special education averaged just above 15% of the total student enrollment, and English Language Learners (ELL) represents approximately 4.5% of the student population.



The City of Salem School Division had a solid year in terms of Standards of Learning performance. Out of the 132 school divisions, Salem was one of 65 school divisions in the state that have all of their schools fully accredited for the 2017-18 school year based on 2016-17 test results.

The School Division was once again named one of the top ten school divisions in Virginia for 2018 by Niche. Ranking factors include state test scores, college readiness, graduation rates, SAT/ACT scores, teacher quality, and student parent reviews.

The Salem School Division is one of just 15 in the state to receive the Distinguished Achievement Award from the Commonwealth of Virginia. In addition, Salem High School received the same individual honor from the state board.



Local Economic Condition and Outlook

Financial results for the City reflect positive trends over the past year. 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 3.4% (June 2018), 0.7% lower than the prior year, was just above the state rate and below the national unemployment rate of 4.0%. A strong educational system providing a well-educated and skilled workforce along with generally lower operating costs are key reasons why employers have chosen to relocate to 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. General Electric's power unit announced it would end manufacturing operations at its Salem plant in 2019, with more than 260 workers losing their jobs. The plant, which opened in 1955, will keep more than 200 salaried workers across the Power, Renewable Energy and Baker Hughes businesses.

Long-Term Financial Planning

The annual budget reflects the School Board's plans by allocating resources to carry out the goals defined through the division wide planning process. The major planning activities are:

- Salem City Schools' approved budget, which is adopted annually by the School Board and reflects ongoing programs as well as initiatives for the next fiscal year.
- Salem City Schools' Capital Improvement Program is annually reviewed and adopted by the School board and contains the six year capital improvement plans.
- Enrollment Projections, which are prepared annually to assist in budget planning and capital needs analysis.

Relevant Financial Policies

Capital Improvement Plan projects are budgeted when funding is approved by the School Board and are not included in the annual budget process. All funds not encumbered or spent by the end of the fiscal year (June 30th) shall be returned to City Council. In accordance with City Council Resolution Number 487: "All funds appropriated by City Council for use by the School Board, unexpended at the close of any fiscal year, as determined by the City's audit, shall be placed in a general reserve account for non-recurring expenditures of the School Division as determined by the School Board with the consent of City Council."

Major Initiatives

The School Division continues to rely upon the adopted Comprehensive Plan as a guiding document. The Plan's mission statement is to provide a loving and engaging environment that inspires all children to reach their full potential.

- **Virginia Standardized Tests (Standards of Learning)**
Standards of Learning (SOL) tests are administered to students in grades 3 through 8, and students enrolled in certain high school courses. Students are required to earn a certain number of verified credits to be eligible for a standard or advanced high school diploma. Verified credits for graduation will be based on achievement by students of a passing score on the required end-of-course SOL tests.

Based on 2018 SOL tests results, all Salem City School Division elementary, middle and high schools were fully accredited.

- **Technology Initiative**
The School Division is committed to providing the most appropriate instructional technology available to allow teachers to provide students the best instruction possible. Chromebook laptops

continue to be used in the high school and will be deployed to students in grades 3 to 8 to be used for equitable access to technology and personalized learning initiatives.

- **Capital Improvement Plan**

The Capital Improvement Plan (CIP) adopted by the School Board on October 10, 2017 (most recent adoption) reflects total school capital projects of \$60.7 million. The renovation of Salem High School has been identified and prioritized by the School Board as the next major capital project. The CIP represents the priority projects for the next six years.

Independent Audit

Cherry Bekaert LLP has performed an annual audit of the basic financial statements and other supplementary information contained within this Comprehensive Annual Financial Report. Their audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. The report of the independent auditor, which includes their opinion on the financial statements of the School Division, is contained in the Financial Section of this report. Other auditor reports are included in the Compliance Section.

Financial Awards

The Association of School Business Officials (ASBO) awarded a *Certificate of Excellence in Financial Reporting* to the City of Salem School Board for its CAFR for the fiscal year ended June 30, 2017. This was the first year the School Division received this prestigious award. This Certificate of Excellence program is an international award recognizing excellence in the preparation and issuance of school system financial reports. The School Division also received the Meritorious Budget Award for its annual budget for the fiscal year beginning July 1, 2017. This program is designed to recognize school divisions for achieving excellence in their school system budget preparation.

Acknowledgements

We would like to express our appreciation to the staff of the School Division and the City's 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, Cherry Bekaert LLP, for their cooperation and input in our efforts.

Respectfully Submitted,



H. Alan Seibert
Superintendent



Mandy C. Hall
Director of Business



Rosemarie B. Jordan
Director of Finance

**CITY OF SALEM SCHOOL DIVISION
 DIRECTORY OF PRINCIPAL OFFICIALS
 JUNE 30, 2018**

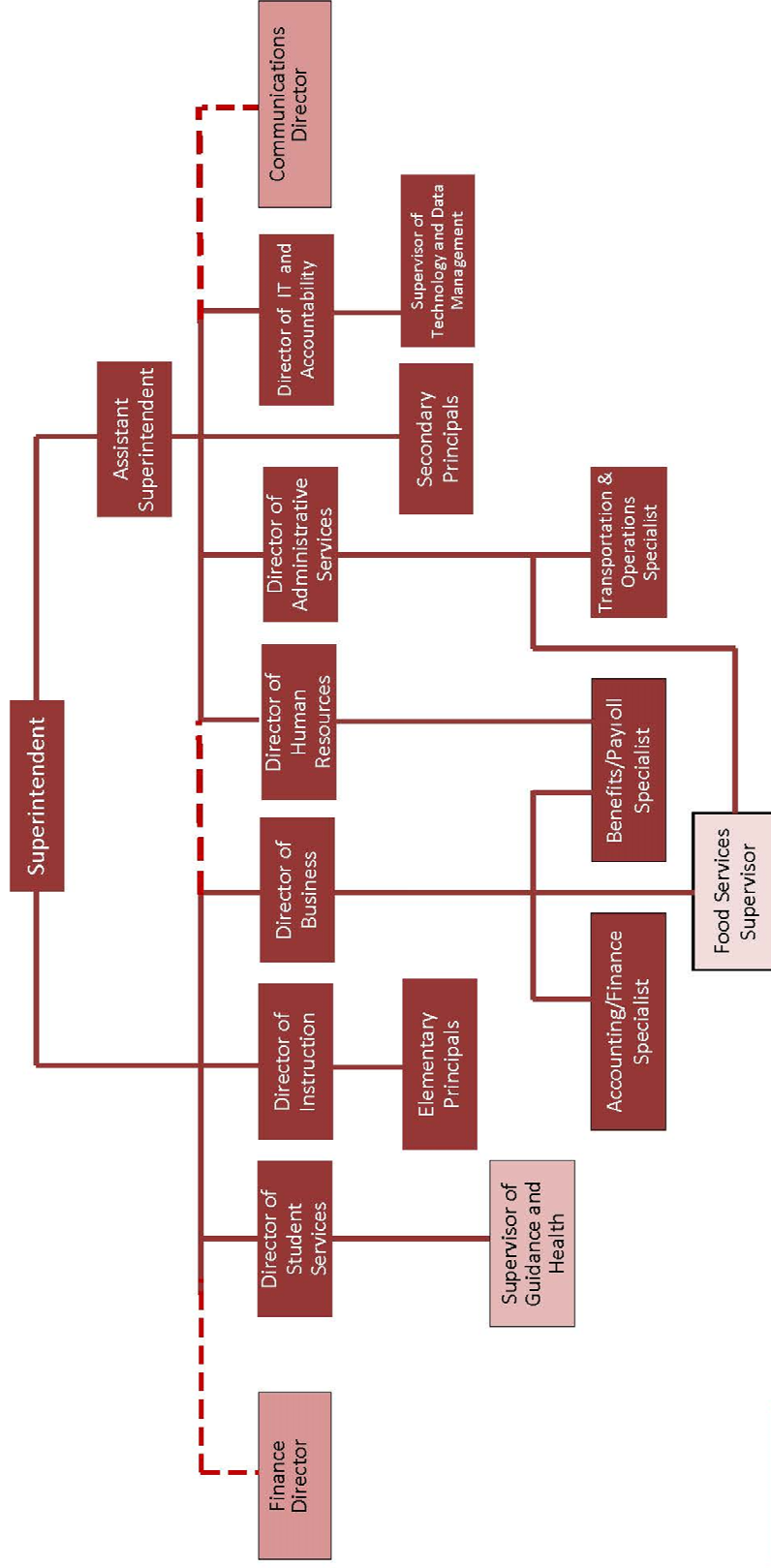


From left to right above front row: Dr. Michael A. Chiglinsky, Vice Chairman, and Mr. John A. (Andy) Raines
 Back row: Ms. Artice M. Ledbetter, Mr. David H. Preston, Chairman, and Dr. Nancy A. Bradley

School Administration
 Dr. H. Alan Seibert, Superintendent

Director of Human Resources.....	Ms. Kirstine M. Barber
Director of Instructional Technology and Accountability	Ms. Jennifer P. Dean
Director of Business	Ms. Mandy C. Hall
Supervisor of Guidance and Health Services	Dr. Darryl Helems
Assistant Superintendent	Mr. Curtis N. Hicks
Director of Student Services	Dr. Randy L. Jennings
Director of Administrative Services	Dr. Forest I. Jones
Supervisor of Technology & Data Management	Mr. Jim L. Rieflin
Director of Instruction	Ms. Diane D. Washenberger
Clerk to the Board	Ms. Kathy A. Jordan
Director of Finance.....	Ms. Rosemarie B. Jordan, CPA
Communications Director.....	Mr. Mike Stevens

Salem City School Division Organizational Chart 2017-2018



City Personnel

School-Based Personnel

Aramark Personnel

Direct Reports			
Superintendent	Assistant Superintendent	Director of Instruction	Director of Instruction
Assistant Superintendent	Director of Administrative Services	Elementary Principals	Elementary Principals
Director of Instruction	Director of Human Resources		
Director of Business	Director of IT and Accountability		
Director of Student Services	Secondary Principals		



ASSOCIATION OF
SCHOOL BUSINESS OFFICIALS
INTERNATIONAL

The Certificate of Excellence in Financial Reporting
is presented to

City of Salem School Board

**for its Comprehensive Annual Financial Report (CAFR)
for the Fiscal Year Ended June 30, 2017.**

The CAFR has been reviewed and met or exceeded
ASBO International's Certificate of Excellence standards.



A handwritten signature in black ink, reading 'Charles E. Peterson, Jr.'.

Charles E. Peterson, Jr., SFO, RSBA, MBA
President

A handwritten signature in black ink, reading 'John D. Musso'.

John D. Musso, CAE
Executive Director

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FINANCIAL SECTION

Report of Independent Auditor

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

Report on the Financial Statements

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, Virginia School Division (the "School Division"), a component unit of the City of Salem, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School Division's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School Division, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the Statements of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund and Special Revenue – Cafeteria Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 16 and presented in Notes 7, 12, and 13 to the financial statements, the School Division adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Reporting for Postemployment Benefits Other than Pensions*, effective July 1, 2017. Our opinions are not modified with respect to this matter.

Other Matters***Required Supplementary Information***

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Division's basic financial statements. The Introductory Section, Other Supplementary Information, and Statistical Section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School Division's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School Division's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Cheryl Behrman CPA". The signature is written in a cursive, flowing style.

Roanoke, Virginia
November 16, 2018

**CITY OF SALEM SCHOOL DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

The City of Salem Public Schools (School Division) presents the following discussion and analysis as an overview of the financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the School Division's financial performance as a whole. Readers should also review the transmittal letter at the front of this report and the School Division's financial statements and notes to the basic financial statements, which immediately follow this section, to enhance their understanding of the School Division's financial performance.

FINANCIAL HIGHLIGHTS

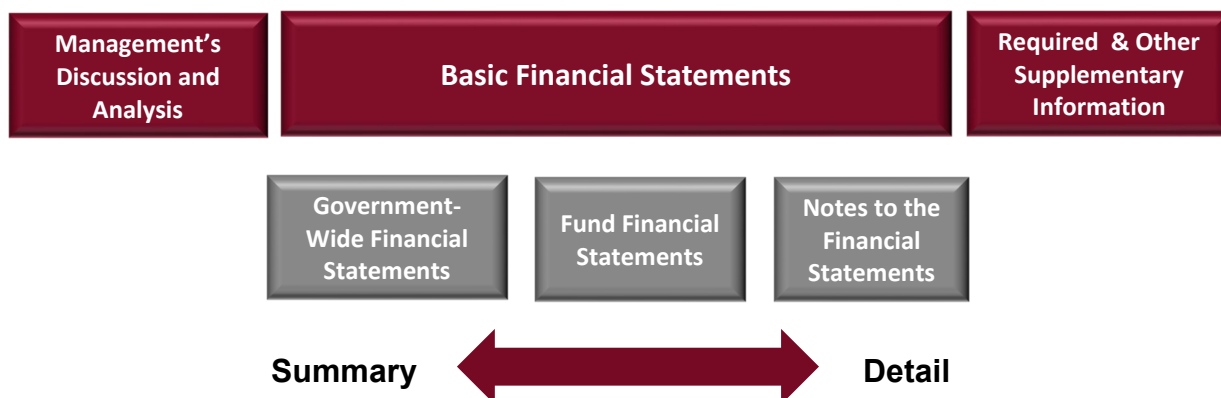
- The School Division maintained a healthy net position of \$11.4 million. Net position reflects the financial health of the School Division and includes certain assets procured with debt issued by the City of Salem, Virginia (City). The School Division is a component unit of, and fiscally dependent on, the City. As such, all debt related to School Division assets are shown on the City's Statement of Net Position, except for capital leases entered into by the School Division.
- The School Division had expenses, net of program revenues, of \$32.8 million, which were \$1.7 million less than general revenue of \$34.5 million.
- For the governmental funds, General Fund revenues accounted for \$44.1 million or 95.9% of all revenues, and expenditures were \$42.4 million or 94.4% of all expenditures, compared to \$43.2 million (96.0%) in revenues and \$41.0 million (93.6%) in expenditures in fiscal year 2017.
- The Cafeteria Fund ended the fiscal year with a fund balance of \$501,910, an increase of \$119,482 over the 2017 fund balance. The increase in fund balance is attributed to an increase in the number of reimbursable meals served due to the increase in enrollment.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Section of the Comprehensive Annual Financial Report consists of five parts: 1) report of independent auditor, 2) management's discussion and analysis (MD&A), 3) basic financial statements (government-wide and fund statements) including notes to financial statements, 4) required supplementary information and 5) other supplementary information.

The basic financial statements consist of two kinds of statements that present different views of the School Division's financial activities. The government-wide financial statements provide both long-term and short-term information about the School Division's overall financial status. The fund financial statements report on the School Divisions' operations in more detail than the government-wide statements.

The following diagram shows how the various parts of the financial section are arranged and relate to one another.



**CITY OF SALEM SCHOOL DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

Government-Wide Financial Statements

The government-wide financial statements report the School Division's net position, how it has changed during the fiscal year and include the Statement of Net Position and Statement of Activities.

The Statement of Net Position includes all of the School Division's assets, deferred outflows of resources, current and long-term liabilities and deferred inflows of resources. The result is reported in one of the three categories of net position (net investment in capital assets, restricted, and/or unrestricted). Increases or decreases in net position are indicators of whether the School Division's financial position is improving or declining. Other non-financial factors, such as changes in the property tax base of the City and the condition of school buildings and other facilities should also be considered in order to assess the overall financial position of the School Division.

The Statement of Activities presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The School Division only reports activities related to governmental-type activities, since it has no business-type activities. The School Division's governmental-type activities include: central administration, centralized instruction, instructional, attendance and health, transportation and food services. City appropriations and federal and state aid finance the majority of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the most significant funds, rather than the School Division as a whole.

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 one year of the end of the current fiscal period. All other revenue items are considered measurable and available when cash is received by the School Division. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences, pension, and other postemployment benefits, capital leases, claims and judgements are recorded only when payment is due. General capital asset acquisitions are reported as expenditures and acquisitions under capital leases are reported as other financing sources.

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

Proprietary fund financial statements are reported using the *economic financial resources measurement focus* and the *accrual basis of accounting*. These statements distinguish operating from non-operating revenues and expenses. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's principal ongoing operations. Operating revenues include charges to other funds for self-insurance claims activities. Operating expenses include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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.

**CITY OF SALEM SCHOOL DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

Fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, with the exception of agency funds which have no measurement focus but employ the *accrual basis of accounting* for purposes of asset and liability recognition. Assets held by a trustee or in an agency capacity are reported as fiduciary funds. All of the fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. They are not included in the government wide financial statements because the School Division cannot use these assets to finance its operation. The School Division reports an OPEB Trust and student activity funds as fiduciary funds.

Notes to the Basic Financial Statements

The notes to the basic financial statements explain some of the other information in the statements and provide additional information so that the statement users have a complete picture of the School Division's financial activities and position.

Other Information

In addition to the basic financial statements and associated notes, this report also presents certain *required supplementary information* to further explain and support the financial statements.

FINANCIAL ANALYSIS OF THE SCHOOL DIVISION

Summary of Net Position

The following table presents a condensed summary of net position.

**Summary of Net Position
As of June 30, 2018 and 2017**

	Governmental Activities		Percentage
	2018	2017	Change
Current and other assets	\$ 17,134,991	\$ 15,461,406	10.8%
Capital assets, net	43,173,063	45,229,644	(4.5%)
Total assets	60,308,054	60,691,050	(0.6%)
Deferred outflows of resources	4,531,853	5,587,662	(18.9%)
Current and other liabilities	6,695,616	6,597,280	1.5%
Long-term liabilities	41,059,967	39,771,342	3.2%
Total liabilities	47,755,583	46,368,622	3.0%
Deferred inflows of revenues	5,725,798	3,464,213	65.3%
Net investment in capital assets	43,173,063	45,092,573	(4.3%)
Restricted	537,062	-	n/a
Unrestricted	(32,351,599)	(28,646,696)	12.9%
Total net position	\$ 11,358,526	\$ 16,445,877	(30.9%)

**CITY OF SALEM SCHOOL DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

In fiscal year 2018, the School Division adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The overall effect of this new standard is to reflect the long-term OPEB obligations of the School Division in the government-wide financial statements. Previously, such amounts were disclosed, but were not recognized, as the School Division fully funded the annual required contributions. The new standard establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expense. Beginning net position has been restated as discussed in Note 16, and this has had a significant impact on the net position of the School Division. Net OPEB liabilities for the School Division as of June 30, 2018 totaled \$6.4 million. Because information to restate prior years is not readily available, the prior year comparative information included in the table on page 18 and in the table on page 20 has not been restated.

For fiscal year 2018, current and other assets increased by \$1,673,585. This increase was comprised of increases in cash and cash equivalents of \$1,931,342, in the net pension asset of \$300,017 and in inventories of \$4,476, which were offset by decreases in the other postemployment benefits (OPEB) asset of \$295,049, in receivables of \$8,503, in due from other governmental units of \$252,889, and in prepaid items of \$5,809.

The net investment in capital assets (capital assets net of accumulated depreciation and capital lease obligations) represented \$43,173,063 of the School Division's net position. The School Division uses these capital assets to provide services to students; consequently, these assets are not available for future spending. As a component unit (School Division) in Virginia, the School Division does not have the authority to issue debt.

Current and other liabilities increased by \$98,336. The net increase for this category was comprised of an increase of \$44,339 in accounts payable and accrued liabilities, \$518,516 in self-insurance claims liability, and \$34,696 in compensated absences, which were offset by a decrease of \$328,592 in accrued payroll and other liabilities, \$28,134 in unearned revenue, \$5,418 in accrued interest and \$137,071 in capital lease obligations.

Long-term liabilities increased by \$1,288,625. The net increase for this category was due to an increase of \$6,429,398 in the net OPEB liability offset by a decrease in compensated absences of \$134,845 and net pension liability of \$5,005,928.

The other components of net position are restricted and unrestricted net position. Restricted net position represents those resources that have constraints imposed on their use. At the end of the fiscal year, the School Division had \$537,062 in restricted net position. Unrestricted net position represents those resources that may be used to meet the obligations placed on the School Division by its creditors and to pay for ongoing operations of the School Division. At the end of the fiscal year, unrestricted net position (deficit) amounted to \$(32,351,599), an increase in the deficit of \$3,704,903 from June 30, 2017. The deficit is a result of recognizing the School Division's proportionate share of the net pension liability of the Virginia Retirement System.

**CITY OF SALEM SCHOOL DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

The chart below summarizes the changes in the School Division's net position for fiscal year 2018, as compared to fiscal year 2017.

**Summary of Changes in Net Position
For the Years Ended June 30, 2018 and 2017**

	Governmental Activities 2018	2017	Percentage Change
Program revenues:			
Charges for services	\$ 1,992,336	\$ 1,588,282	25.4%
Operating grants and contributions	9,540,263	8,605,485	10.9%
Capital grants and contributions	14,400	156,367	(90.8%)
General revenues:			
City appropriation	20,170,298	19,760,242	2.1%
State aid	14,222,573	14,075,825	1.0%
Other	123,394	962,269	(87.2%)
Total revenues	<u>46,063,264</u>	<u>45,148,470</u>	2.0%
Central administration	1,596,030	1,652,209	(3.4%)
Centralized instructional costs	3,518,687	3,543,531	(0.7%)
Instructional costs	34,871,104	32,458,269	7.4%
Attendance and health services	1,010,606	1,005,378	0.5%
Transportation	1,524,848	1,408,400	8.3%
Food services	1,794,237	1,756,692	2.1%
Federal and state grants programs	-	1,970,034	(100%)
Capital lease interest	493	6,383	(92.3%)
Total expenses	<u>44,316,005</u>	<u>43,800,896</u>	1.2%
Change in net position	<u>1,747,259</u>	<u>1,347,574</u>	29.7%
Total net position, beginning of year*	9,611,267	15,098,303	(36.3%)
Total net position, end of year	<u><u>\$ 11,358,526</u></u>	<u><u>\$ 16,445,877</u></u>	(30.9%)

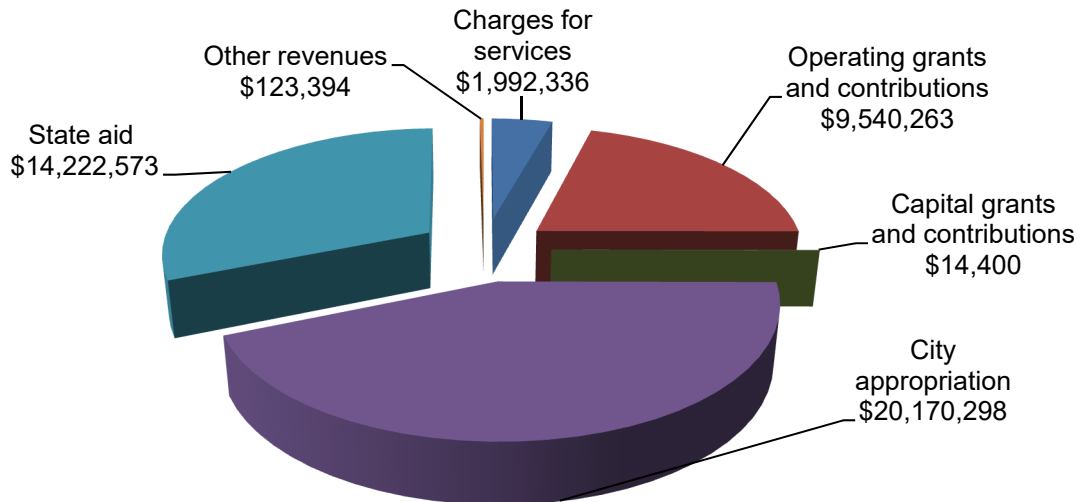
*Restated in 2018 (Note 16)

The fiscal year 2018 beginning net position is restated due to implementation of GASB Statement No. 75, *Accounting and Reporting for Postemployment Benefits Other Than Pensions*, as discussed previously. Appropriations from the City and state aid account for the majority of the School Division revenue. Most of the School Division's expenses are directly related to providing services to students including classroom instruction, attendance and health services, transportation and food services. The remaining balances go towards administrative costs and capital lease interest payments.

**CITY OF SALEM SCHOOL DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

Governmental Activities – Revenues

The following graph represents revenues generated for government activities by category:



For fiscal year 2018, revenues from governmental activities totaled \$46,063,264 and reflected a \$914,794, or 2.0%, increase over fiscal year 2017.

The appropriation from the City was the largest funding source, representing 43.8% of total governmental revenues. These revenues increased \$410,056 over the previous year due to an increase in the local appropriation of \$362,440 and an increase in meals tax collections of \$47,616.

State aid, which was 30.9% of total government revenues, increased 1.0% or \$146,748, primarily due to increases in Basic Aid, driven by a larger than expected student enrollment.

Operating grants and contributions, which were 20.7% of total government revenues, increased 10.9%, or \$934,778, primarily due to increases in Virginia Retirement System (VRS) retirement reimbursement and the additional supplementary lottery per pupil allocation.

Other revenues, which made up 0.3% of the total governmental revenues, decreased by 87.2% or \$838,875. The decrease was largely due to the revenues associated with the Roanoke Valley Regional Board reimbursement being shown in charges for services instead of other revenues.

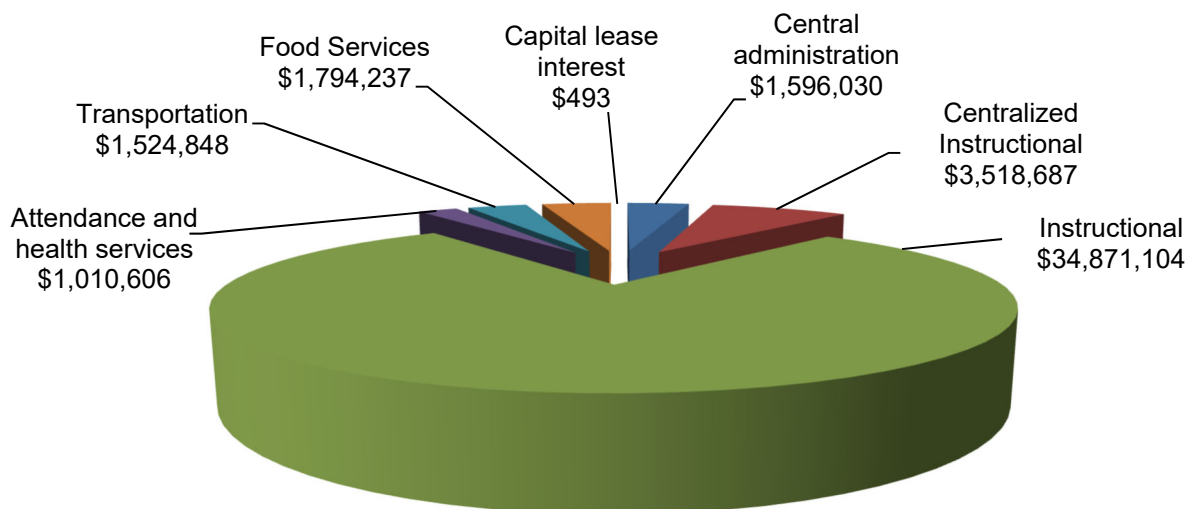
Charges for services were 4.3% of total government revenues, increased by 25.4%, or \$404,054. The increase was attributed to the reimbursement for the Roanoke Valley Regional Board being shown in this category instead of other revenues.

Capital grants and contributions were \$14,400, or 0.03% of total revenues. This amount consisted of a donation from the Parent Teacher Association (PTA) for playground equipment.

**CITY OF SALEM SCHOOL DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

Governmental Activities – Expenses

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



The total costs of the School Divisions' programs for fiscal year 2018 were \$44,316,005, which represented an increase of \$515,109, or 1.2% over fiscal year 2017.

Instruction made up 78.7%, or \$34,871,104, of the total expenses of the School Division, up 7.4% from fiscal year 2017. Instructional expenses were up \$2,412,835 due to higher salary and benefit costs and the addition of federal and state grant program expenses being added to this category.

Centralized instruction costs accounted for 7.9%, or \$3,518,687, of total expenses for fiscal year 2018. A change in invoice processing for dual enrollment tuition by Virginia Western Community College was the primary reason for the \$24,844 decrease.

Central administration costs accounted for 3.6%, or \$1,596,030, of total expenses. A decrease in the early retirement payments and a decrease in legal services contributed to the \$56,179 decrease.

Transportation costs accounted for 3.4%, or \$1,524,848, of total expenses. Salary and benefit cost increases contributed to the overall \$116,448 increase.

Food service cost, which was 4.1%, or \$1,794,237, of total government expenses, included costs associated with operation of the school cafeterias. The \$37,545 increase was attributable to additional food costs due to increased enrollment and salary and benefit increases.

Attendance and health services expenses accounted for 2.3%, or \$1,010,606, of the total government expenses. Salary and benefit increases were the primary reason for the \$5,228 increase; however, costs for therapeutic services were also higher.

**CITY OF SALEM SCHOOL DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

Governmental Activities – Total Cost and Net Cost

The following table shows the cost of the School Division's government-type activities and the net cost of services. The net cost reflects the support provided by local revenue, state and federal aid.

**Total Cost and Net Cost of Governmental Activities
For the Years ended June 30, 2018 and 2017**

	Total Cost of Services		Percent	Net Cost of Services		Percent
	2018	2017	Change	2018	2017	Change
Central administration	\$ 1,596,030	\$ 1,652,209	(3.4%)	\$ 1,596,030	\$ 1,625,958	(1.8%)
Centralized Instructional costs	3,518,687	3,543,531	(0.7%)	3,308,750	2,997,334	10.4%
Instructional costs	34,871,104	32,458,269	7.4%	25,415,975	26,588,693	(4.4%)
Attendance and health services	1,010,606	1,005,378	0.5%	1,010,606	1,005,378	0.5%
Transportation	1,524,848	1,408,400	8.3%	1,524,848	1,408,400	8.3%
Food services	1,794,237	1,756,692	2.1%	(87,696)	(8,672)	911.3%
Federal and state grant programs	-	1,970,034	(100.0%)	-	(172,712)	(100.0%)
Capital lease interest	493	6,383	(92.3%)	493	6,383	(92.3%)
Total expenses	\$ 44,316,005	\$ 43,800,896	1.2%	\$ 32,769,006	\$ 33,450,762	(2.0%)

Significant Aspects of Governmental Activities Include:

- The cost of all governmental activities was \$44,316,005.
- The net cost of governmental activities was \$32,769,006.
- The federal and state governments subsidized certain programs with operating and capital grant and contributions of \$9,554,663.
- Salem City taxpayers paid for these activities through local taxes in the amount of \$20,170,298.

FINANCIAL ANALYSIS OF THE FUNDS

Governmental Funds

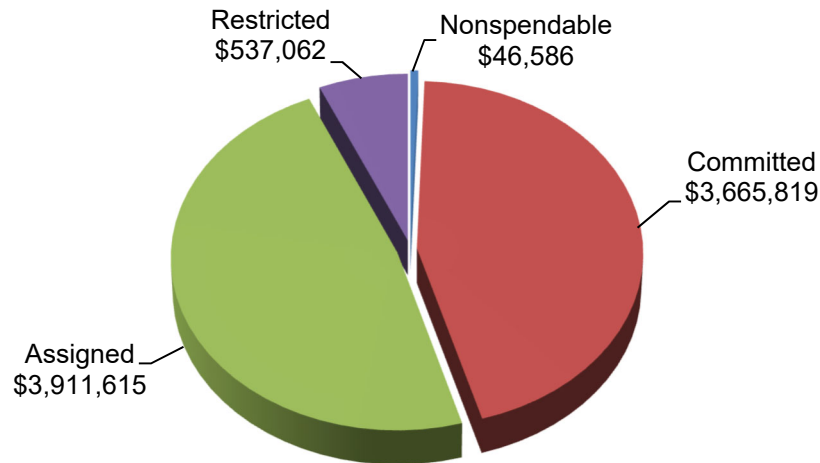
The School Division's combined fund balance for the governmental funds was \$8,161,082 as of June 30, 2018. The current year compared to last year is as follows:

Fund Balance Comparison

Fund:	2018	2017
General	\$ 4,907,573	\$ 4,578,879
Cafeteria	501,910	382,428
Capital Projects	2,751,599	2,045,257
Total combined fund balance	<u>\$ 8,161,082</u>	<u>\$ 7,006,564</u>

**CITY OF SALEM SCHOOL DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

The chart below shows the classifications of the fund balance of governmental funds as of June 30, 2018:



As of June 30, 2018, the School Division's governmental funds reported a combined fund balance of \$8,161,082, an increase of \$1,154,518 in comparison to fiscal year 2017. Of this amount, \$46,586 constituted non-spendable fund balance, which reflected inventories and prepaid assets that were in a form that could not be spent, \$537,062 was designated as restricted fund balance for capital projects, \$3.7 million constituted committed fund balance, which was designated for future capital projects, general education and food services, and \$3.9 million constituted assigned fund balance, which was assigned for general education.

As the school division ended the year, the General Fund reported a fund balance of \$4.9 million, a \$328,694 increase from the fund balance reported for fiscal year 2017. The cafeteria fund reported a fund balance at the end of fiscal year 2018 of \$501,910, a \$119,482 increase from the fund balance reported for fiscal year 2017. The Capital Projects Fund reported a fund balance of \$2.8 million at the end of fiscal year 2018, which represented a \$706,342 increase from the fiscal year 2017 fund balance.

The General Fund accounts for all financial transactions and resources except those required to be accounted for in another fund. Federal, state and local grants restricted for specific purposes are reported in the General Fund. General Fund revenue amounted to \$44,138,116, while expenditures totaled \$42,383,221, and there was a transfer out of \$1,426,201 to the Capital Projects Fund. This resulted in an increase in fund balance of \$328,694.

The Cafeteria Fund accounts for the costs associated with the preparation and serving of breakfast and lunch to students and staff and ended the fiscal year with a fund balance of \$501,910, an increase of \$119,482 from the previous year. The increase in fund balance was attributable to an increase in the number of reimbursable meals served due to the increase in enrollment and the mandatory price increase in lunch prices as required by the Healthy and Hunger Free Kids Act of 2010.

The Capital Projects Fund is used to account for building improvements, furniture and equipment. This fund had a beginning balance of \$2,045,257. After expenditures of \$719,859 and a transfer from the general fund of \$1,426,201, the ending balance of the fund was \$2,751,599. The redesign of the parking lot at East Salem Elementary and bus and vehicle purchases were major Capital Projects Fund expenditures during the year.

**CITY OF SALEM SCHOOL DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

GENERAL FUND BUDGETARY HIGHLIGHTS

The School Division's budget is prepared in accordance with the *Code of Virginia*.

**General Fund
For the Year Ended June 30, 2018**

	Original Budget	Amended Budget	Actual
Revenues:			
City of Salem	\$ 19,633,236	\$ 19,642,475	\$ 20,170,298
Commonwealth of Virginia	20,431,003	21,093,868	21,067,259
Federal Government	1,667,403	1,883,609	1,648,522
Charges for Services	1,463,521	1,513,521	1,155,535
Other	48,364	82,289	96,502
Total	<u>43,243,527</u>	<u>44,215,762</u>	<u>44,138,116</u>
Expenditures	43,243,527	44,909,047	42,383,221
Other Financing Uses	-	1,426,201	1,426,201
Total	<u>43,243,527</u>	<u>46,335,248</u>	<u>43,809,422</u>
	<u>\$ -</u>	<u>\$ (2,119,486)</u>	<u>\$ 328,694</u>

During the course of fiscal year 2018, the School Division amended its General Fund budget to appropriate other revenue and grant funds when the official notice of the award was received. Actual revenues varied from the amended budget with the transfer from the City coming in above budget due to increased meals tax collections. Revenues received from the state were just below budget, while charges for services and other revenues were received just above budget. Actual expenditures were less than the final budget due to personnel savings and expenditure savings throughout all departments.

CAPITAL ASSETS

At the end of fiscal year 2018, the School Division had \$43,173,063 (a 4.5% decrease from fiscal year 2017) invested in furniture and equipment, land, buildings, and construction in progress in governmental activities. The following table displays fiscal year 2018 balances, net of accumulated depreciation. More detailed information about capital assets can be found in Note 5 of the basic financial statements.

Capital Assets
(net of depreciation)
As of June 30, 2018 and 2017

	Governmental Activities		Percentage
	2018	2017	Change
Land	\$ 1,123,637	\$ 1,123,637	0.0%
Construction in progress	241,619	132,237	82.7%
Machinery and equipment	2,590,670	3,021,807	(14.3%)
Buildings and improvements	39,217,137	40,951,963	(4.2%)
Total	<u>\$ 43,173,063</u>	<u>\$ 45,229,644</u>	<u>(4.5%)</u>

**CITY OF SALEM SCHOOL DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

Major Capital Asset Additions for Fiscal Year 2018 included:

- Bus purchase
- HVAC packaged chiller at East Salem Elementary
- Serving line in the East Salem Elementary cafeteria
- Surveillance system at Andrew Lewis Middle School
- Van for the vehicle pool
- Playground equipment at East Salem Elementary School
- Parking lot extension at G.W. Carver Elementary
- Sound system at East Salem Elementary School
- Flooring at Andrew Lewis Middle School and G.W. Carver Elementary School
- Projector and lens at G.W. Carver Elementary School

OUTSTANDING LONG-TERM DEBT

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

FACTORS INFLUENCING FUTURE BUDGETS

With the current economic condition in mind, below are a list of factors that will likely influence future budgets:

- Potential cuts in federal spending, which could harm Virginia's military-dependent economy
- Unknown changes in state funding by Governor and the General Assembly
- Student enrollment fluctuations
- Healthcare cost increases
- Contribution rates assessed by the Virginia Retirement System

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the School Division's finances and to demonstrate the School Division's accountability for the resources it receives. If you have questions about this report or need additional financial information, contact:

Director of Business
Salem City Public Schools
510 S. College Avenue
Salem, Virginia 24153
(540)389-0130
www.salem.k12.va.us

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BASIC FINANCIAL STATEMENTS

**CITY OF SALEM SCHOOL DIVISION
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 15,848,476
Receivables	39,534
Due from other governmental units	900,378
Net pension asset	300,017
Inventories	37,579
Prepaid items	9,007
<i>Capital assets:</i>	
Nondepreciable	1,365,256
Depreciable, net	41,807,807
Total assets	<u>60,308,054</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>4,531,853</u>
LIABILITIES	
Accounts payable and accrued liabilities	401,206
Accrued payroll and related liabilities	4,978,617
Self-insurance claims liability	839,919
Unearned revenues	53,704
<i>Long-term liabilities due in less than one year:</i>	
Compensated absences	422,170
<i>Long-term liabilities due in more than one year:</i>	
Compensated absences	346,569
Net pension liability	34,284,000
Net OPEB liability	6,429,398
Total liabilities	<u>47,755,583</u>
DEFERRED INFLOWS OF RESOURCES	<u>5,725,798</u>
NET POSITION (DEFICIT)	
Net investment in capital assets	43,173,063
Restricted for capital projects	537,062
Unrestricted	(32,351,599)
Total net position	<u>\$ 11,358,526</u>

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

**CITY OF SALEM SCHOOL DIVISION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<i>Governmental activities:</i>					
Central administration	\$ 1,596,030	\$ -	\$ -	\$ -	\$ (1,596,030)
Centralized Instructional costs	3,518,687	209,937	-	-	(3,308,750)
Instructional costs	34,871,104	945,598	8,495,131	14,400	(25,415,975)
Attendance and health services	1,010,606	-	-	-	(1,010,606)
Transportation	1,524,848	-	-	-	(1,524,848)
Food services	1,794,237	836,801	1,045,132	-	87,696
Capital lease interest	493	-	-	-	(493)
Total governmental activities	<u>\$ 44,316,005</u>	<u>\$ 1,992,336</u>	<u>\$ 9,540,263</u>	<u>\$ 14,400</u>	<u>(32,769,006)</u>
<i>General revenues:</i>					
Payments from City of Salem					20,170,298
State aid					14,222,573
Other					123,394
Total general revenues					<u>34,516,265</u>
Change in net position					1,747,259
Net position, beginning, as restated (Note 16)					<u>9,611,267</u>
Net position, ending					<u>\$ 11,358,526</u>

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

**CITY OF SALEM SCHOOL DIVISION
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	General	Cafeteria	Capital Projects	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 9,155,002	\$ 587,715	\$ 2,863,857	\$ 12,606,574
Receivables, net	17,507	163	-	17,670
Due from other governmental units	856,903	43,475	-	900,378
Inventories	-	37,579	-	37,579
Prepaid items	4,068	-	4,939	9,007
Total assets	<u>\$ 10,033,480</u>	<u>\$ 668,932</u>	<u>\$ 2,868,796</u>	<u>\$ 13,571,208</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 199,501	\$ 84,508	\$ 117,197	\$ 401,206
Accrued payroll and related liabilities	4,919,184	57,928	-	4,977,112
Unearned revenues	7,222	24,586	-	31,808
Total liabilities	<u>5,125,907</u>	<u>167,022</u>	<u>117,197</u>	<u>5,410,126</u>
FUND BALANCES				
Nonspendable	4,068	37,579	4,939	46,586
Restricted	537,062	-	-	537,062
Committed	454,828	464,331	2,746,660	3,665,819
Assigned	3,911,615	-	-	3,911,615
Total fund balances	<u>4,907,573</u>	<u>501,910</u>	<u>2,751,599</u>	<u>8,161,082</u>
Total liabilities and fund balances	<u>\$ 10,033,480</u>	<u>\$ 668,932</u>	<u>\$ 2,868,796</u>	<u>\$ 13,571,208</u>

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

**CITY OF SALEM SCHOOL DIVISION
RECONCILIATION OF THE GOVERNMENTAL FUNDS' BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Total fund balance of governmental funds	\$ 8,161,082
Capital assets used in governmental activities are not considered current financial resources and, therefore, are not reported in the governmental funds.	43,173,063
Long-term liabilities related to governmental fund activities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences	(768,739)
Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.	
Deferred outflows of resources related to pension	4,124,241
Deferred inflows of resources related to pension	(5,398,565)
Net pension asset	300,017
Net pension liability	(34,284,000)
Financial statement elements related to OPEB are applicable to future periods and, therefore, are not reported in the governmental funds.	
Deferred outflows of resources related to OPEB	407,612
Deferred inflows of resources related to OPEB	(327,233)
Net OPEB liability	(6,429,398)
The internal service fund is used by management to charge the costs of health insurance to individual funds. The assets, liabilities, and net position of the internal service fund are included in governmental activities in the Statement of Net Position.	2,400,446
Net position of governmental activities	<u><u>\$ 11,358,526</u></u>

The Notes to the Basic 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, 2018

	General	Cafeteria	Capital Projects	Total Governmental Funds
REVENUES				
<i>Intergovernmental:</i>				
City of Salem	\$ 20,170,298	\$ -	\$ -	\$ 20,170,298
Commonwealth of Virginia	21,067,259	28,674	-	21,095,933
Federal Government	1,648,522	1,016,458	-	2,664,980
<i>Other:</i>				
Charges for services	1,155,535	836,801	-	1,992,336
Other	96,502	29,886	-	126,388
Total revenues	<u>44,138,116</u>	<u>1,911,819</u>	<u>-</u>	<u>46,049,935</u>
EXPENDITURES				
<i>Current:</i>				
Central administration	1,587,712	-	-	1,587,712
Centralized instruction costs	3,768,680	-	-	3,768,680
Instructional costs	34,387,919	-	-	34,387,919
Attendance and health services	1,085,034	-	-	1,085,034
Transportation	1,410,894	-	-	1,410,894
Food services	-	1,792,337	-	1,792,337
<i>Capital projects</i>	-	-	719,859	719,859
<i>Capital lease debt service:</i>				
Principal	137,071	-	-	137,071
Interest	5,911	-	-	5,911
Total expenditures	<u>42,383,221</u>	<u>1,792,337</u>	<u>719,859</u>	<u>44,895,417</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,754,895</u>	<u>119,482</u>	<u>(719,859)</u>	<u>1,154,518</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	1,426,201	1,426,201
Transfers out	(1,426,201)	-	-	(1,426,201)
Total other financing sources (uses), net	<u>(1,426,201)</u>	<u>-</u>	<u>1,426,201</u>	<u>-</u>
Net change in fund balances	328,694	119,482	706,342	1,154,518
Fund balances, beginning	<u>4,578,879</u>	<u>382,428</u>	<u>2,045,257</u>	<u>7,006,564</u>
Fund balances, ending	<u>\$ 4,907,573</u>	<u>\$ 501,910</u>	<u>\$ 2,751,599</u>	<u>\$ 8,161,082</u>

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

CITY OF SALEM SCHOOL DIVISION
RECONCILIATION OF THE GOVERNMENTAL FUNDS' STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

Net changes in fund balances of governmental funds	\$ 1,154,518
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	525,195
Capital donated	14,400
Depreciation expense	(2,535,274)
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	(2,296)
Net loss from sale of assets	(58,606)
Repayment of capital lease principal is an expenditure in the governmental funds but reduces long-term liabilities in the Statement of Net Position.	
Principal payments	137,071
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	
Change in accrued interest payable	5,418
Change in compensated absences	100,149
Governmental funds report employer pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.	
Employer pension contributions	3,637,328
Pension expense	(1,729,156)
Governmental funds report employer OPEB contributions as expenditures. However, in the Statement of Activities the cost of OPEB benefits earned is reported as OPEB expense.	
Employer OPEB contributions	637,519
OPEB expense	(446,977)
The internal service fund is used by management to charge the costs of health insurance to individual funds. The change in net position of the internal service fund is reported with governmental activities.	
	307,970
Change in net position of governmental activities	<u><u>\$ 1,747,259</u></u>

The Notes to the Basic 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 - GENERAL FUND
YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
<i>Intergovernmental:</i>				
City of Salem	\$ 19,633,236	\$ 19,642,475	\$ 20,170,298	\$ 527,823
Commonwealth of Virginia	20,431,003	21,093,868	21,067,259	(26,609)
Federal Government	1,667,403	1,883,609	1,648,522	(235,087)
<i>Other:</i>				
Charges for Services	1,463,521	1,513,521	1,155,535	(357,986)
Other	48,364	82,289	96,502	14,213
Total revenues	<u>43,243,527</u>	<u>44,215,762</u>	<u>44,138,116</u>	<u>(77,646)</u>
EXPENDITURES				
<i>Current:</i>				
Central administration	1,791,130	1,766,902	1,587,712	179,190
Centralized instructional costs	4,120,575	4,680,684	3,768,680	912,004
Instructional costs:				
Salem High School	10,395,893	10,986,001	10,459,247	526,754
Andrew Lewis Middle School	6,961,131	7,317,571	7,110,842	206,729
G.W. Carver Elementary School	3,572,023	3,717,335	3,694,139	23,196
West Salem Elementary School	3,114,426	3,330,590	3,383,487	(52,897)
South Salem Elementary School	3,124,040	3,206,402	3,248,699	(42,297)
East Salem Elementary School	3,673,848	3,827,484	3,778,488	48,996
Regional Special Education Program	770,777	770,777	743,403	27,374
Federal and state grants programs	1,980,223	2,257,422	1,969,614	287,808
Attendance and health services	1,097,384	1,119,959	1,085,034	34,925
Transportation	1,716,538	1,784,938	1,410,894	374,044
Non-departmental	782,558	-	-	-
<i>Capital lease debt service:</i>				
Principal	131,405	137,071	137,071	-
Interest	11,576	5,911	5,911	-
Total expenditures	<u>43,243,527</u>	<u>44,909,047</u>	<u>42,383,221</u>	<u>2,525,826</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(693,285)</u>	<u>1,754,895</u>	<u>2,448,180</u>
OTHER FINANCING USES				
Transfers out	-	(1,426,201)	(1,426,201)	-
Total other financing uses	-	(1,426,201)	(1,426,201)	-
Net change in fund balances	<u>\$ -</u>	<u>\$ (2,119,486)</u>	<u>\$ 328,694</u>	<u>\$ 2,448,180</u>

The Notes to the Basic 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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
<i>Intergovernmental:</i>				
Commonwealth of Virginia	\$ 21,128	\$ 37,128	\$ 28,674	\$ (8,454)
Federal Government	786,112	963,951	1,016,458	52,507
<i>Other:</i>				
Charges for Services	885,250	901,917	836,801	(65,116)
Other	7,800	7,800	29,886	22,086
Total revenues	<u>1,700,290</u>	<u>1,910,796</u>	<u>1,911,819</u>	<u>1,023</u>
EXPENDITURES				
Food services:				
Salem High School	531,574	533,074	473,655	59,419
Andrew Lewis Middle School	384,509	407,009	404,920	2,089
G.W. Carver Elementary School	195,885	245,610	242,728	2,882
West Salem Elementary School	209,794	234,794	212,847	21,947
South Salem Elementary School	228,183	248,183	218,585	29,598
East Salem Elementary School	150,345	242,126	239,602	2,524
Total expenditures	<u>1,700,290</u>	<u>1,910,796</u>	<u>1,792,337</u>	<u>118,459</u>
Excess of revenues over expenditures	-	-	119,482	119,482
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 119,482</u>	<u>\$ 119,482</u>

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

**CITY OF SALEM SCHOOL DIVISION
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2018**

	Internal Service Fund
ASSETS	
<i>Current assets:</i>	
Cash and cash equivalents	\$ 3,241,902
Receivables	21,864
Total assets	<u>3,263,766</u>
LIABILITIES	
<i>Current liabilities:</i>	
Accrued payroll and related liabilities	1,505
Self-insurance claims liability	839,919
Unearned revenues	21,896
Total liabilities	<u>863,320</u>
NET POSITION	
Unrestricted	2,400,446
Total net position	<u><u>\$ 2,400,446</u></u>

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

CITY OF SALEM SCHOOL DIVISION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2018

	Internal Service Fund
OPERATING REVENUES	
Charges for services	\$ 4,872,796
Total operating revenues	<u>4,872,796</u>
OPERATING EXPENSES	
Claims	4,384,065
Administration	206,867
Miscellaneous	1,419
Total operating expenses	<u>4,592,351</u>
Operating income	<u>280,445</u>
NONOPERATING REVENUES	
Interest income	27,525
Total nonoperating revenues	<u>27,525</u>
Change in net position	<u>307,970</u>
Net position, beginning	2,092,476
Net position, ending	<u><u>\$ 2,400,446</u></u>

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

**CITY OF SALEM SCHOOL DIVISION
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2018**

	Internal Service Fund
OPERATING ACTIVITIES	
Receipts from customers and users	\$ 4,867,889
Payments to City	(206,867)
Payments for claims	(3,865,549)
Payments for contractual services	(5,566)
Net cash provided by operating activities	<u>789,907</u>
INVESTING ACTIVITIES	
Interest received	<u>27,525</u>
Net cash provided by investing activities	<u>27,525</u>
Cash and cash equivalents, beginning	<u>2,424,470</u>
Cash and cash equivalents, ending	<u><u>\$ 3,241,902</u></u>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	
Operating income	\$ 280,445
<i>Adjustments to reconcile operating income to net cash provided by operating activities</i>	
<i>Increase in assets:</i>	
Receivables	(7,227)
<i>Increase (decrease) in liabilities:</i>	
Accounts payable and accrued liabilities	(4,401)
Accrued payroll and related liabilities	254
Self-insurance claims liability	518,516
Unearned revenues	2,320
Net cash provided by operating activities	<u><u>\$ 789,907</u></u>

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

EXHIBIT 12

**CITY OF SALEM SCHOOL DIVISION
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018**

	Agency Fund	OPEB Trust Fund
ASSETS		
Cash and cash equivalents	\$ 572,641	\$ -
Investments held by trustee, fair value of pooled funds	-	1,303,775
Total assets	<u>572,641</u>	<u>1,303,775</u>
LIABILITIES		
Liability to agency	572,641	-
Total liabilities	<u>\$ 572,641</u>	<u>-</u>
NET POSITION		
Held in trust for other postemployment benefits		<u>\$ 1,303,775</u>

EXHIBIT 13

**CITY OF SALEM SCHOOL DIVISION
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2018**

	OPEB Trust Fund
ADDITIONS	
Employer contributions	\$ 233,189
<i>Investment income</i>	
Increase in fair value of investments	105,580
Net investment income	105,580
Total additions	<u>338,769</u>
DEDUCTIONS	
Retirement benefits	136,054
Administrative expenses	1,717
Total deductions	<u>137,771</u>
Net increase in plan net position	<u>200,998</u>
Net position held in trust for other postemployment benefits, beginning	1,102,777
Net position held in trust for other postemployment benefits, ending	<u>\$ 1,303,775</u>

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

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, Virginia (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 non-fiduciary activities of the School Division. *Governmental activities* are normally supported by intergovernmental revenues.

The **Statement of Net Position** 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 position, revenues and expenditures/expenses, as appropriate.

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

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

- The *General Fund* is the School Division's primary operating fund and accounts for all financial resources of the School Division, except for those required to be accounted for in another fund.
- The *Cafeteria Fund* is a special revenue fund that accounts for the proceeds of specific revenue sources committed or restricted to expenditures for food services.
- The *Capital Projects Fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

1. Summary of Significant Accounting Policies (Continued)

Fund Financial Statements (Continued)

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

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

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

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 funds:

- The *OPEB Trust Fund* accounts for the receipt and disbursement of assets held in trust for the other postemployment benefit (OPEB) plan of the School Division.
- The *Agency Fund* accounts for assets held in a custodial capacity on behalf of the local school activity funds.

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 one year of the end of the current fiscal period. All other revenue items are considered measurable and available when cash is received by the School Division. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences, pension, other postemployment benefits, capital leases, claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures and acquisitions under capital leases are reported as other financing sources.

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

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

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

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

Budgets and Budgetary Accounting

The School Division's budget is presented and adopted in accordance with accounting principles generally accepted in the United States of America (GAAP). 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:

- In March, the Superintendent submits to the School Board a proposed budget for the fiscal year commencing the following July 1. This budget includes proposed expenditures and the means of financing them for the General and Cafeteria Funds. The Capital Projects Fund utilizes a project length budget in lieu of an annual budget. Therefore, no annual budget for capital projects is presented.
- A public hearing is 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 \$3,091,721 during the current year primarily for grants, new capital projects, other projects, re-appropriation 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 impact of changes in market values on commodities donated by the United States Department of Agriculture can, at times, cause expenditures to exceed budgeted amounts in the Cafeteria Fund. The effects of these market changes are excluded from consideration of budget noncompliance.
- 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 General and Cafeteria Funds.
- All appropriations lapse on June 30 except for the Capital Projects Fund, which carries unexpended balances into the following year. The School Board appropriates unexpended balances for other projects it specifies in the following year.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

1. Summary of Significant Accounting Policies (Continued)

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments are recorded in order to reserve the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund, Cafeteria Fund and Capital Projects Fund. Encumbrances outstanding at year-end are reported as part of the restricted, committed, or assigned fund balances since they do not constitute expenditures or liabilities. Significant encumbrances as of June 30, 2018 total \$169,261 in the General Fund, \$5,000 in the Cafeteria Fund and \$682,580 in the Capital Projects Fund.

Deposits and Investments

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

Interfund Balances

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 amounts assigned by the United States Department of Agriculture. Disbursements for inventory are considered to be expenditures at the time of use (consumption method of accounting).

Prepaid Items

Governmental fund prepaid items consist of conference fees and organization membership dues incurred for periods in a subsequent fiscal year. The payments are recorded as expenditures in the fiscal year of the conference or membership.

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, \$5,000 for furniture and equipment, or \$10,000 for buildings and improvements and an estimated useful life of at least five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value on the date of donation. The School Division includes the cost of certain intangible assets with a definite life in the appropriate asset class.

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

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

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

1. Summary of Significant Accounting Policies (Continued)

Capital Assets and Related Debt Reporting

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

Deferred Outflows/Inflows of Resources

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

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

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

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

Unearned Revenues

Unearned revenues arise when assets are recognized before revenue recognition criteria can be satisfied and when assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period. Unearned revenues primarily consist of grants received before the eligibility requirements have been met, payments made in advance for cafeteria meals, and retiree health insurance premiums billed in advance of the month of coverage.

Compensated Absences

The School Division has policies to allow 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. An expenditure and liability for these amounts are reported in governmental funds when the amounts are due for payment.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

1. Summary of Significant Accounting Policies (Continued)

Pensions

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

Other Postemployment Benefits – Retiree Health Plan

In connection with the School Division's funding of OPEB obligations, 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 OPEB Trust Fund's Board of Trustees establishes investment objectives and risk tolerance and asset allocation policies based on the investment policy, market and economic conditions and generally prevailing prudent investment practices.

Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit

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

Net Position

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

1. Summary of Significant Accounting Policies (Continued)

Fund Balances

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 are required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.
- **Restricted** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** – Amounts constrained to specific purposes by the 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 School Division intends to use for a specified purpose; intent can be expressed by the governing body (School Board) or by an official or body to which the governing body designates the authority.
- **Unassigned** – Amounts that are available for any purpose. The School Division has no unassigned fund balance at year end.

The School Board establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through amendment of the budget. Assigned fund balance is established by the School Board as amounts intended for a specific purpose.

Restricted Amounts

The 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.

Estimates

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

2. Deposits and Investments

The City maintains a concentration bank account used by the School Division. The School Division's portion of this account is presented in the basic financial statements as cash and cash equivalents totaling \$15,848,476.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

2. Deposits and Investments (Continued)

Deposits

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

Investments

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

As of June 30, 2018, the School Division had no investments.

Credit Risk

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

Interest Rate Risk

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

Concentration Risk and Foreign Currency Risk

The School Division does not have a formal policy addressing concentration risk or foreign currency risk.

3. Interfund Balances and Transfers

As of June 30, 2018, there were no interfund receivable or payable balances. During the year, the School Division transferred \$1,426,201 from the General Fund to the Capital Projects Fund for current projects.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

4. Due from Other Governmental Units

Amounts due from other governmental units are as follows:

	General Fund	Cafeteria Fund	Governmental Activities
Commonwealth of Virginia			
Sales tax	\$ 462,911	\$ -	\$ 462,911
Other	240	-	240
Federal government			
Special Education - Grants to States (IDEA, Part B)	206,497	-	206,497
Title I Grants to Local Educational Agencies	97,596	-	97,596
Adult Education - Basic Grants to States	57,826	-	57,826
National School Breakfast and Lunch Programs	-	43,475	43,475
English Language Acquisition State Grants	10,952	-	10,952
Supporting Effective Instruction State Grants	7,117	-	7,117
Career and Technical Education - Basic Grants to States (Perkins IV)	5,237	-	5,237
Other	8,527	-	8,527
	<u>\$ 856,903</u>	<u>\$ 43,475</u>	<u>\$ 900,378</u>

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	132,237	260,983	(151,601)	241,619
	<u>1,255,874</u>	<u>260,983</u>	<u>(151,601)</u>	<u>1,365,256</u>
Capital assets, depreciable				
Furniture and equipment	8,310,028	217,018	(233,947)	8,293,099
Buildings and improvements	69,341,112	213,195	(93,668)	69,460,639
Capital assets, depreciable	<u>77,651,140</u>	<u>430,213</u>	<u>(327,615)</u>	<u>77,753,738</u>
Accumulated depreciation				
Furniture and equipment	(5,288,221)	(634,607)	220,399	(5,702,429)
Buildings and improvements	(28,389,149)	(1,900,667)	46,314	(30,243,502)
Accumulated depreciation	<u>(33,677,370)</u>	<u>(2,535,274)</u>	<u>266,713</u>	<u>(35,945,931)</u>
Capital assets, depreciable, net	<u>43,973,770</u>	<u>(2,105,061)</u>	<u>(60,902)</u>	<u>41,807,807</u>
Capital assets, net	<u>\$ 45,229,644</u>	<u>\$ (1,844,078)</u>	<u>\$ (212,503)</u>	<u>\$ 43,173,063</u>

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

5. Capital Assets (Continued)

Depreciation expense was charged to functions as follows:

Central administration	\$ 86,801
Centralized instructional costs	4,919
Instructional costs	2,224,125
Transportation	167,646
Food services	51,783
Total depreciation expense	<u>\$ 2,535,274</u>

6. Deferred Outflows/Inflows of Resources

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

Deferred outflows of resources	
Pension	\$ 4,124,241
OPEB	407,612
Total deferred outflows of resources	<u>\$ 4,531,853</u>
Deferred inflows of resources	
Pension	\$ 5,398,565
OPEB	327,233
Total deferred inflows of resources	<u>\$ 5,725,798</u>

7. Long-Term Liabilities

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

	Beginning Balance*	Increases	Decreases	Ending Balance	Due Within One Year
Capital lease obligation	\$ 137,071	\$ -	\$ (137,071)	\$ -	\$ -
Compensated absences	868,888	322,021	(422,170)	768,739	422,170
Net pension liability (asset)	13,928	23,369	(337,314)	(300,017)	-
Net pension liability	39,276,000	5,670,000	(10,662,000)	34,284,000	-
Net OPEB liability*	6,908,265	450,259	(929,126)	6,429,398	-
	<u>\$47,204,152</u>	<u>\$ 6,465,649</u>	<u>\$ (12,487,681)</u>	<u>\$41,182,120</u>	<u>\$ 422,170</u>

* Restated (Note16)

The Internal Service Fund is used to liquidate a portion of compensated absences and other postemployment benefits. The General Fund is used to liquidate the capital lease obligation, net pension liability, and the remaining portion of compensated absences and other postemployment benefits.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

8. Leases

Operating Leases

The School Division entered several non-cancelable operating leases for equipment. Rent expenditures for the current year were \$52,567. Scheduled future minimum rental payments for the next five years are as follows:

Year Ending	Amount
June 30, 2019	\$ 43,310
June 30, 2020	41,325
June 30, 2021	11,567
June 30, 2022	3,425
June 30, 2023	-
	<u>\$ 99,627</u>

9. Fund Balance

Fund balance is classified as non-spendable, 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 governmental funds. The constraints placed on the fund balances of the governmental funds are presented below:

	General Fund	Cafeteria Fund	Capital Projects Fund
Fund Balances			
Nonspendable:			
Inventories	\$ -	\$ 37,579	\$ -
Prepays	4,068	-	4,939
Restricted for:			
Capital projects	537,062	-	-
Committed to:			
Capital projects	-	-	2,746,660
Other projects	454,828	-	-
Food services	-	464,331	-
Assigned to:			
General education	3,911,615	-	-
Total fund balances	<u>\$ 4,907,573</u>	<u>\$ 501,910</u>	<u>\$ 2,751,599</u>

10. Risk Management

The School Division is exposed to various risks of loss including those related to torts, loss of or damage to assets, natural disasters, and the health of employees. The risk management programs of the School Division are as follows:

Workers' Compensation

Workers' Compensation Insurance is provided through School Systems of Virginia. 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 \$94,877.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

10. Risk Management (Continued)

General Liability and Other

The School Division provides general liability and other insurance through the Virginia Municipal League Insurance Programs (VMLIP) and catastrophic accident insurance through Mutual of Omaha Insurance Company. General liability and business automobile have a \$1,000,000 limit per occurrence. Boiler and machinery coverage and property insurance are covered per the statement of values. The School Division maintains an additional \$10,000,000 umbrella policy over all forms of liability. Total premiums for the current fiscal year were \$128,082.

Healthcare

The City's professionally administered self-insurance program provides health coverage for employees of the School Division on a cost-reimbursement basis. All active and retired employees pay a premium equivalent for participation. The premium equivalent represents a minimum of 4% active or retired employee participation. The City is obligated for claims payments under the program. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$175,000 per covered individual and approximately \$10,477,000 in the aggregate.

During the current fiscal year, total claim expenses for the City and School Division of \$8,097,155, which did not exceed the stop loss provision, were incurred. This represents claims processed and an estimate for claims incurred but not reported (IBNR) as of June 30, 2018. The estimated liability for the City and School Division was \$395,057 and \$839,919, respectively, for a total of \$1,234,976 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
2018	\$ 787,078	\$ 8,097,155	\$ 7,649,257	\$ 1,234,976
2017	863,950	7,007,489	7,084,361	787,078
2016	968,628	7,372,524	7,477,202	863,950

Other

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

11. Pension Plan

Plan Description

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

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

11. Pension Plan (Continued)

Plan Description (Continued)

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

VRS PLAN 1

About VRS Plan 1 – Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

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

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

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

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

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

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

Service Retirement Multiplier – The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.

Normal Retirement Age – Age 65 for VRS. Age 60 for political subdivision hazardous duty employees.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

11. Pension Plan (Continued)

VRS PLAN 1 (Continued)

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

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

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

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

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

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

11. Pension Plan (Continued)

VRS PLAN 2

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

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

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

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

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

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

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

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

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

HYBRID RETIREMENT PLAN

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

About the Hybrid Retirement Plan – The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window.

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

11. Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

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

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

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

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

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

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

Creditable Service

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

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

Vesting

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

11. Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

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

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

Distribution is not required by law until age 70½.

Calculating the Benefit

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

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

Service Retirement Multiplier

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

Defined Contribution Component: Not applicable.

Normal Retirement Age

Defined Benefit Component: Same as VRS Plan 2.

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

Earliest Unreduced Retirement Eligibility

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

11. Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

Earliest Reduced Retirement Eligibility

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

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

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Not applicable.

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

Purchase of Prior Service

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

Defined Contribution Component: Not applicable

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the VRS Retirement Plan:

	School Division (Non-Professional)
Inactive members or their beneficiaries currently receiving benefits	65
Inactive members:	
Vested inactive members	11
Non-vested inactive members	33
Inactive members active elsewhere in VRS	19
Total inactive members	63
Active members	70
Total covered employees	198

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

11. Pension Plan (Continued)

Contributions

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

The School Division's non-professional employees' contractually required contribution rate for the year ended June 30, 2018 was 4.33% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by the employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School Division were \$51,241 and \$51,554 for the years ended June 30, 2018 and June 30, 2017, respectively.

For the School Division's professional employees covered under the VRS Teacher Retirement Plan, each school division's contractually required contribution rate for the year ended June 30, 2018 was 16.32% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and reflects the transfer in June 2015 of \$192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School Division were \$3,573,000 and \$3,172,295 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

Under the VRS Retirement Plan, the School Division's net pension liabilities were measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Under the VRS Teacher Retirement Plan, the School Division reported a liability of \$34,284,000 for its proportionate share of the net pension liability at June 30, 2018. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School Division's proportion of the net pension liability was based on the School Division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the School Division's proportion was 0.27878% as compared to 0.28026% at June 30, 2016.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

11. Pension Plan (Continued)

Net Pension Liability (Continued)

Under the VRS Teacher Retirement Plan, the net pension liability is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GAAP, less that system's fiduciary net position. As of June 30, 2017, net pension liability amounts for all participating entities in the statewide VRS Teacher Retirement Plan are as follows (amounts expressed in thousands):

	Statewide Teacher Employee Retirement Plan
Total Pension Liability	\$ 45,417,520
Plan Fiduciary Net Position	33,119,545
Employer's Net Pension Liability	<u>\$ 12,297,975</u>

Plan Fiduciary Net Position as a Percentage of the total Pension Liability	72.92%
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The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GAAP in the System's notes to the financial statements and required supplementary information.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the VRS Retirement Plan was based on an actuarial valuation performed as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

11. Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest 10 – Non-Hazardous Duty:

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

11. Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

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

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

Actuarial Assumptions – VRS Teacher Retirement Plan

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation performed as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017:

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

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

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

11. Pension Plan (Continued)

Actuarial Assumptions – VRS Teacher Retirement Plan (Continued)

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

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

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	69.00%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	<u>100.00%</u>		<u>4.80%</u>
		Inflation	2.50%
		* Expected arithmetic nominal return	<u>7.30%</u>

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

11. Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the Retirement Plans will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
School Division (Non-Professional Staff)			
Balances at June 30, 2016	\$ 5,106,219	\$ 5,092,291	\$ 13,928
Changes for the year:			
Service cost	120,806	-	120,806
Interest	345,744	-	345,744
Changes of assumptions	(23,501)	-	(23,501)
Differences between expected and actual experience	(39,860)	-	(39,860)
Contributions - employer	-	51,554	(51,554)
Contributions - employee	-	61,318	(61,318)
Net investment income	-	608,458	(608,458)
Benefit payments, including refunds of employee contributions	(334,040)	(334,040)	-
Administrative expenses	-	(3,661)	3,661
Other changes	-	(535)	535
Net changes	<u>69,149</u>	<u>383,094</u>	<u>(313,945)</u>
Balances at June 30, 2017	<u>\$ 5,175,368</u>	<u>\$ 5,475,385</u>	<u>\$ (300,017)</u>

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

11. Pension Plan (Continued)

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

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

	Net Pension Liability (Asset)		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Retirement Plan (Non-Professional Staff)	\$ 294,030	\$ (300,017)	\$ (799,741)
Teacher Retirement Plan	51,198,000	34,284,000	20,293,000

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

For the year ended June 30, 2018, the School Division recognized pension expense of \$(102,844) under the VRS Retirement Plan for non-professional staff.

For the year ended June 30, 2018, the School Division recognized pension expense of \$1,832,000 under the VRS Teacher Retirement Plan. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2018, the School Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

School Division (Non-Professional Staff)	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 64,658
Changes in assumptions	-	13,009
Net difference between projected and actual earnings on pension plan investments	-	75,898
Employer contributions subsequent to the measurement date	51,241	-
Total	\$ 51,241	\$ 153,565

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

11. Pension Plan (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
School Division - Teacher Retirement Plan		
Differences between expected and actual experience	\$ -	\$ 2,427,000
Changes in assumptions	500,000	-
Net difference between projected and actual earnings on pension plan investments	-	1,246,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	1,572,000
Employer contributions subsequent to the measurement date	3,573,000	-
Total	<u>\$ 4,073,000</u>	<u>\$ 5,245,000</u>

Deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of (increase to) the Net Pension Liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	School Division (Non-Professional)	School Division - Teacher Retirement Plan
<u>Year ended June 30,</u>		
2019	\$ (122,672)	\$ (2,044,000)
2020	19,205	(621,000)
2021	1,880	(683,000)
2022	(51,978)	(1,249,000)
2023	-	(148,000)
	<u>\$ (153,565)</u>	<u>\$ (4,745,000)</u>

Payable to the Pension Plan

At June 30, 2018, \$13,281 was payable to the System under the VRS Retirement Plan for the legally required contributions of the School Division related to the June 2018 payroll.

At June 30, 2018, \$891,187 was payable to the System under the VRS Teacher Retirement Plan for the legally required contributions related to the June 2018 payroll.

Pension Plan Data

Information about the VRS Retirement Plan and the VRS Teacher Retirement Plan is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

12. Other Postemployment Benefits – Retiree Health Plan

Plan Description

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

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

School Division retirees do not receive any premium subsidy above the implicit rate subsidy and are responsible for the cost of 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.

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

Employees Covered by Benefit Terms

As of June 30, 2017, the date of the latest actuarial valuation for the School Division, the following employees were covered by the benefit terms of the Retiree Health Plan:

Active employees	523
Retired participants	<u>32</u>
Total participants	<u>555</u>

Contributions

The Retiree Health Plan is funded through member and employer contributions on a pay-as-you-go basis. School Division Retirees receiving benefits contribute 100% of the health insurance premium rate. During the current year, retired School Division members contributed \$281,236 of the total premiums through their required contributions of between \$536 and \$1,811 depending on the type of coverage and years of service.

The School Division contributed \$136,054 in pay-as-you-go contributions to the Retiree Health Plan for the year ended June 30, 2018. In addition, the School Division contributed \$97,135 to the OPEB Trust Fund. It is the School Division's intent to fully fund the actuarially determined contributions each year.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

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

Net OPEB Liability

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

The components of the net OPEB liability as of June 30, 2018 were as follows:

Total OPEB liability	\$ 2,247,155
Plan fiduciary net position	1,303,775
Net OPEB liability	<u>\$ 943,380</u>

Plan fiduciary net position as a percentage of total OPEB liability	58.02%
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Actuarial Assumptions

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

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Inflation	2.50%
Investment rate of return	7.00%, net of investment expense
Pre-65 healthcare cost trend rates	7.40% for 2017 graded to 4.00% by 2099
Post-65 healthcare cost trend rates	N/A
Pre-retirement mortality	RP-2000 Combined Healthy Mortality Table projected to 2020 by Scale AA set forward 2 years for males and set back 3 years for females
Post-retirement mortality	RP-2000 Combined Healthy Mortality Table projected to 2020 by Scale AA and set back 1 year for females

Plan Investments

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

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

Plan Investments (Continued)

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

Asset Class	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Geometric Long-Term Expected Rate of Return
Core Fixed Income	19.60%	1.17%	0.99%
High Yield Bonds	1.40%	3.38%	2.77%
Large Cap US Equities	26.00%	5.53%	4.14%
Small Cap US Equities	10.00%	6.58%	4.57%
Developed Foreign Equities	13.00%	6.43%	4.66%
Emerging Market Equities	5.00%	8.76%	5.64%
Private Equity	5.00%	9.10%	6.63%
Hedge Funds/Absolute Return	10.00%	3.03%	2.63%
Real Estate (REITS)	7.00%	5.05%	3.86%
Commodities	3.00%	3.37%	1.78%
Assumed Inflation		2.60%	2.60%
Portfolio Real Mean Return		4.97%	4.22%
Portfolio Nominal Mean Return		7.57%	6.93%
Portfolio Standard Deviation			12.55%
Long-Term Expected Rate of Return			7.00%

At June 30, 2018, the Plan held no investments in any one organization that represented 5% or more of fiduciary net position.

Rate of Return

As of June 30, 2018, the annual money-weighted rate of return on the plan investments, net of OPEB plan investment expense, was 9.52% for the School Division. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

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

Changes in Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2017	\$ 2,159,732	\$ 1,102,777	\$ 1,056,955
Changes for the year:			
Service cost	71,941	-	71,941
Interest	151,536	-	151,536
Contributions - employer	-	233,189	(233,189)
Net investment income	-	105,580	(105,580)
Benefit payments	(136,054)	(136,054)	-
Administrative expenses	-	(1,717)	1,717
Net changes	<u>87,423</u>	<u>200,998</u>	<u>(113,575)</u>
Balances at June 30, 2018	<u>\$ 2,247,155</u>	<u>\$ 1,303,775</u>	<u>\$ 943,380</u>

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

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

Net OPEB Liability		
1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
\$ 1,138,798	\$ 943,380	\$ 766,272

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

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

Net OPEB Liability		
1% Decrease	Current Trend Rate	1% Increase
\$ 700,798	\$ 943,380	\$ 1,227,933

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

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

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

For the year ended June 30, 2018, the School Division recognized OPEB expense of \$139,696. At June 30, 2018, the School Division reported deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on plan investments	20,082
Total	<u>\$ 20,082</u>

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

<u>Year ended June 30,</u>	<u>Amount</u>
2019	\$ (5,020)
2020	(5,020)
2021	(5,020)
2022	(5,022)
	<u>\$ (20,082)</u>

13. Other Postemployment Benefits – Group Life Insurance & Health Insurance Credit

Plan Description

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

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

13. Other Postemployment Benefits – Group Life Insurance & Health Insurance Credit (Continued)

Plan Description (Continued)

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

GROUP LIFE INSURANCE PROGRAM

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

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

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

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

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

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

Minimum Benefit Amounts and Cost-of-Living Adjustment (COLA) – For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

13. Other Postemployment Benefits – Group Life Insurance & Health Insurance Credit (Continued)

POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM

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

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

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

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

Health Insurance Credit Program Notes:

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

TEACHER EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM

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

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

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

13. Other Postemployment Benefits – Group Life Insurance & Health Insurance Credit (Continued)

TEACHER EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (Continued)

Health Insurance Credit Program Notes:

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

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the Political Subdivision Health Insurance Credit OPEB plan:

Inactive members or their beneficiaries currently receiving benefits	27
Inactive members:	
Vested inactive members	4
Total inactive members	<u>31</u>
Active members	70
Total covered employees	<u><u>101</u></u>

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Employer contributions from the School Division for non-professional employees were \$6,655 and \$6,000 for the years ended June 30, 2018 and June 30, 2017, respectively. Employer contributions from the School Division for professional employees were \$116,539 and \$112,000 for years ended June 30, 2018 and June 30, 2017, respectively.

The contribution requirement for active employees in the Political Subdivision Health Insurance Credit Program is governed by §51.1-1402(E) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to political subdivisions by the Virginia General Assembly. The School Division's contractually required employer contribution rate for the year ended June 30, 2018 was 0.69% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the School Division were \$8,831 and \$8,704 for years ended June 30, 2018 and June 30, 2017, respectively.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

13. Other Postemployment Benefits – Group Life Insurance & Health Insurance Credit (Continued)

Contributions (Continued)

The contribution requirement for active employees in the Teacher Employee Health Insurance Credit Program is governed by §51.1-1401(E) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Each School Division's contractually required employer contribution rate for the year ended June 30, 2018 was 1.23% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the School Division were \$272,305 and \$242,000 for years ended June 30, 2018 and June 30, 2017, respectively.

Net OPEB Liability

Under the Political Subdivision Health Insurance Credit Program, the School Division's net OPEB liability was measured as of June 30, 2017. The total OPEB liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Under the Group Life Insurance Program, School Division non-professional employees and School Division professional employees reported liabilities of \$103,000 and \$1,781,000, respectively, for their proportionate shares of the Group Life Insurance Program net OPEB liability. Under the Teacher Employee Health Insurance Credit Program, the School Division reported a liability of \$3,506,000 for its proportionate share of the Teacher Employee Health Insurance Credit Program net OPEB liability. The net OPEB liability for each plan was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the net OPEB liability was based on the covered employer's actuarially determined employer contributions to the plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers.

At June 30, 2017, the proportion of the Group Life Insurance Program for the School Division non-professional employees and School Division professional employees was 0.00687%, and 0.11835%, respectively, as compared to 0.00663%, and 0.11906%, respectively, at June 30, 2016. At June 30, 2017, the proportion of the Teacher Employee Health Insurance Credit Program for the School Division was 0.27639% as compared to 0.28024% at June 30, 2016.

The net OPEB liabilities for the Group Life Insurance Program and the Teacher Employee Health Insurance Credit Program represent each program's total OPEB liability determined in accordance with GAAP, less the associated fiduciary net position. As of June 30, 2017, net OPEB liability amounts are as follows (amounts expressed in thousands):

	Statewide Group Life Insurance OPEB Program	Statewide Teacher Employee HIC OPEB Program
Total OPEB liability	\$ 2,942,426	\$ 1,364,702
Plan fiduciary net position	1,437,586	96,091
Net OPEB liability	<u>\$ 1,504,840</u>	<u>\$ 1,268,611</u>
Plan fiduciary net position as a percentage of total OPEB liability	48.86%	7.04%

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

13. Other Postemployment Benefits – Group Life Insurance & Health Insurance Credit (Continued)

Net OPEB Liability (Continued)

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

Actuarial Assumptions

The total OPEB liability for each plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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

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

Mortality rates - Teachers:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

13. Other Postemployment Benefits – Group Life Insurance & Health Insurance Credit (Continued)

Mortality rates – General Employees:

Largest Ten Locality Employers:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

Non-Largest Ten Locality Employers:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest Ten Locality Employers:

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

Non-Largest Ten Locality Employers:

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

13. Other Postemployment Benefits – Group Life Insurance & Health Insurance Credit (Continued)

Mortality rates – Hazardous Duty Employees:

Largest Ten Locality Employers:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

Non-Largest Ten Locality Employers:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest Ten Locality Employers:

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

Non-Largest Ten Locality Employers:

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

13. Other Postemployment Benefits – Group Life Insurance & Health Insurance Credit (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on the System's investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System's investment expense and inflation) are developed for each major asset class.

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return of each major asset class are summarized in the following table:

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

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

Discount Rate

The discount rate used to measure the total OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the OPEB Plans will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB plans' fiduciary net positions were projected to be available to make all projected future benefit payments of eligible, active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total OPEB liabilities.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

13. Other Postemployment Benefits – Group Life Insurance & Health Insurance Credit (Continued)

Changes in Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
School Division - Political Subdivision HIC			
Balances at June 30, 2016	\$ 159,369	\$ 61,059	\$ 98,310
Changes for the year:			
Service cost	2,412	-	2,412
Interest	10,832	-	10,832
Changes in assumptions	370	-	370
Contributions - employer	-	8,704	(8,704)
Net investment income	-	6,952	(6,952)
Benefit payments	(9,254)	(9,254)	-
Administrative expenses	-	(109)	109
Other changes	-	359	(359)
Net changes	4,360	6,652	(2,292)
Balances at June 30, 2017	\$ 163,729	\$ 67,711	\$ 96,018

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

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

	Net OPEB Liability (Rounded)		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Group Life Insurance (Non-Professional)	\$ 133,000	\$ 103,000	\$ 79,000
Group Life Insurance (Professional)	2,304,000	1,781,000	1,358,000
Political Subdivision Health Insurance Credit	110,000	96,000	84,000
Teacher Employee Health Insurance Credit	3,913,000	3,506,000	3,160,000

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

13. Other Postemployment Benefits – Group Life Insurance & Health Insurance Credit (Continued)

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

For the year ended June 30, 2018, the School Division non-professional employees and School Division professional employees recognized Group Life Insurance OPEB expense of \$2,000 and \$18,000, respectively. For the year ended June 30, 2018, the School Division recognized Political Subdivision Health Insurance Credit Program OPEB expense of \$8,281 and Teacher Employee Health Insurance Credit Program OPEB expense of \$279,000. Since there was a change in proportionate share between measurement dates for the Group Life Insurance Program and the Teacher Employee Health Insurance Credit Program, a portion of the OPEB expense for these plans was related to deferred amounts from changes in proportion.

At June 30, 2018, the School Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
School Division - Non-Professional GLI		
Differences between expected and actual experience	\$ -	\$ 3,000
Net difference between projected and actual earnings on program investments	-	4,000
Changes in assumptions	-	5,000
Changes in proportion	3,000	-
Employer contributions subsequent to the measurement date	6,655	-
Total	<u>\$ 9,655</u>	<u>\$ 12,000</u>
School Division - Professional GLI		
Differences between expected and actual experience	\$ -	\$ 39,000
Net difference between projected and actual earnings on program investments	-	67,000
Changes in assumptions	-	92,000
Changes in proportion	-	10,000
Employer contributions subsequent to the measurement date	116,539	-
Total	<u>\$ 116,539</u>	<u>\$ 208,000</u>
School Division - Political Subdivision HIC		
Net difference between projected and actual earnings on program investments	\$ -	\$ 2,151
Changes in assumptions	282	-
Employer contributions subsequent to the measurement date	8,831	-
Total	<u>\$ 9,113</u>	<u>\$ 2,151</u>

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

13. Other Postemployment Benefits – Group Life Insurance & Health Insurance Credit (Continued)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
School Division - Teacher Employee HIC		
Net difference between projected and actual earnings on program investments	\$ -	\$ 6,000
Changes in assumptions	-	36,000
Changes in proportion	-	43,000
Employer contributions subsequent to the measurement date	272,305	-
Total	<u>\$ 272,305</u>	<u>\$ 85,000</u>

Deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30,	School Division			
	GLI Non-Professional	GLI Professional	Political Subdivision HIC	Teacher Employee HIC
2019	\$ (1,000)	\$ (43,000)	\$ -	\$ (13,000)
2020	(1,000)	(43,000)	-	(13,000)
2021	(1,000)	(43,000)	-	(13,000)
2022	(2,000)	(43,000)	(1,869)	(13,000)
2023	(1,000)	(26,000)	-	(11,000)
Thereafter	(3,000)	(10,000)	-	(22,000)
	<u>\$ (9,000)</u>	<u>\$ (208,000)</u>	<u>\$ (1,869)</u>	<u>\$ (85,000)</u>

Payables to the OPEB Plans

At June 30, 2018, \$2,691 and \$64,770 were payable to the System under the Group Life Insurance Program from the School Division non-professional employees and School Division professional employees, respectively, for contributions related to June 2018 payroll.

At June 30, 2018, \$1,417 and \$60,920 were payable to the System under the Political Subdivision Health Insurance Credit Program and the Teacher Employee Health Insurance Program, respectively, from the School Division for contributions related to June 2018 payroll.

Program Plan Data

Information about the Group Life Insurance Program, the Political Subdivision Health Insurance Credit Program, and the Teacher Employee Health Insurance Credit Program is available in the separately issued VRS 2017 CAFR. A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

14. Commitments and Contingencies

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.

Management of Food Services

In July 2014, the School Division engaged Aramark Educational Services, L.L.C., to provide management services for the school food programs pursuant to the federal school nutrition programs. The initial agreement was for a period of one year with options for four additional one-year renewals by mutual written agreement. The School Division and Aramark Educational Services, L.L.C., have renewed the agreement through June 30, 2019. Beginning on July 1, 2018, Aramark will receive a general and administrative expense fee of \$0.13293 per meal served as well as a management fee of \$0.02660 per meal served.

15. Jointly Governed Organizations

Roanoke Valley Regional Board

The Counties of Botetourt, Craig and Franklin, the City of Roanoke and the City of Salem School Division jointly participate in a regional education program for severely disabled students operated by the Roanoke Valley Regional Board (Regional Board). The Regional Board is governed by a five-member board, one from each participating locality. The School Division has control over budget and financing only to the extent of representation by the one board member appointed. Each locality's financial obligation is based on its proportionate share of students attending the regional program. For the year ended June 30, 2018, the School Division remitted \$784,054 to the Regional Board for services. Financial statements may be obtained from the Regional Board at 57 South Center Drive, Room 225, Daleville, VA 24083.

Roanoke Valley Governor's School

The Counties of Bedford, Botetourt, Craig, Franklin and Roanoke and the Cities of Roanoke and Salem jointly participate in a regional education program focusing on science, technology, engineering and mathematics operated by Roanoke Valley Governor's School (RVGS). RVGS is governed by a seven member board, with one member from each participating locality. The School Division has control over budget and financing only to the extent of representation by the one board member appointed. Each locality's financial obligation is based on their proportionate share of students attending RVGS. For the year ended June 30, 2018, the School Division remitted \$42,435 for services. Financial statements may be obtained from RVGS at 2104 Grandin Road, Roanoke, Virginia 24015.

16. Accounting Change and Restatement

In the current year, the School Division adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

16. Accounting Change and Restatement (Continued)

The following is a summary of the restatements to net position of governmental activities resulting from the adoption of GASB Statement No. 75:

Net Position, beginning, as previously reported	\$ 16,445,877
OPEB asset as of June 30, 2017	(295,049)
Recognition of Net OPEB Liability in accordance with GASB No. 75	(6,539,561)
Net Position, beginning, as restated	<u>\$ 9,611,267</u>

17. New Accounting Standards

The GASB has issued Statement No. 83, *Certain Asset Retirement Obligations*. The statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The provisions of this statement are effective for fiscal years beginning after June 15, 2018. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

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

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

The GASB has issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The provisions of this statement are effective for fiscal years beginning after June 15, 2018. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SALEM SCHOOL DIVISION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS
YEARS ENDED JUNE 30, 2018, 2017, 2016 AND 2015

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

Schedule is intended to show information for 10 years. Since 2018 is the fourth year for this presentation, only three additional years of data are available. However, additional years will be included as they become available.

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

**CITY OF SALEM SCHOOL DIVISION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
YEARS ENDED JUNE 30, 2018, 2017, 2016 AND 2015**

Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
	(a)	(b)	(a-b)	(c)	(b/c)
School Division (Non-Professional Staff)					
2018	\$ 51,241	\$ 51,241	\$ -	\$ 1,183,395	4.33%
2017*	51,554	51,554	-	1,190,624	4.33%
2016	92,100	92,100	-	1,173,248	7.85%
2015	93,028	93,028	-	1,185,071	7.85%

Schedule is intended to show information for 10 years. Since 2018 is the fourth year for this presentation, only three additional years of data are available. However, additional years will be included as they become available.

* Revised to reflect actual 2017 amounts as shown in the VRS actuarial report rather than estimated amounts used in the prior year CAFR.

**CITY OF SALEM SCHOOL DIVISION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
VRS TEACHER RETIREMENT PLAN
YEARS ENDED JUNE 30, 2018, 2017, 2016 AND 2015**

<u>Year Ended June 30</u>	<u>Employer's Proportion of the Net Pension Liability</u>	<u>Employer's Proportionate Share of the Net Pension Liability (a)</u>	<u>Covered Payroll (b)</u>	<u>Employer's Share of the Net Pension Liability as a % of Covered Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a % of the Total Pension Liability</u>
School Division (Professional Staff)					
2018	0.27878%	\$ 34,284,000	\$ 21,639,120	158.44%	72.92%
2017	0.28026%	39,276,000	21,368,521	183.80%	68.28%
2016	0.28555%	35,941,000	21,230,718	169.29%	70.68%
2015	0.29170%	35,251,000	19,575,450	180.08%	70.88%

Schedule is intended to show information for 10 years. Since 2018 is the fourth year for this presentation, only three additional years of data are available. However, additional years will be included as they become available.

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**CITY OF SALEM SCHOOL DIVISION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
VRS TEACHER RETIREMENT PLAN
YEARS ENDED JUNE 30, 2018, 2017, 2016 AND 2015**

Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
	(a)	(b)	(a-b)	(c)	(b/c)
School Division (Professional Staff)					
2018	\$ 3,573,000	\$ 3,573,000	\$ -	\$ 21,893,382	16.32%
2017*	3,172,295	3,172,295	-	21,639,120	14.66%
2016	3,004,414	3,004,414	-	21,368,521	14.06%
2015	3,078,454	3,078,454	-	21,230,718	14.50%

Schedule is intended to show information for 10 years. Since 2018 is the fourth year for this presentation, only three additional years of data are available. However, additional years will be included as they become available.

* Revised to reflect actual 2017 amounts as shown in the VRS actuarial report rather than estimated amounts used in the prior year CAFR.

**CITY OF SALEM SCHOOL DIVISION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
RETIREE HEALTH PLAN
YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Total OPEB liability		
Service cost	\$ 71,941	\$ 67,235
Interest	151,536	145,477
Benefit payments	<u>(136,054)</u>	<u>(125,858)</u>
Net change in total OPEB liability	87,423	86,854
Total OPEB liability - beginning	<u>2,159,732</u>	<u>2,072,878</u>
Total OPEB liability - ending	<u><u>\$ 2,247,155</u></u>	<u><u>\$ 2,159,732</u></u>
 Plan fiduciary net position		
Contributions - employer	\$ 233,189	\$ 211,531
Net investment income	105,580	116,176
Benefit payments	(136,054)	(125,858)
Administrative expense	<u>(1,717)</u>	<u>(1,579)</u>
Net change in plan fiduciary net position	200,998	200,270
Plan fiduciary net position - beginning	<u>1,102,777</u>	<u>902,507</u>
Plan fiduciary net position - ending	<u><u>\$ 1,303,775</u></u>	<u><u>\$ 1,102,777</u></u>
 Net OPEB liability - ending	<u><u>\$ 943,380</u></u>	<u><u>\$ 1,056,955</u></u>
 Plan fiduciary net position as a percentage of the total OPEB liability	58.02%	51.06%
 Covered-employee payroll	\$ 23,076,891	\$ 23,076,891
 Net OPEB liability as a percentage of covered-employee payroll	4.09%	4.58%
 Annual money-weighted rate of return, net of investment expense	9.52%	12.79%

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

Notes to Schedule:

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

**CITY OF SALEM SCHOOL DIVISION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS
RETIREE HEALTH PLAN
YEARS ENDED JUNE 30, 2018 AND 2017**

Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
	(a)	(b)	(a-b)	(c)	(b/c)
2018	\$ 140,801	\$ 233,189	\$ (92,388)	\$ 23,076,891	1.01%
2017	136,700	211,531	(74,831)	23,076,891	0.92%

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

Notes to Schedule:

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

Methods and assumptions used to determine contribution rates:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll
Amortization period	Open over 30 years
Asset valuation method	Market value
Investment rate of return	7.00%
Projected long-term salary increases	3.00%

**CITY OF SALEM SCHOOL DIVISION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM
YEAR ENDED JUNE 30, 2018**

	<u>2018</u>
Total HIC OPEB liability	
Service cost	\$ 2,412
Interest	10,832
Changes in assumptions	370
Benefit payments	<u>(9,254)</u>
Net change in total HIC OPEB liability	4,360
Total HIC OPEB liability - beginning	159,369
Total HIC OPEB liability - ending	<u><u>\$ 163,729</u></u>
 Plan fiduciary net position	
Contributions - employer	\$ 8,704
Net investment income	6,952
Benefit payments	(9,254)
Administrative expense	(109)
Other	<u>359</u>
Net change in plan fiduciary net position	6,652
Plan fiduciary net position - beginning	61,059
Plan fiduciary net position - ending	<u><u>\$ 67,711</u></u>
 Net OPEB liability - ending	<u><u>\$ 96,018</u></u>
 Plan fiduciary net position as a percentage of the total OPEB liability	41.36%
 Covered payroll	\$ 1,261,449
 Net OPEB liability as a percentage of covered payroll	7.61%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

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

CITY OF SALEM SCHOOL DIVISION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS
POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM
YEAR ENDED JUNE 30, 2018

Year Ended June 30	Contractually Required Contribution (a)	Contributions in Relation to Contractually Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a % of Covered Payroll (b/c)
2018	\$ 8,831	\$ 8,831	\$ -	\$ 1,279,855	0.69%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

**CITY OF SALEM SCHOOL DIVISION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
GLI AND TEACHER EMPLOYEE HIC PROGRAMS
YEAR ENDED JUNE 30, 2018**

<u>Year Ended June 30</u>	<u>Employer's Proportion of the Net OPEB Liability</u>	<u>Employer's Proportionate Share of the Net OPEB Liability (a)</u>	<u>Covered Payroll (b)</u>	<u>Employer's Share of the Net OPEB Liability as a % of Covered Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a % of the Total OPEB Liability</u>
School Division - Group Life Insurance Program (Non-Professional Staff)					
2018	0.00687%	\$ 103,000	\$ 1,268,277	8.12%	48.86%
School Division - Group Life Insurance Program (Professional Staff)					
2018	0.11835%	\$ 1,781,000	\$ 21,829,358	8.16%	48.86%
School Division - Teacher Employee Health Insurance Credit Program					
2018	0.27639%	\$ 3,506,000	\$ 21,812,560	16.07%	7.04%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

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

**CITY OF SALEM SCHOOL DIVISION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS
GLI AND TEACHER EMPLOYEE HIC PROGRAMS
YEAR ENDED JUNE 30, 2018**

Year Ended June 30	Contractually Required Contribution (a)	Contributions in Relation to Contractually Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a % of Covered Payroll (b/c)
School Division - Group Life Insurance Program (Non-Professional Staff)					
2018	\$ 6,655	\$ 6,655	\$ -	\$ 1,279,808	0.52%
School Division - Group Life Insurance Program (Professional Staff)					
2018	\$ 116,539	\$ 116,539	\$ -	\$ 22,411,346	0.52%
School Division - Teacher Employee Health Insurance Credit Program					
2018	\$ 272,305	\$ 272,305	\$ -	\$ 22,138,618	1.23%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

1. Changes of Benefit Terms

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 is not material.

2. Changes of Assumptions

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

Largest Ten Locality Employers – General Employees:

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

Non-Largest Ten Locality Employers – General Employees:

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

Largest Ten Locality Employers – Hazardous Duty Employees:

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

Non-Largest Ten Locality Employers – Hazardous Duty Employees:

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

2. Changes of Assumptions (Continued)

Teachers:

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

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OTHER SUPPLEMENTARY INFORMATION

CITY OF SALEM SCHOOL DIVISION
STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
JUNE 30, 2018

	Beginning Balance	Additions	Deductions	Ending Balance
<u>SCHOOL ACTIVITY FUNDS</u>				
ASSETS				
Cash and cash equivalents	\$ 532,827	\$ 1,892,439	\$ (1,852,625)	\$ 572,641
Total assets	<u>\$ 532,827</u>	<u>\$ 1,892,439</u>	<u>\$ (1,852,625)</u>	<u>\$ 572,641</u>
LIABILITIES				
Liability to agency	\$ 532,827	\$ 1,892,439	\$ (1,852,625)	\$ 572,641
Total liabilities	<u>\$ 532,827</u>	<u>\$ 1,892,439</u>	<u>\$ (1,852,625)</u>	<u>\$ 572,641</u>

STATISTICAL 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 School Division's overall health. The information included in this section is not audited.

Pages

Financial Trends..... 103 - 107

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

Revenue Capacity..... 108 - 111

These schedules contain information to help the reader assess the School Division's revenue sources. The schedules also include information about the City's most significant local revenue source, property taxes, as the City provides significant revenues to the School Division.

Debt Capacity..... 112 - 113

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and ability to issue additional debt in the future. These schedules are shown because the City incurs significant debt for the School Division's use.

Demographic and Economic Information..... 114 - 115

These schedules offer demographic and economic indicators to help the reader understand the environment in which the School Division operates and to help make comparisons over time and with other governments.

Operating Information..... 116 - 122

These schedules contain service and infrastructure data to help the reader understand how the information in the School Division's financial report relates to the services the School provides and the activities it performs.

TABLE 1
UNAUDITED

CITY OF SALEM SCHOOL DIVISION
NET POSITION (DEFICIT) BY COMPONENT
LAST TEN FISCAL YEARS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
	(1)			(2)	(3)					
Governmental Activities										
Net investment in capital assets	\$ 43,173,063	\$ 45,092,573	\$ 46,530,313	\$ 48,121,333	\$ 49,441,566	\$ 49,201,420	\$ 37,836,389	\$ 37,885,656	\$ 38,414,499	\$ 38,497,717
Restricted	537,062	-	78,138	78,474	-	-	-	-	-	-
Unrestricted	(32,351,599)	(28,646,696)	(31,510,148)	(35,459,054)	3,972,118	758,035	2,749,702	4,046,004	4,182,847	3,499,453
Total School Division net position	\$ 11,358,526	\$ 16,445,877	\$ 15,098,303	\$ 12,740,753	\$ 53,413,684	\$ 49,959,455	\$ 40,586,091	\$ 41,931,660	\$ 42,597,346	\$ 41,997,170

Notes:

Source: City of Salem Finance Department

(1) In 2018, the School Division implemented GASB Statement No. 75 requiring recognition of net OPEB liabilities.

(2) In 2015, the School Division implemented GASB Statement No. 68 requiring recognition of net pension liabilities.

(3) In 2014, the School Division segregated health insurance into an internal service fund.

TABLE 2
UNAUDITED

CITY OF SALEM SCHOOL DIVISION
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
	(1)				(2)					
Expenses										
Central administration	\$ 1,596,030	\$ 1,652,209	\$ 1,593,894	\$ 1,695,545	\$ 1,879,992	\$ 1,920,910	\$ 1,563,224	\$ 1,486,696	\$ 1,514,899	\$ 1,553,796
Centralized instruction costs	3,518,687	3,543,531	3,473,872	3,636,537	3,879,440	3,548,842	3,328,048	2,997,309	3,172,287	3,337,312
Instructional costs	34,871,104	32,458,269	30,933,478	32,699,399	33,968,213	32,389,924	30,692,441	29,758,175	29,386,590	32,198,604
Attendance and health services	1,010,606	1,005,378	936,415	981,451	879,534	893,663	872,551	838,160	853,611	865,647
Transportation	1,524,848	1,408,400	1,348,170	1,463,135	1,413,079	1,446,627	1,338,768	1,303,303	1,251,032	1,260,368
Food services	1,794,237	1,756,692	1,675,156	1,973,317	1,597,475	1,616,530	1,666,673	1,737,457	1,695,734	1,753,307
Federal and state grants programs	-	1,970,034	1,844,532	1,969,993	2,953,551	2,172,018	3,066,792	2,807,159	4,269,293	1,738,798
Non-departmental	-	-	-	-	-	548,520	550,000	250,000	250,000	295,753
Capital lease interest	493	6,383	10,612	-	-	-	-	-	-	-
Total governmental activities	\$ 44,316,005	\$ 43,800,896	\$ 41,816,129	\$ 44,419,377	\$ 46,571,284	\$ 44,537,034	\$ 43,078,497	\$ 41,158,259	\$ 42,393,446	\$ 43,003,585
Program revenues										
Charges for services:										
Central administration	\$ -	\$ 26,251	\$ 33,158	\$ 20,106	\$ 19,524	\$ 20,787	\$ -	\$ -	\$ -	\$ -
Centralized instruction	209,937	546,197	510,968	587,734	623,222	478,675	478,551	495,524	612,521	406,168
Instructional	945,598	174,200	179,915	175,813	191,751	177,925	192,476	173,153	129,218	128,349
Food services	836,801	841,634	815,618	759,141	832,642	867,703	903,493	922,353	974,623	1,022,831
Operating grants and contributions	9,540,263	8,605,485	8,197,005	8,119,815	8,956,887	8,122,841	7,810,425	7,159,185	8,728,103	6,683,475
Capital grants and contributions	14,400	156,367	49,773	5,174	7,000	7,000	-	-	-	-
Total governmental activities	\$ 11,546,999	\$ 10,350,134	\$ 9,786,437	\$ 9,667,783	\$ 10,631,026	\$ 9,674,931	\$ 9,384,945	\$ 8,750,215	\$ 10,444,465	\$ 8,240,823
Net expense	\$ (32,769,006)	\$ (33,450,762)	\$ (32,029,692)	\$ (34,751,594)	\$ (35,940,258)	\$ (34,862,103)	\$ (33,693,552)	\$ (32,408,044)	\$ (31,948,981)	\$ (34,762,762)
General revenues and other changes in net position										
Payments from City of Salem	\$ 20,170,298	\$ 19,760,242	\$ 19,739,512	\$ 19,151,270	\$ 25,103,243	\$ 30,295,228	\$ 18,471,653	\$ 18,420,000	\$ 18,420,000	\$ 18,420,000
State aid	14,222,573	14,075,825	13,757,083	13,916,982	13,144,693	13,133,752	13,237,358	12,815,820	13,691,655	15,967,532
Other	123,394	962,269	890,647	954,837	778,599	806,487	638,972	506,538	437,502	418,325
Total governmental activities	\$ 34,516,265	\$ 34,798,336	\$ 34,387,242	\$ 34,023,089	\$ 39,026,535	\$ 44,235,467	\$ 32,347,983	\$ 31,742,358	\$ 32,549,157	\$ 34,805,857
Change in net position	\$ 1,747,259	\$ 1,347,574	\$ 2,357,550	\$ (728,505)	\$ 3,086,277	\$ 9,373,364	\$ (1,345,569)	\$ (685,686)	\$ 600,176	\$ 43,095

Notes:

Source: City of Salem Finance Department

(1) In 2018, the School Division included expenses for federal and state grants programs in the instructional costs function.

(2) In 2014, the School Division segregated health insurance into an internal service fund.

TABLE 3
UNAUDITED

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

	2018	2017	2016	2015	2014 (1)	2013	2012	2011 (2)	2010	2009
FUND BALANCES										
<u>General Fund</u>										
Nonspendable	\$ 4,068	\$ -	\$ -	\$ -	\$ 24,797	\$ 3,326	\$ 24,138	\$ 37,099	\$ -	\$ -
Restricted	537,062	-	78,138	78,474	-	-	-	-	-	-
Committed	454,828	85,500	-	-	-	36,863	170,452	1,225,000	-	-
Assigned	3,911,615	4,493,379	4,532,051	2,761,526	1,992,070	2,439,014	1,166,693	2,532,508	-	-
Reserved for prepaid items	-	-	-	-	-	-	-	-	14,083	-
Reserved for encumbrances	-	-	-	-	-	-	-	-	137,159	335,759
Designated for future projects	-	-	-	-	-	-	-	-	300,000	200,000
Designated for revenue stabilization	-	-	-	-	-	-	-	-	500,000	-
Unreserved, undesignated	-	-	-	-	-	-	-	-	2,581,647	2,663,276
Total General Fund	\$ 4,907,573	\$ 4,578,879	\$ 4,610,189	\$ 2,840,000	\$ 2,016,867	\$ 2,479,203	\$ 1,361,283	\$ 3,794,607	\$ 3,532,889	\$ 3,199,035
<u>Cafeteria Fund</u>										
Nonspendable	\$ 37,579	\$ 33,103	\$ 33,187	\$ 34,125	\$ 55,511	\$ 56,826	\$ 51,525	\$ 66,139	\$ -	\$ -
Committed	464,331	-	-	-	-	-	23,302	-	-	-
Assigned	-	349,325	305,919	324,603	451,968	410,328	357,906	308,386	-	-
Reserved for inventories	-	-	-	-	-	-	-	-	40,753	60,389
Reserved for encumbrances	-	-	-	-	-	-	-	-	15,856	21,646
Unreserved, undesignated	-	-	-	-	-	-	-	-	318,852	283,711
Total Cafeteria Fund	\$ 501,910	\$ 382,428	\$ 339,106	\$ 358,728	\$ 507,479	\$ 467,154	\$ 432,733	\$ 374,525	\$ 375,461	\$ 365,746
<u>Capital Projects Fund</u>										
Nonspendable	\$ 4,939	\$ 14,816	\$ 24,693	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Committed	2,746,660	2,030,441	905,058	1,146,489	1,550,444	1,550,586	1,681,048	693,096	-	-
Unassigned	-	-	-	-	-	(2,964,290)	-	-	-	-
Reserved for encumbrances	-	-	-	-	-	-	-	-	570,935	546,909
Unreserved, undesignated	-	-	-	-	-	-	-	-	530,502	174,371
Total Capital Projects Fund	\$ 2,751,599	\$ 2,045,257	\$ 929,751	\$ 1,146,489	\$ 1,550,444	\$ (1,413,704)	\$ 1,681,048	\$ 693,096	\$ 1,101,437	\$ 721,280
Total School Division	\$ 8,161,082	\$ 7,006,564	\$ 5,879,046	\$ 4,345,217	\$ 4,074,790	\$ 1,532,653	\$ 3,475,064	\$ 4,862,228	\$ 5,009,787	\$ 4,286,061

Notes:

Source: City of Salem Finance Department

(1) In 2014, the School Division segregated health insurance into an internal service fund.

(2) Beginning in 2011, fund balances have been reclassified according to the requirements of GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*.

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Revenues										
<u>General Fund</u>										
<i>Intergovernmental:</i>					(1)					
City of Salem	\$ 20,170,298	\$ 19,760,242	\$ 19,739,512	\$ 19,151,270	\$ 19,622,043	\$ 20,776,428	\$ 18,471,653	\$ 18,420,000	\$ 18,420,000	\$ 18,420,000
Commonwealth of Virginia	21,067,259	20,052,041	19,491,109	19,455,460	19,452,863	18,505,940	17,791,888	16,870,527	17,699,073	20,616,013
Federal Government	1,648,522	1,705,496	1,631,925	1,761,396	1,838,411	1,978,488	2,454,719	2,329,130	4,011,637	1,373,482
<i>Other:</i>	1,252,037	1,691,429	1,607,634	1,594,590	1,600,220	1,472,793	1,293,847	1,154,600	1,162,811	917,538
Total General Fund	<u>\$ 44,138,116</u>	<u>\$ 43,209,208</u>	<u>\$ 42,470,180</u>	<u>\$ 41,982,716</u>	<u>\$ 42,513,537</u>	<u>\$ 42,733,649</u>	<u>\$ 40,012,107</u>	<u>\$ 38,774,257</u>	<u>\$ 41,293,521</u>	<u>\$ 41,327,033</u>
<u>Cafeteria Fund</u>										
<i>Intergovernmental:</i>										
Commonwealth of Virginia	\$ 28,674	\$ 24,710	\$ 21,590	\$ 24,581	\$ 25,893	\$ 28,076	\$ 27,570	\$ 26,917	\$ 26,132	\$ 25,861
Federal Government	1,016,458	899,020	809,467	795,360	784,413	744,089	773,605	748,431	682,916	635,652
<i>Other:</i>										
Charges for services	836,801	841,634	815,617	759,141	832,642	867,703	903,493	922,353	974,623	1,022,831
Other	29,886	17,531	7,121	143,900	12,876	11,083	27,251	23,145	16,497	35,303
Total Cafeteria Fund	<u>\$ 1,911,819</u>	<u>\$ 1,782,895</u>	<u>\$ 1,653,795</u>	<u>\$ 1,722,982</u>	<u>\$ 1,655,824</u>	<u>\$ 1,650,951</u>	<u>\$ 1,731,919</u>	<u>\$ 1,720,846</u>	<u>\$ 1,700,168</u>	<u>\$ 1,719,647</u>
<u>Capital Projects Fund</u>										
<i>Intergovernmental:</i>										
City of Salem	\$ -	\$ -	\$ -	\$ -	\$ 5,481,200	\$ 9,518,800	\$ -	\$ -	\$ -	\$ -
<i>Other:</i>	-	-	-	5,174	7,000	7,000	-	-	-	-
Total Capital Projects Fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,174</u>	<u>\$ 5,488,200</u>	<u>\$ 9,525,800</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Expenditures										
<u>General Fund</u>										
<i>Current:</i>										
Central administration	\$ 1,587,712	\$ 1,608,371	\$ 1,593,852	\$ 1,658,908	\$ 1,756,494	\$ 1,664,724	\$ 1,414,020	\$ 1,461,269	\$ 1,505,723	\$ 1,467,700
Centralized instruction costs	3,768,680	3,795,451	3,687,727	3,832,984	3,711,762	3,499,585	3,008,025	3,136,131	3,231,442	2,922,251
Instructional costs:										
Salem High School	10,459,247	10,090,056	10,048,013	9,976,964	9,965,723	10,119,284	9,380,598	8,931,027	10,325,423	9,926,412
Andrew Lewis Middle School	7,110,842	6,985,732	6,629,696	6,769,119	6,765,055	6,780,842	6,078,634	5,966,676	6,859,192	6,742,401
G.W. Carver Elementary School	3,694,139	3,525,927	3,473,543	3,590,403	3,634,528	3,497,209	3,342,917	3,515,038	3,492,995	3,420,249
West Salem Elementary School	3,383,487	3,019,223	2,999,504	3,013,001	3,167,012	3,142,102	2,951,348	2,940,070	3,258,221	3,184,307
South Salem Elementary School	3,248,699	2,984,447	2,946,511	2,985,015	3,006,075	2,990,425	2,984,114	3,174,639	3,191,943	3,149,596
East Salem Elementary School	3,778,488	3,634,861	3,543,633	3,472,215	3,185,659	3,281,198	3,153,029	3,274,535	3,397,788	3,155,854
Regional Program	743,403	754,116	733,930	698,011	616,896	743,384	-	-	-	-
Federal and state grants programs	1,969,614	2,142,407	2,027,663	1,958,910	2,974,412	2,203,948	2,824,695	4,456,948	1,746,188	1,688,454
Attendance and health services	1,085,034	1,049,120	1,001,682	988,485	889,226	893,663	838,160	853,611	865,647	875,542
Transportation	1,410,894	1,317,610	1,269,037	1,269,076	1,529,625	1,282,845	1,297,167	1,426,223	1,209,606	1,324,034
Non-departmental	-	-	-	-	-	548,520	250,000	250,000	295,753	266,490
<i>Capital/lease debt service:</i>										
Principal	137,071	131,405	142,981	-	-	-	-	-	-	-
Interest	5,911	965	10,612	-	-	-	-	-	-	-
Total General Fund	<u>\$ 42,383,221</u>	<u>\$ 41,039,691</u>	<u>\$ 40,108,384</u>	<u>\$ 40,213,091</u>	<u>\$ 41,202,467</u>	<u>\$ 40,647,729</u>	<u>\$ 37,522,707</u>	<u>\$ 39,386,167</u>	<u>\$ 39,379,921</u>	<u>\$ 38,123,290</u>

(CONTINUED)

TABLE 4
UNAUDITED
(CONTINUED)

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Expenditures					(1)					
<u>Cafeteria Fund</u>										
Food services	\$ 1,792,337	\$ 1,739,573	\$ 1,673,417	\$ 1,871,733	\$ 1,615,499	\$ 1,616,530	\$ 1,688,711	\$ 1,746,782	\$ 1,729,453	\$ 1,753,307
Total Cafeteria Fund	\$ 1,792,337	\$ 1,739,573	\$ 1,673,417	\$ 1,871,733	\$ 1,615,499	\$ 1,616,530	\$ 1,688,711	\$ 1,746,782	\$ 1,729,453	\$ 1,753,307
<u>Capital Projects Fund</u>										
Capital projects	\$ 719,859	\$ 1,085,321	\$ 1,219,802	\$ 1,335,621	\$ 4,297,458	\$ 13,588,552	\$ 1,717,361	\$ 1,373,173	\$ 1,154,343	\$ 496,114
Total Capital Projects Fund	\$ 719,859	\$ 1,085,321	\$ 1,219,802	\$ 1,335,621	\$ 4,297,458	\$ 13,588,552	\$ 1,717,361	\$ 1,373,173	\$ 1,154,343	\$ 496,114
Excess (deficiency) of revenues over (under) expenditures										
General Fund	\$ 1,754,895	\$ 2,169,517	\$ 2,361,796	\$ 1,749,625	\$ 1,311,070	\$ 2,085,920	\$ 286,989	\$ 1,251,550	\$ 1,907,354	\$ 1,947,112
Cafeteria Fund	119,482	43,322	(19,622)	(148,751)	40,325	34,421	43,208	(25,936)	(29,285)	(33,660)
Capital Projects Fund	(719,859)	(1,085,321)	(1,219,802)	(1,330,447)	1,190,742	(4,062,752)	(1,717,361)	(1,373,173)	(1,154,343)	(496,114)
	\$ 1,154,518	\$ 1,127,518	\$ 1,122,372	\$ 270,427	\$ 2,542,137	\$ (1,942,411)	\$ (1,387,164)	\$ (147,559)	\$ 723,726	\$ 1,417,338
Other financing sources (uses)										
<u>General Fund</u>										
Transfers out	\$ (1,426,201)	\$ (2,200,827)	\$ (591,607)	\$ (926,492)	\$ (1,773,406)	\$ (968,000)	\$ (2,720,313)	\$ (989,832)	\$ (1,573,500)	\$ (611,456)
Total General Fund	\$ (1,426,201)	\$ (2,200,827)	\$ (591,607)	\$ (926,492)	\$ (1,773,406)	\$ (968,000)	\$ (2,720,313)	\$ (989,832)	\$ (1,573,500)	\$ (611,456)
<u>Cafeteria Fund</u>										
Transfers in	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,000	\$ 25,000	\$ 39,000	\$ 25,000
Total Cafeteria Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,000	\$ 25,000	\$ 39,000	\$ 25,000
<u>Capital Projects Fund</u>										
Issuance of capital leases	\$ -	\$ -	\$ 411,457	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers in	1,426,201	2,200,827	591,607	926,492	1,773,406	968,000	2,705,313	964,832	1,534,500	586,456
Total Capital Projects Fund	\$ 1,426,201	\$ 2,200,827	\$ 1,003,064	\$ 926,492	\$ 1,773,406	\$ 968,000	\$ 2,705,313	\$ 964,832	\$ 1,534,500	\$ 586,456
Net change in fund balances										
General Fund	\$ 328,694	\$ (31,310)	\$ 1,770,189	\$ 823,133	\$ (462,336)	\$ 1,117,920	\$ (2,433,324)	\$ 261,718	\$ 333,854	\$ 1,335,656
Cafeteria Fund	119,482	43,322	(19,622)	(148,751)	40,325	34,421	58,208	(936)	9,715	(8,660)
Capital Projects Fund	706,342	1,115,506	(216,738)	(403,955)	2,964,148	(3,094,752)	987,952	(408,341)	380,157	90,342
	\$ 1,154,518	\$ 1,127,518	\$ 1,533,829	\$ 270,427	\$ 2,542,137	\$ (1,942,411)	\$ (1,387,164)	\$ (147,559)	\$ 723,726	\$ 1,417,338
Capital outlay	\$ 525,195	\$ 831,774	\$ 1,133,365	\$ 1,202,283	\$ 3,831,996	\$ 13,367,244	\$ 1,830,225	\$ 1,286,754	\$ 1,699,627	\$ 335,533
Ratio of debt service expenditures to non-capital expenditures	0.32%	0.31%	0.37%	0.00%	0.00%	0.59%	0.61%	0.64%	0.62%	0.61%

Notes:

Source: City of Salem Finance Department

(1) In 2014, the School Division segregated health insurance into an internal service fund.

TABLE 5
UNAUDITED

CITY OF SALEM SCHOOL DIVISION
MAJOR REVENUE SOURCES
GENERAL FUND
LAST TEN FISCAL YEARS

Fiscal Year	City of Salem		Commonwealth of Virginia	
	Revenue	Increase (Decrease)	Revenue	Increase (Decrease)
2018	\$ 20,170,298	\$ 410,056	\$ 21,067,259	\$ 1,015,218
2017	19,760,242	20,730	20,052,041	560,932
2016	19,739,512	588,242	19,491,109	35,649
2015	19,151,270	(470,773)	19,455,460	2,597
2014	19,622,043	(1,154,385)	19,452,863	946,923
2013	20,776,428	2,304,775	18,505,940	714,052
2012	18,471,653	51,653	17,791,888	921,361
2011	18,420,000	-	16,870,527	(828,546)
2010	18,420,000	-	17,699,073	(2,916,940)
2009	18,420,000	425,000	20,616,013	1,527,025

Note:

Source: City of Salem Finance Department

TABLE 6
UNAUDITED

CITY OF SALEM SCHOOL DIVISION
CHARGES FOR SERVICES REVENUE - FOOD SALES
CAFETERIA FUND
LAST TEN FISCAL YEARS

Fiscal Year	Food Sales	Increase (Decrease)
2018	\$ 836,801	\$ (4,833)
2017	841,634	26,017
2016	815,617	56,476
2015	759,141	(73,501)
2014	832,642	(35,061)
2013	867,703	(35,790)
2012	903,493	(18,860)
2011	922,353	(52,270)
2010	974,623	(48,208)
2009	1,022,831	(6,534)

Note:

Source: City of Salem Finance Department

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

Fiscal Year	Real Estate			Personal Property			Machinery and Tools			Public Service Corporation			Mobile Homes			Total Taxable Assessed Value			Total Direct Tax Rate
	Assessed Value	Direct Tax Rate		Assessed Value	Direct Tax Rate		Assessed Value	Direct Tax Rate		Assessed Value	Direct Tax Rate		Assessed Value	Direct Tax Rate					
2018	\$ 2,092,863,676	\$1.18		\$ 306,890,700	\$3.25		\$ 97,999,444	\$3.20		\$ 51,247,569	\$1.18		\$ 816,174	\$1.18		\$ 2,549,817,563			\$1.50
2017	2,054,446,049	1.18		312,495,313	3.25		89,186,639	3.20		44,507,648	1.18		984,368	1.18		2,501,620,017			1.51
2016	2,022,951,024	1.18		295,173,346	3.25		91,322,128	3.20		41,308,358	1.18		1,059,063	1.18		2,451,813,919			1.50
2015	2,012,050,247	1.18		282,311,121	3.25		91,977,805	3.20		40,513,445	1.18		1,195,515	1.18		2,428,048,133			1.50
2014	2,003,007,334	1.18		276,846,201	3.20		91,226,535	3.20		41,408,575	1.18		1,249,050	1.18		2,413,737,695			1.49
2013	1,997,447,800	1.18		267,755,307	3.20		84,169,172	3.20		42,281,759	1.18		1,431,949	1.18		2,393,085,987			1.47
2012	1,977,986,400	1.18		267,877,285	3.20		90,287,324	3.20		37,468,284	1.18		1,668,743	1.18		2,375,288,036			1.48
2011	1,973,655,843	1.18		265,450,351	3.20		80,706,659	3.20		37,993,502	1.18		1,460,966	1.18		2,359,267,321			1.48
2010	1,940,941,700	1.18		262,153,501	3.20		79,120,695	3.20		36,874,789	1.18		1,543,032	1.18		2,320,633,717			1.48
2009	1,912,957,600	1.18		263,305,279	3.20		80,517,625	3.20		36,468,242	1.18		1,655,642	1.18		2,294,904,388			1.48

Note:

¹ Source: City of Salem Finance Department

9 Tax rates are per \$100 of assessed value.

TABLE 8
UNAUDITED

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

Calendar Year Ended December 31,	Taxes Levied for the Calendar Year	Collected within the Calendar Year of the Levy		Supplemental Assessments & Exonerations Levied in Subsequent Years	Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy			Amount	Percentage of Levy
2018	\$ 35,837,963	\$ 34,375,408	95.92%	\$ -	-	\$ 34,375,408	95.92%
2017	35,253,119	34,012,836	96.48%	(52,288)	859,289	34,872,125	99.07%
2016	33,896,364	32,608,317	96.20%	9,616	1,117,348	33,725,665	99.47%
2015	33,630,244	32,291,449	96.02%	(55,465)	1,255,546	33,546,995	99.92%
2014	32,905,743	31,229,276	94.91%	(83,736)	1,509,177	32,738,453	99.75%
2013	32,537,416	30,854,728	94.83%	64,769	1,670,285	32,525,013	99.76%
2012	32,672,916	31,351,991	95.96%	32,561	1,315,461	32,667,452	99.88%
2011	32,104,079	30,836,144	96.05%	105,503	1,284,048	32,120,192	99.72%
2010	31,627,310	30,440,194	96.25%	309,847	1,446,091	31,886,285	99.84%
2009	31,336,233	30,288,062	96.66%	124,862	1,128,177	31,416,239	99.86%

Note:

Source: City of Salem Finance Department

TABLE 9
UNAUDITED

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

Taxpayer	2018			2009		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Lewis-Gale Medical Center LLC (1)	\$62,530,500	1	2.91%	\$ 60,940,600	1	3.18%
Yokohama Industries	14,940,900	2	0.70%	16,142,400	2	0.84%
Lowes/VALO LLC	13,174,100	3	0.61%			
Spartan Square	11,321,400	4	0.53%	8,804,100	6	0.46%
U.S. Food Service, Inc.	11,016,800	5	0.51%	10,524,500	4	0.55%
Carter Machinery/Carthy Corp/Mount Sinai	10,844,800	6	0.51%	7,586,000	7	0.40%
Chateau Riviera Apts/CSW Associates	9,694,700	7	0.45%	9,190,500	5	0.48%
General Electric	9,344,200	8	0.44%	10,655,700	3	0.56%
Salem Terrace/White Whale	8,682,900	9	0.40%			
D & S Development LLC	7,308,500	10	0.34%			
Wal-Mart Stores, Inc.				6,750,000	8	0.35%
Lakeside Plaza				6,717,100	9	0.35%
Ridgewood Farms Plaza				6,165,500	10	0.32%

Note:

Source: City of Salem Real Estate Valuation Department

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

TABLE 10
UNAUDITED

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

Fiscal Year	Governmental Activities			Business-Type Activities		Capital Lease Obligation
	General Obligation Bonds	Other Long-term Debt	Total	General Obligation Bonds	Total Primary Government	
	(1)	(1)				
2018	\$ 30,897,265	\$ -	\$ 30,897,265	\$ 41,669,640	\$ 72,566,905	\$ 198,016
2017	33,916,905	-	33,916,905	45,723,894	79,640,799	271,203
2016	36,971,375	-	36,971,375	49,665,950	86,637,325	341,175
2015	34,681,163	-	34,681,163	47,663,394	82,344,557	-
2014	37,640,582	-	37,640,582	49,258,943	86,899,525	-
2013	32,625,067	-	32,625,067	50,697,384	83,322,451	-
2012	25,470,726	-	25,470,726	53,677,900	79,148,626	-
2011	27,913,904	-	27,913,904	55,461,508	83,375,412	-
2010	23,764,903	125,000	23,889,903	56,004,049	79,893,952	-
2009	26,141,121	250,000	26,391,121	58,850,591	85,241,712	-

Fiscal Year	Total Taxable Assessed Value	Percentage of Estimated Actual Value of Taxable Property	Population	Bonded Debt Per Capita	Per Capita Personal Income	Percentage of Bonded Debt Per Capita to Per Capita Personal Income
	(2)			(3)		
2018	\$ 2,549,817,563	2.85%	25,862	\$ 2,806	\$ 48,384	6.00%
2017	2,501,620,017	3.18%	25,549	3,117	48,047	6.00%
2016	2,451,813,919	3.53%	25,432	3,407	45,577	7.00%
2015	2,428,048,133	3.39%	25,483	3,231	43,418	7.00%
2014	2,413,737,695	3.60%	25,299	3,435	42,288	8.00%
2013	2,393,085,987	3.48%	25,267	3,298	40,688	8.00%
2012	2,375,288,036	3.33%	25,145	3,148	39,866	8.00%
2011	2,359,267,321	3.53%	24,970	3,339	39,866	8.00%
2010	2,320,633,717	3.44%	24,860	3,214	39,866	8.00%
2009	2,294,904,388	3.71%	24,684	3,453	39,525	9.00%

Notes:

Source: City of Salem Finance Department

Details regarding the City's outstanding debt can be found in the notes to the financial statements in the City of Salem's Comprehensive Annual Financial Report. The report may be obtained from the City of Salem Finance Department, P.O. Box 869, Salem, VA 24153. The City is independent from any county, town, or other political subdivisions of the Commonwealth of Virginia. There is no overlapping general obligation debt or taxing powers.

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

(2) See Table 7 for actual value of taxable property.

(3) See Table 12 for population and per capita personal income.

TABLE 11
UNAUDITED

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

Fiscal Year	Assessed Value of Real Property	Debt Limit 10% of Assessed Value	Amount of Debt Applicable to Limit					
			Total General Obligation Bonds	Total Other Long-term Debt	Enterprise Bonds	RVRA Supported Debt	Net Debt Applicable to Limit	Legal Debt Margin
	(1)				(2)		(3)	
2018	\$ 2,144,111,245	\$ 214,411,125	\$ 72,566,905	\$ -	\$ (41,669,640)	\$ (1,209,879)	\$ 29,687,386	13.85%
2017	2,098,953,697	209,895,370	79,640,799	-	(45,723,894)	(1,425,312)	32,491,593	15.48%
2016	2,064,259,382	206,425,938	86,637,325	-	(49,665,950)	-	36,971,375	17.91%
2015	2,052,563,692	205,256,369	82,344,557	-	(47,663,394)	-	34,681,163	16.90%
2014	2,044,415,909	204,441,591	86,899,525	-	(49,258,943)	-	37,640,582	18.41%
2013	2,039,729,559	203,972,956	83,322,451	-	(50,697,384)	-	32,625,067	15.99%
2012	2,015,454,684	201,545,468	79,148,626	-	(53,677,900)	-	25,470,726	12.64%
2011	2,011,649,345	201,164,935	83,375,412	-	(55,461,508)	-	27,913,904	13.88%
2010	1,977,816,489	197,781,649	79,768,952	125,000	(56,004,049)	-	23,889,903	12.08%
2009	1,949,425,842	194,942,584	84,991,712	250,000	(58,850,591)	-	26,391,121	13.54%

Notes:

Source: City of Salem Finance Department

(1) Includes real estate and public service corporation assessments from table 7.

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

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

TABLE 12
UNAUDITED

CITY OF SALEM, VIRGINIA
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS

Fiscal Year Ended	Population	Total Personal Income (In Thousands)	Per Capita Personal Income	Public School Enrollment	Unemployment Rate
(1)	(2)	(3)	(3)	(4)	(5)
2018	25,862	\$ 5,785,780	\$ 48,384	3,889	3.4%
2017	25,549	5,758,037	48,047	3,843	4.1%
2016	25,432	5,435,865	45,577	3,751	4.0%
2015	25,483	5,159,100	43,418	3,797	5.2%
2014	25,299	4,984,547	42,288	3,770	5.2%
2013	25,267	4,789,030	40,688	3,823	6.6%
2012	25,145	4,672,291	39,866	3,867	6.5%
2011	24,970	4,672,291	39,866	3,892	6.1%
2010	24,860	4,672,291	39,866	3,907	7.2%
2009	24,684	4,620,761	39,525	3,905	6.3%

Notes:

- (1) Population, public school enrollment and unemployment rate figures are based on fiscal years ending June 30. Per capita personal income figures are as of March 2017.
- (2) Population is based on Intercensal estimates of the resident population for counties of Virginia: April 1, 2000 to July 1, 2010. U.S. Census Bureau, Population Division. Population for 2011 through 2018 was obtained from U.S. Census Bureau Population Estimates Program.
- (3) Bureau of Economic Analysis (BEA). Total personal income reported is for Roanoke County and the City of Salem. No data is available for the City of Salem only. Per capita personal income was computed using Census Bureau midyear population estimates.
- (4) Director of Business, School Division
- (5) Virginia Employment Commission

TABLE 13
UNAUDITED

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

Employer	2018			2009		
	Employees	Rank	Percentage of Total City Employment (1)	Employees	Rank	Percentage of Total City Employment (1)
Veterans Administration Medical Center	1,915	1	9.60%	1,700	1	7.61%
Lewis-Gale Hospital HCA	1,603	2	8.04%	1,497	2	6.70%
Yokohama Industries	760	3	3.81%	850	5	3.81%
Lewis-Gale Physicians	646	4	3.24%			
General Electric	545	5	2.73%	1,100	3	4.93%
City of Salem Schools	527	6	2.68%	596	6	2.67%
Roanoke College	467	7	2.34%	462	8	2.07%
City of Salem	460	8	2.48%	549	7	2.46%
U.S. Food Service, Inc.	398	9	2.00%	424	9	1.90%
Carter Machinery	370	10	1.86%	330	10	1.48%
Virginia Department of Transportation				900	4	4.03%

Notes:

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

(1) Calculated using data provided by Virginia Employment Commission

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

Fiscal Year Ended	Membership September 30	Average Daily Membership March 31	Membership June 30	Average Daily Membership June 30	Average Daily Attendance March 31	Special Education Child Count December 1	Salem Per Pupil Expenditures	State Average Per Pupil Expenditures	Composite Index
	(1)	(1)	(1)	(2), (7)	(3), (8)	(4)	(2)	(2)	
2018	3,953	3,872	3,889	3,906	3,709	586	N/A	N/A	0.3704
2017	3,852	3,775	3,843	3,818	3,625	527	\$11,017	\$12,171	0.3704
2016	3,808	3,716	3,751	3,752	3,585	514	10,858	11,745	0.3695
2015	3,815	3,774	3,797	3,813	3,636	528	10,844	11,523	0.3695
2014 (6)	3,799	3,761	3,772	3,796	3,628	505	11,057	11,242	0.3628
2013 (6)	3,816	3,779	3,820	3,816	3,634	517	10,640	11,257	0.3628
2012	3,867	3,839	3,863	3,841	3,686	501	10,447	10,969	0.3516
2011	3,932	3,859	3,892	3,896	3,702	503	9,907	10,793	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

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

2017	4,317
2016	4,285
2015	4,364
2014	4,361
2013	4,446
2012	4,411
2011	4,436

Notes:

N/A Not available

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

(2) Superintendent's Annual Report Table 15 (2009-2018)

(3) Superintendent's Annual Report Table 8 (2009-2018)

(4) Director of Student Services and Virginia Department of Education website

(5) Weldon Cooper Center at the University of Virginia will estimate school age population in Virginia. The latest estimate is as of July 1, 2017.

(6) Figures for 2013 and 2014 were adjusted to match the Superintendent's Annual Reports for those school years.

(7) End of year financial verification report

(8) Spring student record collection

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

COURSE	2018		2017		2016		2015		2014		2013		2012		2011		2010		2009	
	SALEM	VA	SALEM	VA	SALEM	VA	SALEM	VA	SALEM	VA	SALEM	VA	SALEM	VA	SALEM	VA	SALEM	VA	SALEM	VA
Grade 3 English RLR	77	72	81	75	85	75	78	69	83	72	96	86	95	83	86	83	92	86	92	86
Grade 3 Mathematics	80	73	83	75	85	74	75	67	78	65	83	64	97	91	95	92	96	89	96	89
Grade 3 History	n/a	n/a	n/a	n/a	n/a	n/a	n/a	86	94	87	96	87	97	85	98	93	99	93	99	93
Grade 3 Science	n/a	n/a	n/a	n/a	n/a	n/a	88	83	92	84	96	90	97	90	97	91	97	89	97	89
Grade 4 English RLR	77	76	84	79	84	77	79	70	82	70	96	88	95	87	95	88	93	89	93	89
Grade 4 Mathematics	83	79	88	81	88	84	86	80	87	74	75	70	90	89	94	88	92	86	92	86
VA Studies	87	85	87	87	93	87	92	85	94	87	94	89	93	87	94	87	92	88	92	88
Grade 5 English RLR	83	80	83	81	88	81	82	73	84	73	91	89	94	89	95	90	97	92	97	92
Grade 5 English Writing	n/a	n/a	n/a	n/a	n/a	n/a	71	71	81	87	87	93	87	89	94	88	94	86	94	86
Grade 5 Mathematics	83	77	78	79	85	79	76	73	74	69	69	67	92	89	95	90	95	90	95	90
Grade 5 Science	85	79	79	79	86	79	81	73	75	75	94	88	92	87	93	88	96	88	96	88
Grade 6 English RLR	79	80	82	78	84	76	80	73	80	73	90	89	94	87	93	88	91	86	91	86
Grade 6 Mathematics	71	79	77	82	88	80	83	73	76	77	66	74	59	73	80	77	82	73	82	73
Grade 6 US History I	n/a	n/a	n/a	n/a	n/a	n/a	83	81	91	83	85	81	89	81	92	78	88	74	88	74
Grade 7 English RLR	80	81	88	82	91	81	82	76	83	74	94	88	98	89	96	90	97	88	97	88
Grade 7 Mathematics	65	69	74	71	85	72	74	65	68	61	67	58	91	77	90	75	88	71	88	71
Grade 7 US History II	n/a	n/a	n/a	n/a	n/a	n/a	84	81	77	82	85	84	84	85	93	91	97	92	91	92
Grade 8 English RLR	79	77	81	76	81	75	72	70	77	71	95	89	96	90	93	90	91	87	91	87
Grade 8 English Writing	77	73	77	73	76	71	72	70	80	71	95	88	94	88	93	91	91	89	91	89
Grade 8 Mathematics	63	71	72	74	86	74	77	67	72	61	67	60	93	82	89	87	88	85	88	85
Grade 8 Civics	85	86	87	87	92	86	83	83	83	85	92	84	92	89	92	86	92	84	92	84
Grade 8 Science	87	78	88	79	87	79	85	74	82	76	95	92	98	92	95	92	94	90	94	90
End of Course English RLR	91	87	91	87	91	89	93	90	92	89	95	94	96	94	96	94	96	95	96	95
End of Course English Writing	82	84	87	84	88	83	90	84	89	70	95	93	95	93	95	92	96	92	96	92
Algebra I	82	81	89	82	83	83	81	79	81	76	81	75	98	94	98	94	95	94	95	94
Algebra II	93	89	98	90	98	87	81	82	81	76	84	69	97	91	95	91	95	91	95	91
Geometry	80	77	91	78	86	80	86	77	73	76	84	74	94	87	96	88	92	87	92	87
Earth Science	84	81	93	82	93	83	91	83	87	83	97	90	93	89	90	88	93	87	90	87
Biology	89	82	90	82	92	84	89	83	91	83	97	92	94	90	96	89	94	88	94	88
Chemistry	93	89	96	89	88	88	95	87	97	86	99	93	99	93	100	93	100	93	100	93
World History I	92	82	93	85	98	85	93	85	91	84	97	84	88	81	98	93	95	93	95	93
World History II	89	84	95	87	94	87	96	86	91	85	92	85	88	82	95	92	95	93	95	93
World Geography	85	82	86	83	88	86	88	86	90	n/a	89	n/a	95	n/a	92	86	94	86	94	86
VA/US History	89	84	92	86	90	87	96	87	95	86	96	85	92	83	97	95	98	97	98	97

Notes:

Source: Virginia Department of Education website; www.doe.virginia.gov

n/a: not applicable

TABLE 16
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
2018	173	1,108	1,095	1,044
2017	157	1,080	1,288	1,264
2016	123	1,047	1,029	981
2015	148	1,046	1,028	987
2014	148	1,046	1,033	1,010
2013	159	1,036	1,030	1,010
2012	169	1,031	1,022	1,010
2011	162	1,028	1,021	1,011
2010	163	1,056	1,024	1,017
2009	145	1,037	1,043	1,037

Note:

Source: Director of Instructional Technology and Accountability

TABLE 17
UNAUDITED

CITY OF SALEM SCHOOL DIVISION
ACCREDITATION STATUS
2017-2018 SCHOOL YEAR

School Name	Virginia Accreditation Status
Salem High School	Fully Accredited
Andrew Lewis Middle School	Fully Accredited
G.W. Carver Elementary School	Fully Accredited
West Salem Elementary School	Fully Accredited
South Salem Elementary School	Fully Accredited
East Salem Elementary School	Fully Accredited

Note:

Source: Director of Instructional Technology and Accountability

TABLE 18
UNAUDITED

CITY OF SALEM SCHOOL DIVISION
FULL-TIME EQUIVALENT POSITIONS
LAST TEN FISCAL YEARS

Positions	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Board Member	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Administrator	8.5	9.7	9.5	10.3	9.7	9.8	8.0	8.0	7.6	7.5
Principal	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Assistant Principal	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Teachers	303.1	300.5	302.1	307.1	309.6	315.1	308.0	312.3	318.6	320.5
Instructional Assistants	72.1	71.7	65.1	54.3	49.7	51.5	75.0	84.5	81.8	73.8
Secretary/Specialist	21.6	21.7	21.4	21.8	25.2	23.8	21.7	21.6	23.9	22.4
Attendance & Health	10.5	10.4	10.5	10.6	10.6	10.3	14.0	14.0	14.3	14.0
Transportation	30.4	27.5	26.2	27.1	31.4	31.5	31.1	28.6	28.6	32.6
Maintenance	37.3	37.6	37.3	38.5	39.3	41.0	41.5	41.0	42.2	42.6
Technology	10.8	9.8	9.7	10.0	8.8	9.0	11.0	10.8	12.6	13.8
School Nutrition	14.6	20.0	20.0	27.0	28.8	28.1	29.1	30.2	29.8	29.8
Total	528.9	528.9	521.8	526.7	533.1	540.1	559.4	571.0	579.4	577.0

Note:

Source: Annual School Report

TABLE 19
UNAUDITED

**CITY OF SALEM SCHOOL DIVISION
TEACHER SALARY INFORMATION
LAST TEN FISCAL YEARS**

Degree	Level	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Bachelors	Minimum	\$42,000	\$42,000	\$42,000	\$42,000	\$41,000	\$41,000	\$40,796	\$40,392	\$40,392	\$40,392
	Maximum	63,469	61,710	60,328	60,179	59,736	60,482	57,771	57,914	58,638	60,104
Masters	Minimum	45,776	45,776	45,776	45,720	44,647	44,647	44,236	43,797	43,797	43,797
	Maximum	68,494	66,035	64,104	63,899	63,383	64,129	61,211	61,319	62,043	63,509
Doctorate	Minimum	47,597	47,597	47,597	47,514	46,406	46,406	45,896	45,437	45,437	45,437
	Maximum	70,919	68,122	65,925	65,693	65,142	65,888	62,871	62,959	63,683	65,149
Average Salary		\$58,418	\$57,387	\$55,776	\$55,352	\$55,115	\$56,206	\$54,492	\$53,186	\$53,912	\$53,912
Virginia Average Salary		N/A	\$56,351	\$54,891	\$54,486	\$53,818	\$52,942	\$52,093	\$51,478	\$51,894	\$52,309

Note:

Source: Salary Scales and Annual School Report
N/A Not available

TABLE 20
UNAUDITED

CITY OF SALEM SCHOOL DIVISION
EXPENDITURES BY FUNCTION - GENERAL FUND
LAST TEN FISCAL YEARS

Function	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<i>Current:</i>	(1)									
Central administration	\$ 1,587,712 3.75%	\$ 1,608,371 3.92%	\$ 1,593,852 3.97%	\$ 1,658,908 4.13%	\$ 1,756,494 4.26%	\$ 1,664,724 4.10%	\$ 1,414,020 3.77%	\$ 1,461,269 3.71%	\$ 1,505,723 3.82%	\$ 1,467,700 3.85%
Centralized instruction costs	3,768,680 8.89%	3,795,451 9.25%	3,687,727 9.19%	3,832,984 9.53%	3,711,762 9.01%	3,499,585 8.61%	3,008,025 8.02%	3,136,131 7.96%	3,231,442 8.21%	2,922,251 7.67%
Instructional costs:	34,387,919 81.14%	30,994,362 75.52%	30,374,830 75.73%	30,504,728 75.86%	30,340,948 73.64%	30,554,444 75.17%	27,890,640 74.33%	27,801,985 70.59%	30,525,562 77.52%	29,578,819 77.59%
Attendance and health services	1,085,034 2.56%	1,049,120 2.56%	1,001,682 2.50%	988,485 2.46%	889,226 2.16%	893,663 2.20%	838,160 2.23%	853,611 2.17%	865,647 2.20%	875,542 2.30%
Transportation	1,410,894 3.33%	1,317,610 3.21%	1,269,037 3.16%	1,269,076 3.16%	1,529,625 3.71%	1,282,845 3.16%	1,297,167 3.46%	1,426,223 3.62%	1,209,606 3.07%	1,324,034 3.47%
Federal and state grants programs	- 0.00%	2,142,407 5.22%	2,027,663 5.06%	1,958,910 4.87%	2,974,412 7.22%	2,203,948 5.42%	2,824,695 7.53%	4,456,948 11.32%	1,746,188 4.43%	1,688,454 4.43%
Non-departmental	- 0.00%	- 0.00%	- 0.00%	- 0.00%	- 0.00%	548,520 1.35%	250,000 0.67%	250,000 0.63%	295,753 0.75%	266,490 0.70%
<i>Capital lease debt service:</i>										
Principal	137,071 0.32%	131,405 0.32%	142,981 0.36%	- 0.00%	- 0.00%	- 0.00%	- 0.00%	- 0.00%	- 0.00%	- 0.00%
Interest	5,911 0.01%	965 0.00%	10,612 0.03%	- 0.00%	- 0.00%	- 0.00%	- 0.00%	- 0.00%	- 0.00%	- 0.00%
Total expenditures	\$ 42,383,221	\$ 41,039,691	\$ 40,108,384	\$ 40,213,091	\$ 41,202,467	\$ 40,647,729	\$ 37,522,707	\$ 39,386,167	\$ 39,379,921	\$ 38,123,290

Notes:

Source: City of Salem Finance Department

(1) In 2018, the School Division included expenditures for federal and state grants programs in the instructional costs function.

TABLE 21
UNAUDITED

CITY OF SALEM SCHOOL DIVISION CAPITAL ASSET STATISTICS LAST TEN FISCAL YEARS										
School / Statistic	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
East Salem Elementary (1962)										
Square feet	56,308	56,308	56,308	56,308	53,714	53,714	53,714	53,714	53,714	53,714
Capacity (students)	500	500	500	500	500	500	500	500	500	500
Enrollment	387	413	419	416	414	403	410	405	409	406
G W Carver Elementary (1939)										
Square feet	83,000	83,000	83,000	83,000	83,000	83,000	83,000	83,000	83,000	83,000
Capacity (students)	600	600	600	600	600	600	600	600	600	600
Enrollment	431	462	461	444	423	427	482	478	458	462
South Salem Elementary (2013)										
Square feet	88,000	88,000	88,000	88,000	88,000	88,000	49,000	49,000	49,000	49,000
Capacity (students)	600	600	600	600	600	600	450	450	450	450
Enrollment	420	397	394	412	408	409	427	450	428	427
West Salem Elementary (1952)										
Square feet	73,000	73,000	73,000	73,000	73,000	73,000	73,000	73,000	73,000	73,000
Capacity (students)	450	450	450	450	450	450	450	450	450	450
Enrollment	439	427	396	423	406	426	413	408	398	389
Andrew Lewis Middle (1933)										
Square feet	183,000	183,000	183,000	183,000	183,000	183,000	183,000	183,000	183,000	183,000
Capacity (students)	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Enrollment	914	893	898	901	924	905	878	906	928	949
Salem High School (1977)										
Square feet	220,812	220,812	220,812	220,812	220,812	220,812	220,812	220,812	220,812	220,812
Capacity (students)	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400
Enrollment	1,278	1,188	1,170	1,187	1,191	1,215	1,249	1,257	1,295	1,272
Central Administration Office (1958)										
Square feet	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000
AIIMS Alternative Education Center (1965)										
Square feet	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500

Note:
Source: City of Salem School Division Business Office

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COMPLIANCE SECTION

CITY OF SALEM SCHOOL DIVISION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2018

Federal Grantor Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number		Federal Expenditures	Passed Through to Subrecipients
Department of Agriculture					
Virginia Department of Agriculture and Consumer Services					
Child Nutrition Cluster					
Food Distribution - Commodities	10.555	-	\$ 116,602		
Summer Food Service Program for Children	10.559	-	965		
Virginia Department of Education					
Child Nutrition Cluster					
National School Breakfast Program 2017	10.553	201717N109941	18,506		
National School Breakfast Program 2018	10.553	201818N109941	183,844		
National School Lunch Program 2017	10.555	201717N109941	71,122		
National School Lunch Program 2018	10.555	201818N109941	607,083		
Total Child Nutrition Cluster				\$ 998,122	
Department of Education					
Virginia Department of Education					
Adult Education - Basic Grants to States 2016	84.002	V002A160047	13,041	\$	13,041
Adult Education - Basic Grants to States 2017	84.002	V002A170047	277,085	290,126	156,937
Title I Grants to Local Educational Agencies 2016	84.010	S010A160046	35,945		
Title I Grants to Local Educational Agencies 2017	84.010	S010A170046	394,628	430,573	
Special Education Cluster (IDEA)					
Special Education - Grants to States (IDEA, Part B) 2016	84.027	H027A160107	134,878		
Special Education - Grants to States (IDEA, Part B) 2017	84.027	H027A170107	605,281		
Special Education - Preschool Grants (IDEA Preschool) 2016	84.173	H173A160112	4,616		
Special Education - Preschool Grants (IDEA Preschool) 2017	84.173	H173A170112	11,978		
Total Special Education Cluster (IDEA)				756,753	
Career and Technical Education - Basic Grants to States (Perkins IV) 2016	84.048	V048A160046	788		
Career and Technical Education - Basic Grants to States (Perkins IV) 2017	84.048	V048A170046	45,055	45,843	
English Language Acquisition State Grants 2015	84.365	S365B150046	451		
English Language Acquisition State Grants 2016	84.365	S365A160046	1,963	2,414	
Supporting Effective Instruction State Grants 2016	84.367	S367A160044	15,097		
Supporting Effective Instruction State Grants 2017	84.367	S367A170044	54,230	69,327	
Student Support and Academic Enrichment Grants 2017	84.424	S424A170048	11,778	11,778	
County of Roanoke, Virginia					
English Language Acquisition State Grants 2017	84.365	S365A170046	10,953	10,953	
Department of Health and Human Services					
Virginia Department of Health					
Summer Food Service Program for Children	10.559	-	18,336	18,336	
Goodwill Industries of the Valleys					
Affordable Care Act (ACA) Health Profession Opportunity Grants	93.093	90FX0038-01-01	30,754	30,754	
Total Expenditures of Federal Awards				\$ 2,664,979	\$ 169,978

Note 1: Basis of Accounting

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

Note 2: Nonmonetary Assistance

Nonmonetary assistance is reported in the Schedule of Expenditures of Federal Awards at the fair market value of the food commodities disbursed. As of June 30, 2018, the City of Salem School Division (School Division) had food commodities in inventory of \$22,659.

Note 3: Indirect Cost Rate

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

Note 4: Reporting Information

This Schedule of Expenditures of Federal Awards is part of the overall Schedule of Expenditures of Federal Awards for the City of Salem, Virginia (City). The City and the School Division have a combined federal audit, and the Comprehensive Annual Financial Report for the City includes reporting for the combined federal audit. The City's Comprehensive Annual Financial Report may be obtained from the City of Salem, Finance Department, P.O. Box 869, Salem, VA 24153.

**Report of Independent Auditor on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Salem, Virginia School Division (the "School Division"), a component unit of the City of Salem, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School Division's basic financial statements, and have issued our report thereon dated November 16, 2018. Our report recognizes that the School Division implemented a new accounting standard effective July 1, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in blue ink that reads "Cheryl Behrman CP". The signature is written in a cursive style.

Roanoke, Virginia
November 16, 2018