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CITY OF SALEM, VIRGINIA

Annual Comprehensive Financial Report

Year Ended June 30, 2022

CITY OF SALEM, VIRGINIA



ANNUAL COMPREHENSIVE FINANCIAL REPORT YEAR ENDED JUNE 30, 2022

DEPARTMENT OF FINANCE

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INTRODUCTORY SECTION



The Introductory Section of the City of Salem, Virginia's Annual Comprehensive Financial Report contains the Letter of Transmittal, which presents an overview of the profile of the City of Salem government, the local economic condition and outlook, major initiatives and accomplishments, and financial policies and financial planning. Also included in this section are an organizational chart and the Certificate of Achievement for Excellence in Financial Reporting awarded by the Government Finance Officers Association of the United States and Canada (GFOA) for the Annual Comprehensive Financial Report for the fiscal year ended June 30, 2021. It is the highest form of recognition in governmental financial reporting.

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CITY OF SALEM, VIRGINIA

November 17, 2022

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

We are pleased to present the City of Salem, Virginia (City) Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2022, as required by state law. This report was prepared by the Department of Finance in accordance with the standards of financial reporting as prescribed by the Governmental Accounting Standards Board (GASB). Brown, Edwards & Company, L.L.P., has issued unmodified opinions on the City's basic financial statements as of and for the fiscal year ended June 30, 2022.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with City management. To the best of our knowledge and belief, the data as presented is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the City as measured by the financial activity of various funds and component units. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The City has established a comprehensive internal control framework designed to both safeguard the government's assets against loss from unauthorized use or theft and to properly record and adequately document transactions in order to compile information for the presentation of the City's financial statements. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

Management's discussion and analysis (MD&A) beginning on page 16 provides a narrative introduction, overview, and analysis to assist users in interpreting the basic financial statements. This letter is meant to complement the MD&A and should be read in conjunction with it.

Profile of the Government

Salem is located in Virginia's Blue Ridge Mountains, approximately 190 miles west of Richmond and 250 miles southwest of Washington, DC. The City lies at the region's crossroads of major rail and highway systems, making it a part of the principal trade, industrial, transportation, medical and cultural center of western Virginia.

Chartered by the Commonwealth of Virginia as a town in 1806 and as a city in 1968, Salem encompasses a land area of 14.4 square miles. The City's 2022 population, 25,373, accounts for approximately 8.1% of the population in its metropolitan statistical area (MSA), which includes the neighboring City of Roanoke and Counties of Botetourt, Craig, Franklin, and Roanoke.

The City of Salem operates under a Council-Manager form of government. Under this form of government, City Council is elected by the voters and is comprised of five members, who elect two of their members as Mayor and Vice-Mayor for a two-year term. The City Council employs a City Manager who is responsible for administration of the City government. The Primary Government provides a full range of services

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

The financial reporting entity reflected in the Annual Comprehensive Financial Report includes all funds of the City as well as its component units. Component units are legally separate entities for which the primary government is financially accountable. The City's reporting entity includes two discretely presented component units, the City of Salem School Division and the Economic Development Authority of the City of Salem (EDA). The discretely presented component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position and results of operations from that of the primary government. Additional information concerning these legally separate organizations can be found in Note 1 to the financial statements.

There are several commissions and authorities where the City's accountability is limited to appointments to, or seats on, the respective boards. The City does not exercise financial or administrative control over these entities, so they are excluded from this report.

Local Economic Condition and Outlook

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 values, steady tax rates, a strong educational system and skilled workforce in a region with operating costs 18% lower than the national average (Moody's August 2021). These are significant reasons why employers have chosen to locate in Salem as well as continue to grow and prosper.

As of June 2022, Salem's unemployment rate was 3.0%, a drop from 4.0% in June of 2021. Salem's unemployment rate remained lower than the national unemployment rate of 3.8% and mirrored the state unemployment rate of 3.0%.

A key factor to Salem establishing a low unemployment rate is having a diversified economy comprised of industry in health care, manufacturing, higher education, retail trade and government. Manufacturers include a strong mix of products comprising high-tech medical equipment, biopharmaceutical, tires, steel products, tool and die, railroad equipment and concrete products, just to name a few. Health care remains an important part of Salem's economy as well. Two major hospitals operate in Salem. The Salem Veterans Affairs (VA) Medical Center is the city's largest employer with over 1,700 employees and HCA Health System's Lewis Gale Hospital employs over 1,200 people.

The City has been fortunate to have ongoing investment by new and existing businesses in historic downtown and other historic buildings throughout the city. In January 2016, City Council adopted the Downtown Plan and the Façade Grant Program. Over the years, both the downtown plan and façade grant program have been a major success attracting significant investment in the adaptive reuse of several well-known derelict properties. The Downtown plan has had the most visible improvements with new streetscapes, landscaping and lighting completed with the first phase on College Avenue in 2020 and Main Street at the Farmers Market in 2021. Engineering has begun for two more phases with approved funding for construction in 2023.

Over the past year, Salem has been fortunate to see investment by existing and new business. Examples of new investment include:

- Ridge View Bank, whose parent bank is CNB Bank (\$4.9 Billion in assets), is a new regional bank constructing their first physical branch in downtown Salem.
- RDG Filings is constructing a new 3-story modern office building for their North American headquarters.
- Phoenix Investors, investor of industrial properties, purchased the former General Electric building. They are investing a substantial amount to modernize and market the building as one of Virginia's largest and modern industrial buildings for lease.
- Layman Distributing, a mid-Atlantic distribution company, is expanding their operational footprint and hiring new staff.

- Lewis Gale Hospital received Department of Health approval and is investing in a new neonatal intensive care unit. In addition, other operational investments are moving forward, including modernization of commissary operations.
- Roanoke College announced a new investment in the planned construction of the 150,000 square foot Science Center Building, having reached a critical funding milestone this year.
- Additional companies with recent investment and new jobs include: Yokohama, Graham White, Carter Machinery, New Millennium and Integer.

The City announced a major revitalization project at the former Valleydale Meat Packing and Processing plant. The proposed \$50 million venture will bring more than 300 upscale apartment units and a variety of resort style amenities to the property. A \$10 million incentive package will be provided that includes a tax rebate incentive grant, a site development grant, neighborhood streetscaping, the enhancement of public utilities, and other considerations from the City and EDA. The real estate tax assessment of the property is expected to grow from \$1.27 million to more than \$40 million at the conclusion of construction. Demolition and site preparation are expected to begin in December 2022 with a tentative completion date of 2025.

The City of Salem is part of the Roanoke Region Metropolitan Area and located off Interstate 81. Salem has seen the continued investment in restaurant establishments. Recent openings and groundbreakings have taken place for Long John Silver's, Sonic, Jersey Mike's, and Tropical Smoothie to name a few.

As Salem is landlocked and near fully developed, leadership had the foresight to be a member of the Western Virginia Regional Industrial Facility Authority (WVRIFA), which was formed in 2013. The Authority provides a mechanism for localities to cooperate regionally on economic development projects to develop property and benefit in future revenue sharing. The WVRIFA member localities include Roanoke County, Botetourt County, Franklin County, Roanoke City, Salem City, and the Town of Vinton. The City of Salem, Roanoke County and the City of Roanoke are the only participants in the Wood Haven Technology Park. The 109-acre park is near the intersection of I-81 and I-581. Since 2019, the park was acquired, rezoned, and utilities and roads were extended to the site. Grading of the site was completed at the end of last year. The site represents a significant economic opportunity in the region and potential for a diversified revenue stream for the City of Salem. Since completion of the park, there has been a significant spike in prospect interest and on-site visits with industrial investment ranging from tens of millions to hundreds of millions of dollars.

As allowed by the *Code of Virginia*, the City along with the EDA may enter into performance agreements with businesses to provide economic development incentive payments for rehabilitation, renovation and replacement of commercial or industrial properties. These agreements sometimes include grants. Agreements are carefully analyzed to make sure the expected long-term benefit of the grants are based on improved real estate value.

Major Initiatives and Accomplishments

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

Salem students demonstrated high levels of performance in academic, extracurricular, and athletic activities. All six Salem schools were fully accredited by the Virginia Department of Education. The City of Salem School Division has one of the highest on-time graduation rates in the area at 96.26%. Approximately 78% of Salem High School graduates attend a 2-year or 4-year college or university.

Construction on the Salem High School renovation project continued. The multi-phase project includes classroom additions in the front and back of the building, a new administrative area in the front, façade improvements, a new roof, improved security, and a new cafeteria courtyard adjacent to the cafeteria. Renovations are being done in a way that will enable future incremental classroom modernization of the existing classrooms within the original structure. The project is scheduled for completion in December of 2022. The City issued \$27 million in general obligation bonds including premiums in June 2020 to pay for the renovation project.

Renovation of the Salem High School Fieldhouse is also underway. The project includes an addition that will more than double the current square footage of the building, adding another weight room, additional locker rooms, expanded training room space and additional storage space. The project is expected to cost \$4.2 million and be completed by December 2022.

The City completed design work on the renovation of the James I. Moyer Sports Complex in fiscal year 2022. The \$27.5 million project will create new pickleball courts, replace lighting, enhance parking and renovate the playground, skatepark and ballfields. The complex is in use an average of 230 days per calendar year and hosts multiple conference championships. The project upholds Salem's reputation as Virginia's Championship City, serving the citizens of Salem and boosting tourism in the greater Blue Ridge. The City issued \$15 million in general obligation public improvement bonds to help pay for the renovations. Construction began in August 2022 and the facility is expected to reopen in February 2024.

In fiscal year 2022, the James I. Moyer Sports Complex hosted over 1,400 softball and baseball teams in tournaments, filling over 15,000 hotel rooms in the Roanoke Valley. Over 34,000 people attended events at the James I. Moyer Sports Complex during the past year. Approximately 17,000 athletes and 3,200 coaches participated in over 6,000 games at the Complex.

Salem hosts hundreds of high school, collegiate and amateur tournaments, and championships. The City hosted Old Dominion Athletic Conference (ODAC) men's and women's basketball, indoor track and softball. Virginia High School League (VHSL) championships in volleyball, football, wrestling, softball, baseball and soccer were held in fiscal year 2022. Salem also hosted the Central Intercollegiate Athletic Association (CIAA) championships in football, cross country and bowling. The City, in conjunction with ODAC and Roanoke College, hosted the NCAA Division III women's lacrosse championship and the Division III women's softball championship. Approximately 17,000 people traveled to Salem to attend events in fiscal year 2022 with an estimated economic impact of \$5 million.

The NCAA awarded Salem and its long-time partners, ODAC and Roanoke College, fifteen national championship events beginning in fiscal year 2023. The City will be hosting Division III championships in men's and women's soccer, women's basketball, softball, lacrosse and volleyball and men's volleyball. The historic 50th annual Amos Alonzo Stagg Bowl, NCAA Division III football championship, will be returning to Salem in 2023. Salem previously hosted the Stagg Bowl for 25 consecutive years, from 1993 to 2017.

Financial Policies and Financial Planning

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

City Council adopted a formal fund balance policy to establish guidelines to maintain a prudent level of financial resources to ensure that a strong financial position is maintained. The policy establishes a minimum acceptable level of unassigned fund balance as 10% of the sum of General Fund, Debt Service Fund and School Division operating expenditures, net of the General Fund transfer to School Division. As of June 30, 2022, unassigned fund balance is 50.2%, well in excess of this minimum.

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

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

The City prepares a six-year capital improvement plan, which identifies and prioritizes major City projects and includes cost estimates and potential funding sources. The City closely monitors available funding and proceeds with capital purchases only as funds become available. The City may issue debt obligations to finance the construction or acquisition of capital assets or major renovations to existing capital assets within the guidelines established in the debt management policy.

Independent Audit

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

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) has awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City for its Annual Comprehensive Financial Report for 2021. This represents the thirty-fourth year Salem has earned this distinction. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized annual comprehensive financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. We believe this report conforms to the Certificate of Achievement Program requirements and standards and are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

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

Respectfully submitted,



James E. Taliaferro, II
City Manager



Rosemarie B. Jordan
Director of Finance

**CITY OF SALEM, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
JUNE 30, 2022**

MEMBERS OF CITY COUNCIL

Renée F. Turk	Mayor
James W. Wallace, III	Vice-Mayor
Byron R. Foley	Member
William D. Jones	Member
John E. Saunders	Member

ELECTED OFFICERS

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

GENERAL CITY GOVERNMENT

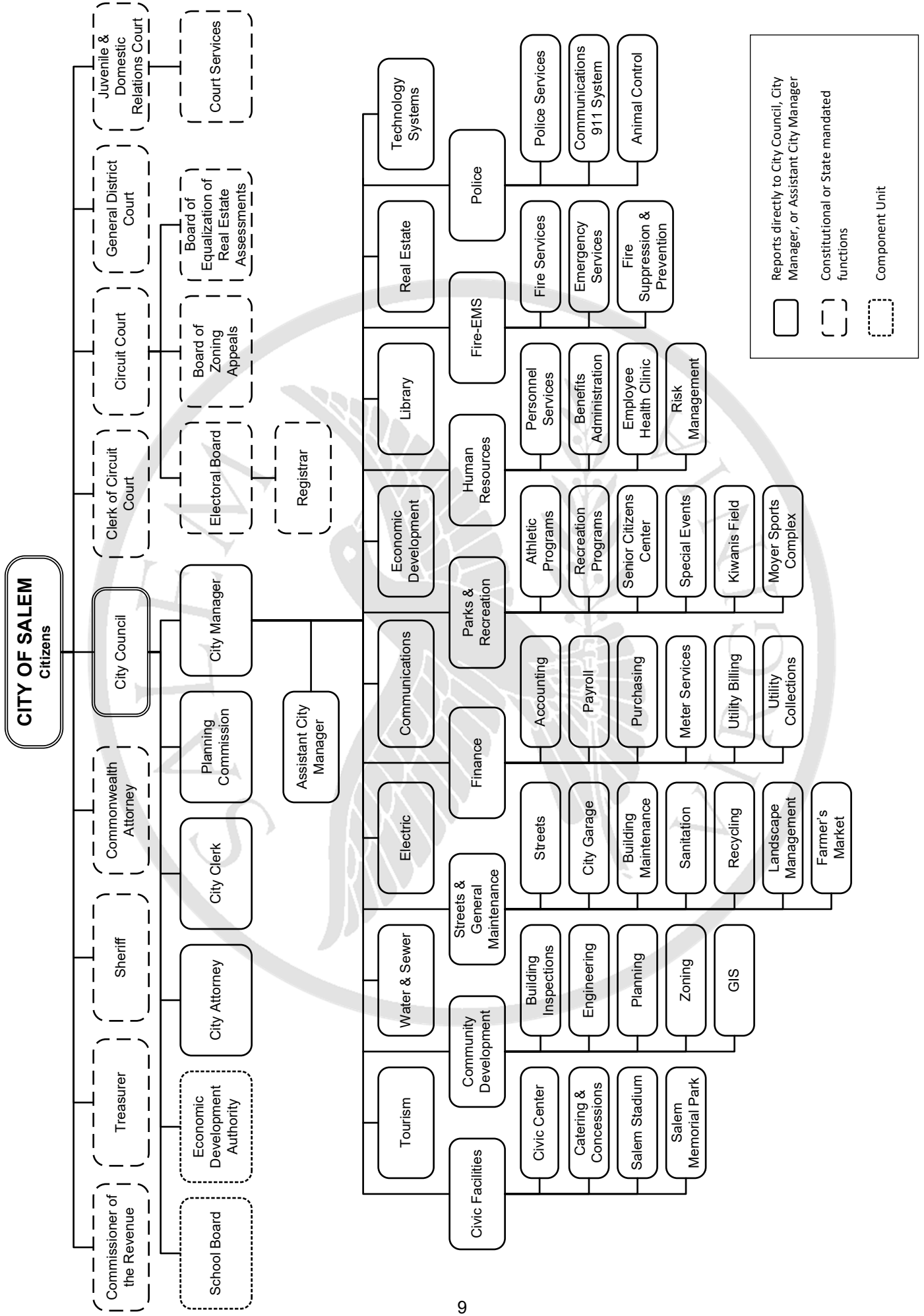
James E. Taliaferro, II	City Manager
H. Robert Light	Assistant City Manager
Rosemarie B. Jordan, CPA	Director of Finance
Jim H. Guynn, Jr.	City Attorney
Beth A. Rodgers	Director of Human Resources
Patrick W. Morton	Director of Technology Systems
Michael D. Crawley	Police Chief
John W. Prillaman	Fire Chief
Charles E. Van Allman, Jr.	Director of Community Development
Norman M. Tyler, Jr.	Director of Streets and General Maintenance
John P. Shaner	Director of Parks and Recreation
Ann G. Tripp	Library Director
Dana M. Oliver	Director of Elections
A. K. Briele, III	Director of Electric Department
Larado M. Robinson	Director of Water and Sewer Department
Justin W. Kuzmich	Real Estate Assessor
Troy D. Loving	Building Official
Thomas J. Miller	Director of Economic Development
Wendy S. Delano	Director of Civic Facilities
R. Carey Harvey, Jr.	Director of Tourism
Mike Stevens	Director of Communications
Angela A. Sellers	Process Improvement/Business Efficiency Director

MEMBERS OF SCHOOL BOARD

David H. Preston	Chairman
Artice M. Ledbetter	Vice Chairman
Dr. Nancy A. Bradley	Member
John A. (Andy) Raines	Member
Teresa E. Sizemore-Hernandez	Member

SCHOOL ADMINISTRATION

Dr. Curtis N. Hicks	Superintendent of Schools
Jamie C. Soltis	Assistant Superintendent
Kirstine M. Barber	Director of Human Resources
Jennifer P. Dean	Assistant Superintendent of Instruction
Mandy C. Hall	Director of Business
Dr. Randy L. Jennings	Director of Student Services
Dr. Forest I. Jones	Director of Administrative Services
Rosemarie B. Jordan, CPA	Director of Finance





Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**City of Salem
Virginia**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2021

Christopher P. Morill

Executive Director/CEO

FINANCIAL SECTION



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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Salem, Virginia (the "City"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof and the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of Counties, Cities, and Towns* and the *Specifications for audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As described in Note 21 to the financial statements, in 2022, the City adopted new accounting guidance, *GASB Statement No. 87, Leases*. Our opinion is not modified with respect to this matter.

Report on the Audit of the Financial Statements (Continued)

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on the Audit of the Financial Statements (Continued)

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management, and, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section, other supplemental schedules, and statistical section, but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2022 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 17, 2022

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

The following discussion and analysis of the City of Salem, Virginia's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2022. It should be read in conjunction with the transmittal letter and the City's basic financial statements.

FINANCIAL HIGHLIGHTS

- As of June 30, 2022, the Primary Government had \$187.8 million in total net position, an increase of \$18.7 million from prior year. Unrestricted net position available to fund future expenses was \$32.8 million or 17.4% of total net position.
- As of June 30, 2022, the governmental activities had \$71.6 million in total net position, which increased \$10.7 million from prior year. Unrestricted net position (deficit) was \$(16.0) million or (22.3%) of total net position.
- As of June 30, 2022, the business-type activities had \$116.2 million in total net position, an increase of \$8 million from prior year. Unrestricted net position available to fund future expenses was \$48.8 million or 42% of total net position.
- As of June 30, 2022, the General Fund had \$60.4 million in total fund balance, which increased by \$10.5 million from prior year. Unassigned fund balance was \$55.2 million or 91.3% of total fund balance.
- The City issued \$15,080,000 in general obligation bonds in May 2022 to fund renovations to the Moyer Sports Complex.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The government-wide financial statements begin on page 30 and include the Statement of Net Position and the Statement of Activities. These statements provide information about the City as a whole using the accrual basis of accounting, which is the method used by most private-sector enterprises. All current year revenues and expenses are reported in the Statement of Activities regardless of when cash is received or paid. These statements allow readers to answer the question "Is the City's financial position, as a whole, better or worse as a result of the year's activities?"

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

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

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

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

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

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

Fund Financial Statements

The fund financial statements begin on page 32 and provide detailed information about the most significant funds, rather than the City as a whole. The City has three types of funds:

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

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

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

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

Fiduciary funds – Resources held for other governments or agencies not part of the City are reported as fiduciary funds. These activities are excluded from the government-wide financial statements because the City cannot use these assets to finance its operations. The accounting used for fiduciary funds is much like that used for proprietary funds. The City reports resources for other postemployment benefits (OPEB) related to its healthcare plan for retirees in an OPEB trust fund and accounts for resources held on behalf of the Cardinal Criminal Justice Academy and the Court-Community Corrections Program in custodial funds. In custodial funds, the City recognizes liabilities when events occur that compel the City to disburse fiduciary resources.

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

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

Summary of Net Position

The following table presents a condensed summary of net position:

	Summary of Net Position (In Millions)							
	Governmental Activities		Business-type Activities		Total Primary Government		Component Units	
	2022	2021	2022	2021	2022	2021	2022	2021
Current and other assets	\$ 112.2	\$ 88.8	\$ 68.7	\$ 68.6	\$ 180.9	\$ 157.4	\$ 28.6	\$ 28.9
Capital assets, net	98.5	97.9	102.5	96.0	201.0	193.9	67.8	60.2
Total assets	210.7	186.7	171.2	164.6	381.9	351.3	96.4	89.1
Deferred outflows of resources	8.6	9.9	2.6	3.0	11.2	12.9	9.1	10.8
Current and other liabilities	24.2	21.3	9.6	8.0	33.8	29.3	13.5	13.2
Long-term liabilities	103.0	111.1	42.3	50.4	145.3	161.5	27.1	46.3
Total liabilities	127.2	132.4	51.9	58.4	179.1	190.8	40.6	59.5
Deferred inflows of revenues	20.5	3.3	5.7	1.0	26.2	4.3	17.6	4.0
Net investment in capital assets	84.4	83.8	67.4	61.0	151.8	144.8	67.8	60.2
Restricted	3.2	2.3	-	-	3.2	2.3	1.4	0.4
Unrestricted	(16.0)	(25.2)	48.8	47.2	32.8	22.0	(21.9)	(24.2)
Total net position	\$ 71.6	\$ 60.9	\$ 116.2	\$ 108.2	\$ 187.8	\$ 169.1	\$ 47.3	\$ 36.4

The Primary Government net position increased from \$169.1 million to \$187.8 million. Net position of governmental activities increased \$10.7 million and net position of business-type activities increased \$8 million. A detailed description of the changes in revenues and expenses that create the differences in net position is discussed in the next section.

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

The Primary Government's unrestricted net position, the portion of net position that can be used to finance the daily operations of the City, was \$32.8 million. Debt totaling \$1.3 million issued for Civic Center improvements is being repaid by governmental activities while the related asset is recorded in business-type activities. The City also assumed \$36.5 million of debt including premiums issued for school improvements while the School Division recorded the related asset. As such, \$37.8 million is included in governmental activities long-term liabilities, which directly reduced unrestricted net position.

Net position is reported as restricted when constraints on asset use are externally imposed by creditors, grantors, contributors, regulators, or are imposed by law through constitutional provisions or enabling legislation. The City had restricted net position totaling \$3.2 million as of June 30, 2022, for governmental activities. Approximately \$2.6 million in state funding was received, but not yet spent, for highway maintenance. Federal and state grant funding totaling \$389,000 was received, but not yet spent, for fire programs, asset forfeiture, four for life and hazardous materials grants. Unspent donations totaling \$254,000 were restricted for law enforcement and public safety programs.

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

As of June 30, 2022, component units had \$47.3 million in total net position, an increase of \$10.9 million. Unrestricted net position (deficit) available to fund future expenses was (\$21.9) million. Net investment in capital assets was \$67.8 million, an increase of \$7.6 million.

Summary of Changes in Net Position

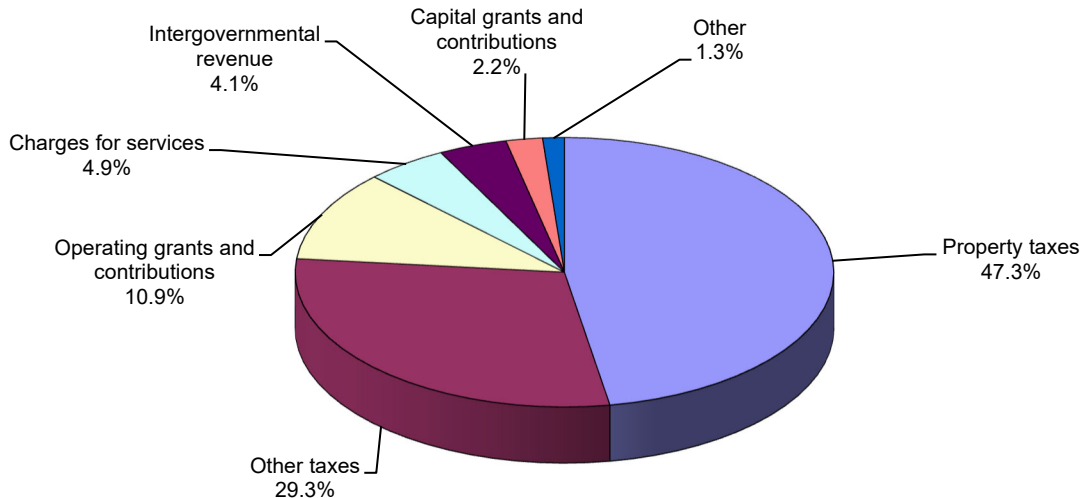
The following table presents a condensed summary of changes in net position.

Summary of Changes in Net Position (In Millions)								
	Governmental Activities		Business-type Activities		Total Primary Government		Component Units	
	2022	2021	2022	2021	2022	2021	2022	2021
Revenues								
<i>Program Revenues:</i>								
Charges for services	\$ 4.5	\$ 4.0	\$ 58.2	\$ 53.0	\$ 62.7	\$ 57.0	\$ 1.3	\$ 1.2
Operating grants and contributions	9.9	9.9	1.3	-	11.2	9.9	17.4	12.9
Capital grants and contributions	2.0	8.6	0.2	0.5	2.2	9.1	0.6	-
<i>General Revenues:</i>								
Property taxes	43.0	40.4	-	-	43.0	40.4	-	-
Local sales and use tax	9.1	7.8	-	-	9.1	7.8	-	-
Business license tax	6.2	5.5	-	-	6.2	5.5	-	-
Meals tax	5.8	5.0	-	-	5.8	5.0	-	-
Utility taxes	1.2	1.2	-	-	1.2	1.2	-	-
Other taxes	4.4	3.6	-	-	4.4	3.6	-	-
Intergovernmental revenue	3.7	7.2	-	-	3.7	7.2	-	-
Investment earnings	0.4	0.2	0.1	0.1	0.5	0.3	0.1	0.1
Gain on sale of capital assets	0.1	0.1	-	-	0.1	0.1	-	-
Payments from City of Salem	-	-	-	-	-	-	26.7	35.2
State aid	-	-	-	-	-	-	16.4	16.1
Other	0.7	0.7	-	0.2	0.7	0.9	0.9	0.2
Total revenues	91.0	94.2	59.8	53.8	150.8	148.0	63.4	65.7
Expenses								
General government	6.9	7.4	-	-	6.9	7.4	-	-
Judicial administration	2.5	2.7	-	-	2.5	2.7	-	-
Public safety	18.6	19.7	-	-	18.6	19.7	-	-
Public works	10.8	16.7	-	-	10.8	16.7	-	-
Health and welfare	5.4	5.7	-	-	5.4	5.7	-	-
Education	26.6	34.6	-	-	26.6	34.6	52.4	50.0
Parks, recreation and cultural	6.8	6.9	-	-	6.8	6.9	-	-
Community development	2.7	3.0	-	-	2.7	3.0	0.1	1.1
Interest and other fiscal charges	1.6	1.6	-	-	1.6	1.6	-	-
Electric	-	-	35.5	32.8	35.5	32.8	-	-
Water and sewage	-	-	9.9	10.5	9.9	10.5	-	-
Civic center	-	-	4.1	2.7	4.1	2.7	-	-
Catering and concessions	-	-	0.7	0.4	0.7	0.4	-	-
Total expenses	81.9	98.3	50.2	46.4	132.1	144.7	52.5	51.1
Excess (deficit) before transfers	9.1	(4.1)	9.6	7.4	18.7	3.3	10.9	14.6
Transfers	1.6	1.7	(1.6)	(1.7)	-	-	-	-
Increase (decrease) in net position	10.7	(2.4)	8.0	5.7	18.7	3.3	10.9	14.6
Net position, beginning	60.9	63.3	108.2	102.5	169.1	165.8	36.4	21.8
Net position, ending	\$ 71.6	\$ 60.9	\$ 116.2	\$ 108.2	\$ 187.8	\$ 169.1	\$ 47.3	\$ 36.4

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

Governmental Activities – Revenues

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



Property taxes, which were 47.3% of total governmental activities revenue, include real estate tax, the local portion of personal property tax, machinery and tools tax and public service corporation taxes. Property taxes in total increased \$2.7 million or 6.6% from the previous year. Current year real estate tax revenue was up approximately \$1 million or 3.7% from the prior year due to higher assessments. The assessed value of vehicles saw an unprecedented increase due to a shortage of vehicles available for purchase. Current year personal property tax revenue increased \$1.6 million or 18% after City Council provided a rebate of approximately \$831,000. Machinery and tools tax was up \$130,000 or 4.1%

Capital grants and contributions, which were 2.2% of total governmental activities revenue, decreased \$6.6 million. In the previous fiscal year, the Virginia Department of Transportation completed the East Main Street improvement project which resulted in a \$6.9 million contribution. Contributions in fiscal year 2022 included infrastructure valued at \$1.1 million. In the previous year, approximately \$976,000 in grant funding was received for downtown improvements. Grant funding for downtown projects totaled only \$72,000 in fiscal year 2022. Capital grants and contributions vary from year to year based on active projects.

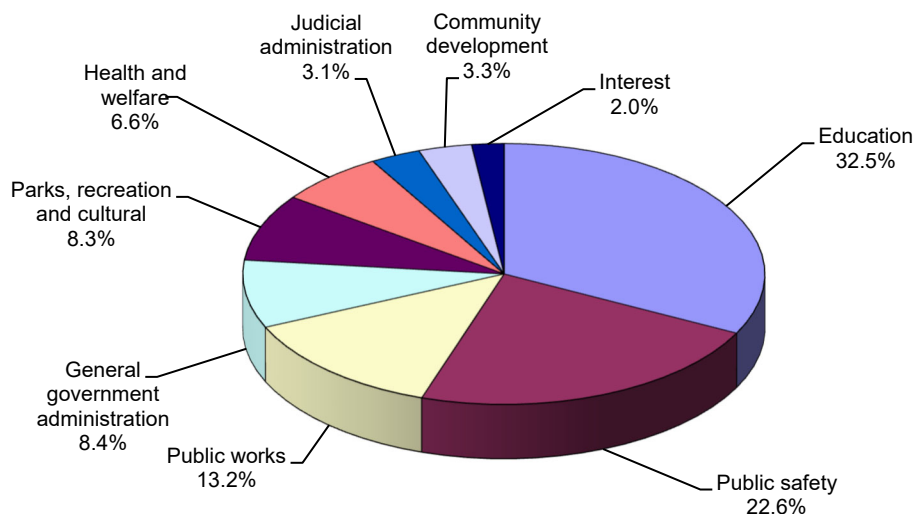
Intergovernmental revenue not restricted, which was 4.1% of total governmental activities revenue, decreased \$3.5 million or 48.6%. In the previous fiscal year, \$3.3 million in funding authorized by the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020, was recognized. The CARES Act required that funds be used to pay necessary expenditures incurred due to the public health emergency. In addition, the Fire Department received Assistance to Firefighters grant funds which paid for the purchase of a diesel exhaust removal system in the previous fiscal year.

Local sales and use taxes continued trending up, increasing \$1.3 million or 16.7%. The cost of goods and services has been steadily rising, resulting in higher gross sales and ultimately higher sales tax revenue. Business license tax, which is based on gross receipts for the previous calendar year, increased \$630,000 or 11.4%. Meals tax increased \$0.8 million or 16.0% from the prior year. Most local tax revenue streams have rebounded from COVID and several exceeded pre-pandemic amounts in fiscal year 2022.

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

Governmental Activities – Expenses

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



Pension expense in all functions was lower than the previous year. Differences between actuarially assumed investment returns and actual investment returns is amortized over a five-year closed period. The expensed portion of current period differences between actual and projected earnings on plan investments contributed to lower pension expense in fiscal year 2022. This is partially offset by an increase in the expensed portion of current-period changes of assumptions.

Education expenses totaling \$26.6 million, or 32.5% of governmental activities, represented the largest allocation of resources. Education expenses decreased \$8 million or 23.1%. Funding of \$20.9 million was allocated to the School Division to cover operating costs, an increase of \$1.1 million or 5.4%. In fiscal year 2022, \$5.3 million in bond proceeds were transferred to the School Division to cover Salem High School renovation costs compared to \$14.4 million transferred in fiscal year 2021. In addition, the City transferred \$414,000 in fiscal year 2022 to help fund Salem High School Fieldhouse renovations.

Public works expenses were 13.2% of total governmental activities expenses and decreased \$5.9 million or 35.3%. In fiscal year 2022, only \$2,700 was spent on paving compared to \$4.9 million in the previous fiscal year. CARES Act funding of \$390,000 was spent in this function in the prior year. Pension expense decreased approximately \$750,000 in this function. Decreases were partially offset by an increase in depreciation expense of \$171,000.

Public safety expenses, which were 22.6% of total governmental activities expenses, decreased \$1.1 million or 6%. In the previous fiscal year, CARES Act funding of \$1.1 million was expended in this function. Payments to the Western Virginia Regional Jail (WVRJ) decreased by \$315,000 from the prior year due to a lower number of prisoner days and a lower payment for the City's share of debt service.

Business-type Activities

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

Component Units

Payments from the City of Salem totaled \$26.7 million, a decrease of \$8.5 million or 24.1%. Funding from the City to the Economic Development Authority totaled \$56,000 and decreased \$569,000 from the previous year due to lower incentive payments. Payments to the School Division totaled \$26.6 million and were

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

down \$8 million or 23.1% from the previous year. Operating support totaled \$20.9 million and \$5.3 million was transferred to cover Salem High School renovation costs, which was lower than the \$14.4 million provided in the previous year. Unrestricted state aid increased \$288,000 or 1.8% due to higher sales tax revenue, which was partially offset by a decrease in basic aid.

The School Division incurred expenses of \$52.4 million for the year ended June 30, 2022, an increase of \$2.4 million or 4.8% from the prior year. Salary and benefit costs were higher in fiscal year 2022. Expenses of the Economic Development Authority totaled \$72,000 and decreased \$1.1 million. In fiscal year 2021, CARES Act funds were used to provide grants totaling \$1,000,000 to businesses and non-profits.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

As of June 30, 2022, the governmental funds had \$82.7 million in total fund balance, an increase of \$20 million from prior year. Unassigned fund balances available to fund future expenditures were \$55.2 million or 66.7% of total fund balance. Unassigned fund balance, which contains all amounts not included in other classifications, is available to pay for future years' capital expenditures and provide for unforeseen circumstances. Restricted fund balance totaled \$22.5 million and included \$19.3 million of unspent bond proceeds and \$3.2 million that can be spent only for specific purposes stipulated by grantors and donors. Assigned fund balance totaled \$3.8 million and represents amounts set aside to liquidate encumbrances. Committed fund balance totaled \$130,000 and represents funds appropriated for the E-summons program and stormwater management.

General Fund

The General Fund is the chief operating fund of the City. As of June 30, 2022, the General Fund had \$60.4 million in total fund balance, which increased \$10.5 million from the prior year. Unassigned fund balance available to fund future expenditures was \$55.2 million or 91.3% of total fund balance and increased \$9.2 million from the previous year. As a measure of the General Fund's liquidity, it may be useful to compare both total fund balance and unassigned fund balance to total fund expenditures. Total fund balance to total fund expenditures increased from 64% to 82.1%. Unassigned fund balance to total fund expenditures increased from 58.9% to 75%.

Property taxes, which were 48.8% of total General Fund revenue, increased \$2.4 million or 5.9% from the prior year. Current year real estate tax revenue was up \$1 million or 3.7% due to higher assessed values. Current year personal property tax revenue was up \$1.4 million or 16.6% due to an unusually large increase in car values. The shortage of vehicles available for sale drove values higher than normal. City Council approved the rebate of approximately 19.5% of personal property tax received for vehicles, which reduced current year personal property tax revenue. Machinery and tools tax reflected a more modest increase of \$130,000 or 4.1%.

Other local taxes, which comprised 30.2% of total General Fund revenue increased \$3.6 million or 15.6% from the previous year. Sales tax reflected growth of \$1.2 million or 15.8% from the previous year. The cost of goods and services has risen over the last year resulting in increased sales tax revenue. Higher prices also resulted in higher meals taxes, which increased \$862,000 or 17.3%. Lodging taxes increased \$683,000 or 69%. Business license tax, which is based on gross receipts of businesses, showed growth of \$630,000 or 11.4%. Sales, business license, meals and lodging tax revenue exceeded pre-pandemic levels. Admissions tax increased \$206,000 from the previous year but has not fully recovered to pre-pandemic amounts.

Intergovernmental revenue decreased \$3.5 million or 20.6%. In fiscal year 2021, the City recognized \$3.3 million in CARES Act revenue, which was allocated to local governments as part of the first stimulus package approved in March 2020 to help cover certain costs associated with the pandemic. No CARES Act revenue was received in fiscal year 2022. The City also received \$83,000 in game of skill tax in fiscal year 2021, which was a one-time revenue from the state. The federal grants received by the Fire Department were higher in the prior fiscal year due to the receipt of the Assistance to Firefighters grant that funded the purchase of a diesel exhaust removal system.

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

Public works expenditures, which were 12.3% of total General Fund expenditures, decreased \$6.1 million or 40.3% from the prior year largely due to highway maintenance spending. Paving costs totaled \$4.9 million in fiscal year 2021 compared to \$2,700 in the current year. In fiscal year 2021, work done on the Mill Lane bridge totaled \$612,000 and \$519,000 was spent on drainage improvements on Kesler Mill Road.

Education expenditures, which comprise 29% of total General Fund expenditures, increased \$1.1 million or 5.5%. Local operating support of \$20.9 million was provided to the School Division in fiscal year 2022, an increase of almost \$1.1 million. The City also provided \$414,062 to help fund Salem High School Fieldhouse renovations. In the previous year, \$360,000 of CARES Act funding was allocated to the School Division to assist with the purchase of Chromebooks to promote distance learning.

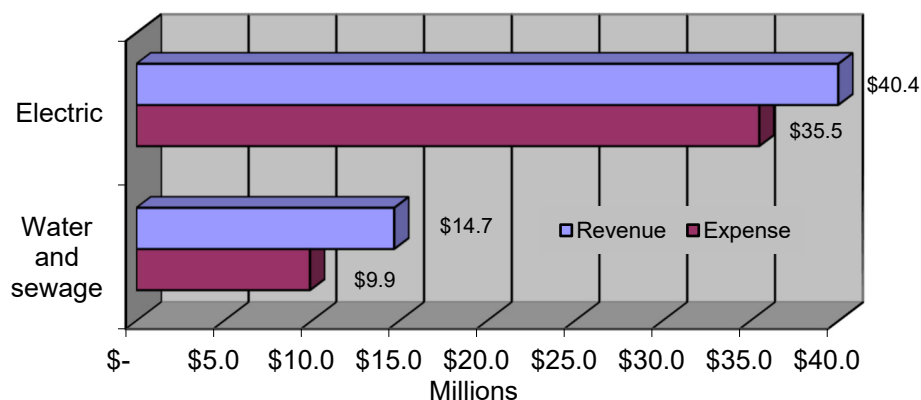
Parks, recreation and cultural expenditures were \$495,000 or 9.1% higher than the previous year. Salaries and benefits were \$237,000 higher than the previous year. Special events, summer camp and senior trip expenditures were \$91,000 higher than the prior year as activities resumed after COVID. An increase in fee revenue partially offsets these increases. In addition, capital expenditures were \$148,000 higher in fiscal year 2022. Storm drain work and paving were done at the Salem Memorial Baseball Stadium and field maintenance equipment was purchased.

Capital Projects Fund

During fiscal year 2022, Capital Projects fund expenditures were \$8.3 million, which was \$10.4 million lower than the previous year. In fiscal year 2021, bond proceeds funded \$14.4 million of the Salem High School renovation project while only \$5.3 million in bond proceeds were transferred to the School Division in fiscal year 2022 for the project. General obligation public improvement bonds totaling \$15 million were issued in May 2022 to pay for Moyer Sports Complex renovations with \$863,000 in project expenditures incurred. In fiscal year 2022, bond proceeds funded the \$678,000 purchase of a fire truck and \$134,000 for the Longwood Park restroom replacement. Grant funding covered design work totaling \$415,000 on the Colorado Street bridge project, \$165,000 on the Apperson Drive bridge project, and \$116,000 for downtown improvements. In the previous year, bond proceeds of \$1.7 million funded Salem Memorial Park seat replacements, Kiwanis Field Lighting upgrades and Street Department equipment purchases, including two garbage trucks, a dump truck, and a floor lift. Grant funding largely covered downtown improvements totaling \$1.6 million in the previous fiscal year and bridge work totaling \$365,000.

Proprietary Funds

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



Electric Fund

As of June 30, 2022, the Electric Fund had \$62.2 million in total net position, which increased by \$1.7 million from the prior year. Net investment in capital assets was \$28.3 million or 45.5% of total net position. Unrestricted net position available to fund future expenses was \$33.9 million or 54.5% of total net position.

For fiscal year 2022, operating revenue was \$40.3 million and increased \$2.3 million or 6.0% largely due to higher charges for services. Penalties were \$111,000 higher than the prior year. Penalties were waived for a portion of fiscal year 2021 due to the pandemic, resulting in lower revenue in the previous fiscal year.

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

Operating expenses were \$35.2 million and were \$2.7 million higher than the prior year. Purchased power costs increased \$3.2 million or 12.4%. A decrease in administration costs due to lower pension expense partially offset this increase.

Water and Sewage Fund

As of June 30, 2022, the Water and Sewage Fund had \$53.8 million in total net position, an increase of \$4.8 million from prior year. Net investment in capital assets was \$36.0 million or 67.0% of total net position. Unrestricted net position available to fund future expenses was \$17.7 million or 33.0% of total net position.

For fiscal year 2022, operating revenue was \$14.7 million, which was \$491,000 higher than the previous year. Charges for services were up \$342,000 or 2.5%. Operating expenses were \$9.6 million, a decrease of \$470,000 or 4.7% from the prior year. Fringe benefit costs decreased \$469,000 from the prior year due to lower pension expense. Sewage treatment costs declined \$293,000 or 14%. The rate paid to Western Virginia Water Authority (WVWA) decreased and the gallons of sewage treated was lower than the prior year. These decreases were partially offset by an increase in salary expense.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City's budget is prepared in accordance with the *Code of Virginia*. Below is a condensed version of the budgetary comparison of the General Fund original budget, amended budget and actual amounts.

**Budgetary Highlights for 2022
(In Millions)**

	Original Budget	Budget As Amended	Actual
Revenues	\$ 80.9	\$ 81.1	\$ 88.8
Expenditures	(77.5)	(80.0)	(73.6)
Proceeds from sale of capital assets	-	-	0.2
Transfers in	3.3	3.4	3.3
Transfers out	(6.7)	(8.3)	(8.2)
Use of fund balance	\$ -	\$ (3.8)	\$ 10.5

During the year, the City amended the original budget primarily for the following purposes:

- To re-appropriate monies for encumbrances established prior to June 30, 2021.
- To re-appropriate grants, donations and other revenues authorized in fiscal year 2021 or earlier, but not expended or encumbered as of June 30, 2022.
- To appropriate grants, donations and other revenues accepted or adjusted in fiscal year 2022 when official notice of approval was received.

The Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual – General Fund is shown on page 36. Property tax revenue exceeded budget by 6.5% for several reasons. Because the City assesses and bills personal property in late spring, no current assessment data is available at the time revenue estimates are developed for the subsequent fiscal year. The Finance Department works with other City departments to determine a reasonable revenue estimate based on the information that is available. In fiscal year 2022, vehicle assessments increased an unprecedented amount and exceeded budget despite Council rebating a portion of personal property tax. Assessed values of real estate also increased more than anticipated.

Other local taxes revenue exceeded budget by 21.3%. The cost of goods and services has gone up dramatically over the last year, impacting several revenue streams that are based on gross sales. Sales, meals and lodging taxes exceeded budget by 18%, 26% and 80%, respectively. Business license tax, which is based on gross receipts, exceeded budget by \$876,000 or 17%. Spurred by higher home prices and sales, recordation tax exceeded budget by \$281,000.

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

Several functions ended the year with expenditures less than budget. Public Safety expenditures were under budget by \$1.3 million or 7.1%. Amounts totaling \$148,000 were encumbered but not spent as of June 30, 2022. Jail expenditures were \$694,000 less than budgeted due to a lower inmate population. Salary and fringe expenditures were \$360,000 below budget due to vacant positions. Public Works expenditures were under budget by \$2.6 million or 22%. Highway maintenance funding was under budget by \$1.3 million and \$657,000 was encumbered, but not spent as of June 30, 2022. Unspent highway maintenance funds are re-appropriated and spent in subsequent years. Waste disposal charges were under budget by \$157,000. Salary and fringe expenditures were \$284,000 under budget in this function.

CAPITAL ASSETS

The City's total Primary Government capital assets, net of accumulated depreciation and amortization, increased 3.7% from \$193.9 million to \$201 million. This investment includes land, construction in progress, machinery and equipment, buildings and improvements, public domain infrastructure, distribution and transmission, utility plant, sewage treatment contract and intangible right-to-use lease assets. The following table presents a summary of capital asset balances at the end of the year. The changes in each category of capital assets, along with other important information regarding capital assets, are presented in Note 7 of the financial statements.

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

	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2022	2021	2022	2021	2022	2021	2022	2021
Land	\$ 6.4	\$ 6.5	\$ 1.6	\$ 1.6	\$ 8.0	\$ 8.1	\$ 1.1	\$ 1.1
Construction in progress	3.4	1.9	18.2	11.8	21.6	13.7	29.4	21.2
Machinery and equipment	11.0	10.2	2.4	2.8	13.4	13.0	2.4	2.4
Buildings and improvements	19.6	20.4	14.0	14.6	33.6	35.0	34.8	35.5
Public domain infrastructure	58.0	58.9	-	-	58.0	58.9	-	-
Distribution and transmission	-	-	18.4	15.4	18.4	15.4	-	-
Utility plant	-	-	29.9	31.0	29.9	31.0	-	-
Sewage treatment contract	-	-	18.0	18.8	18.0	18.8	-	-
Intangible, right-to-use	0.1	-	-	-	0.1	-	-	-
Total	<u>\$ 98.5</u>	<u>\$ 97.9</u>	<u>\$ 102.5</u>	<u>\$ 96.0</u>	<u>\$ 201.0</u>	<u>\$ 193.9</u>	<u>\$ 67.7</u>	<u>\$ 60.2</u>

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

- Design work was completed on the Moyer Sports Complex Renovation project with \$863,000 expended in fiscal year 2022.
- A pumper fire truck was purchased at a cost of \$678,000.
- Improvements to the Mill Lane Bridge were capitalized at a cost of \$639,000.
- Four snow plow and salt spreader trucks were purchased at a total cost of \$650,000.
- Engineering work continued on the Apperson Drive and Colorado Street bridge replacements. In fiscal year 2022, \$580,000 was expended on the two projects.

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

- The Electric Fund portion of the automated meter reading project was completed at a total cost of \$2.4 million. Water and Sewer Fund costs for the project totaled \$2.3 million and are included in construction in progress.
- In the Electric Fund, the substation equipment replacement project proceeded, with \$11.1 million included in the construction in progress balance. Circuit breakers totaling almost \$900,000 were capitalized in fiscal year 2022.

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

- The City paid \$1,150,000 in fiscal year 2022 for their share of the renovation of the existing anaerobic digestion facilities at the Western Virginia Water Authority Regional Wastewater Treatment Plant. Costs totaling \$1,356,000 were included in construction in progress.
- The well siting project continued in the Water Fund with \$744,000 included in construction in progress.

LONG-TERM DEBT

At June 30, 2022, the City's long-term liabilities, excluding financed purchase obligations, lease liabilities, compensated absences, net pension liabilities, net OPEB liabilities, bond premiums, and bond discounts, totaled \$93.9 million. This amount was comprised of \$64.2 million related to governmental activities (including \$33.6 million for debt held on behalf of the School Division and \$385,000 recorded as a receivable from Roanoke Valley Resource Authority) and \$29.7 million related to business-type activities. The City made \$6.8 million in principal payments and amortized \$772,000 in discounts and premiums. On May 26, 2022, the City issued \$15,080,000 of series 2022B general obligation public improvement bonds to fund a portion of the Moyer Sports Complex renovation project. In March 2022, the City closed on a \$2,320,437 loan with Virginia Resources Authority to fund the City's share of the cost to renovate the existing anaerobic digestion facilities at the Western Virginia Water Authority Regional Wastewater Treatment Plant. Detailed information regarding these changes in long-term debt is disclosed in Note 9 to the financial statements. Total debt increased \$9.5 million during the fiscal year.

With its most recent rating in May 2020, the City received a rating of Aa2 from Moody's Investor Service, an upgrade from the previous Aa3 rating. The City received a rating of AA+ from S&P Global Ratings.

The City Charter and the *Code of Virginia* limits the City's net debt to 10% of the assessed valuation of real estate within the City limits. This limit applies to governmental fund tax supported debt and certain long-term liabilities of proprietary funds. The City considers long-term debt of its electric, water and sewage funds to be self-supporting. Additionally, in accordance with its contractual agreement with Roanoke Valley Resource Authority, the City will receive funding from RVRA toward \$385,000 of general obligation debt. The City's tax-supported debt of \$68.4 million is below the legal debt limit of \$176.5 million. Table 10 of the statistical section provides additional information related to the legal debt margin.

The School Division relies upon the City to provide full faith and credit for any debt obligations incurred. Therefore, the City reports School Division long-term liabilities, other than financed purchase obligations, compensated absences, net OPEB liabilities, and net pension liabilities, as its own. In addition to bonded debt, the City's long-term obligations include financed purchase obligations, lease liabilities, compensated absences, net OPEB liabilities, and net pension liabilities. Additional information concerning the City's long-term liabilities is presented in Note 9 of the financial statements and Table 10 of the statistical section.

Interest and other fiscal charges for fiscal year 2022 were \$1.6 million or 1.9% of total governmental activities expenses.

FACTORS INFLUENCING FUTURE BUDGETS

High inflation and rising costs for goods and services continue to cause budgetary challenges. More resources are required to cover operating costs. Despite salary increases, the City continues to struggle with attracting and retaining employees. Higher interest rates and rising construction costs have affected the funding needed for on-going renovation projects. Long lead times for purchasing larger pieces of equipment make it more difficult to keep up with equipment replacement needs.

General Fund revenues budgeted for fiscal year 2023 reflect an increase of \$26.7 million from the fiscal year 2022 budget largely due to ARPA funding. ARPA funding of \$16.3 million is included in the fiscal year 2023 budget to cover general government services. In addition, property and other local taxes are also expected to increase in fiscal year 2023. A rise in operating expenditures is expected which will offset the increases in property and other local tax revenues.

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

On March 11, 2021, the American Rescue Plan Act (ARPA) was signed into law, providing Coronavirus Local Fiscal Recovery Funds (CLFRF) to localities. As of June 30, 2022, the City had received \$31.2 million in funding. Funds must be obligated by December 31, 2024 and expended by December 31, 2026. The City will be using ARPA funds to pay for general government services, freeing up monies to fund a variety of projects.

Electric and water consumption is expected to increase slightly in fiscal year 2023. An increase in the power cost adjustment was necessary in fiscal year 2023 to offset rising electric transmission expenses. No increase in water or sewer rates was included in the fiscal year 2023 budget.

REQUESTS FOR INFORMATION

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

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

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BASIC FINANCIAL STATEMENTS



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

CITY OF SALEM, VIRGINIA
STATEMENT OF NET POSITION
JUNE 30, 2022

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 80,956,476	\$ 53,026,973	\$ 133,983,449	\$ 18,699,361
Receivables, net	3,744,151	7,608,420	11,352,571	5,227,480
Lease receivable	1,251,337	367,659	1,618,996	-
Due from component unit	-	5,164,713	5,164,713	-
Due from other governmental units	5,858,354	-	5,858,354	2,719,490
Net pension asset	-	-	-	1,444,155
Inventories	715,896	2,308,215	3,024,111	138,419
Prepaid items	435,994	183,691	619,685	420,882
<i>Restricted assets:</i>				
Cash and cash equivalents	19,282,547	-	19,282,547	-
<i>Capital assets:</i>				
Nondepreciable	9,805,129	19,830,999	29,636,128	30,584,463
Depreciable, net	88,548,021	82,637,926	171,185,947	37,169,735
Intangible, right-to-use, net	116,685	5,615	122,300	-
Total assets	210,714,590	171,134,211	381,848,801	96,403,985
DEFERRED OUTFLOWS OF RESOURCES	8,579,666	2,609,887	11,189,553	9,066,342
LIABILITIES				
Accounts payable and accrued liabilities	3,265,975	7,123,273	10,389,248	2,642,521
Accrued payroll and related liabilities	1,868,479	546,626	2,415,105	5,075,745
Accrued interest	397,753	170,162	567,915	-
Self-insurance claims liability	453,351	-	453,351	331,305
Due to primary government	-	-	-	5,164,713
Unearned revenues	18,164,289	743,167	18,907,456	284,214
Customer security deposits	-	1,033,824	1,033,824	-
<i>Long-term liabilities due in less than one year:</i>				
Bonds payable	4,184,360	4,164,035	8,348,395	-
Financed purchase obligation	14,530	-	14,530	-
Lease liability	29,522	1,994	31,516	-
Compensated absences	1,715,793	515,647	2,231,440	466,234
<i>Long-term liabilities due in more than one year:</i>				
Bonds payable	64,618,658	28,550,290	93,168,948	-
Financed purchase obligation	14,529	-	14,529	-
Lease liability	88,476	3,643	92,119	-
Compensated absences	622,451	188,281	810,732	351,719
Net pension liability	20,043,160	5,284,748	25,327,908	21,062,060
Net OPEB liability	11,675,792	3,549,560	15,225,352	5,176,050
Total liabilities	127,157,118	51,875,250	179,032,368	40,554,561
DEFERRED INFLOWS OF RESOURCES	20,504,811	5,690,853	26,195,664	17,632,257
NET POSITION				
Net investment in capital assets	84,385,804	67,400,911	151,786,715	67,754,198
Restricted for:				
Grant programs	388,655	-	388,655	-
Highway maintenance	2,598,715	-	2,598,715	-
Net pension asset	-	-	-	1,444,155
Other	255,584	-	255,584	-
Unrestricted (deficit)	(15,996,431)	48,777,084	32,780,653	(21,914,844)
Total net position	\$ 71,632,327	\$ 116,177,995	\$ 187,810,322	\$ 47,283,509

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

**CITY OF SALEM, VIRGINIA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Units
					Governmental Activities	Business-type Activities	
Primary Government							
<i>Governmental activities:</i>							
General government	\$ 6,946,772	\$ 254,330	\$ 319,828	\$ -	\$ (6,372,614)	\$ (6,372,614)	
Judicial administration	2,460,730	230,337	1,341,096	-	(889,297)	(889,297)	
Public safety	18,560,637	1,516,411	1,126,310	89,147	(15,828,769)	(15,828,769)	
Public works	10,777,374	1,964,802	4,455,626	1,670,798	(2,686,148)	(2,686,148)	
Health and welfare	5,441,656	-	2,345,059	-	(3,096,597)	(3,096,597)	
Education	26,611,308	-	-	-	(26,611,308)	(26,611,308)	
Parks, recreation and cultural	6,835,914	490,583	198,731	117,855	(6,028,745)	(6,028,745)	
Community development	2,748,883	450	77,032	72,219	(2,599,182)	(2,599,182)	
Interest and other fiscal charges	1,567,370	-	-	-	(1,567,370)	(1,567,370)	
Total governmental activities	81,950,644	4,456,913	9,863,682	1,950,019	(65,680,030)	(65,680,030)	
<i>Business-type activities:</i>							
Electric	35,521,249	40,294,957	37,718	-		\$ 4,811,426	4,811,426
Water and sewage	9,902,890	14,664,782	27,015	162,746		4,951,653	4,951,653
Civic Center	4,085,173	2,595,998	1,268,542	-		(220,633)	(220,633)
Catering and concessions	738,240	698,317	-	-		(39,923)	(39,923)
Total business-type activities	50,247,552	58,254,054	1,333,275	162,746		9,502,523	9,502,523
Total primary government	\$ 132,198,196	\$ 62,710,967	\$ 11,196,957	\$ 2,112,765	(65,680,030)	9,502,523	(56,177,507)
Component Units	\$ 52,451,280	\$ 1,291,301	\$ 17,351,097	\$ 637,913			\$ (33,170,969)
<i>General revenues:</i>							
Property taxes					43,037,351	-	43,037,351
Local sales and use taxes					9,071,908	-	9,071,908
Business license tax					6,176,361	-	6,176,361
Meals tax					5,835,238	-	5,835,238
Utility taxes					1,220,636	-	1,220,636
Other taxes					4,429,669	-	4,429,669
Intergovernmental revenue not restricted					3,728,399	-	3,728,399
Unrestricted investment earnings					420,399	94,733	515,132
Gain on sale of capital assets					105,486	40,107	145,593
Payments from City of Salem					-	-	-
Unrestricted state aid					-	-	-
Other					743,542	-	743,542
Transfers					1,627,594	(1,627,594)	-
Total general revenues and transfers					76,396,583	(1,492,754)	74,903,829
Change in net position					10,716,553	8,009,769	18,726,322
Net position, beginning					60,915,774	108,168,226	169,084,000
Net position, ending					\$ 71,632,327	\$ 116,177,995	\$ 187,810,322
							\$ 47,283,509

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

**CITY OF SALEM, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2022**

	General	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 56,932,443	\$ 18,035,527	\$ -	\$ 2,906,876	\$ 77,874,846
Cash and cash equivalents, restricted	-	-	-	19,282,547	19,282,547
Receivables, net	3,702,832	-	-	-	3,702,832
Lease receivable	1,251,337	-	-	-	1,251,337
Due from other governmental units	5,301,907	-	385,416	171,031	5,858,354
Inventories	715,896	-	-	-	715,896
Prepaid items	359,027	-	-	-	359,027
Total assets	<u>\$ 68,263,442</u>	<u>\$ 18,035,527</u>	<u>\$ 385,416</u>	<u>\$ 22,360,454</u>	<u>\$ 109,044,839</u>
LIABILITIES					
Accounts payable and accrued liabilities	\$ 2,959,647	\$ -	\$ -	\$ 99,121	\$ 3,058,768
Accrued payroll and related liabilities	1,859,537	-	-	-	1,859,537
Unearned revenues	86,533	18,035,527	-	-	18,122,060
Total liabilities	<u>4,905,717</u>	<u>18,035,527</u>	<u>-</u>	<u>99,121</u>	<u>23,040,365</u>
DEFERRED INFLOWS OF RESOURCES	<u>2,917,462</u>	<u>-</u>	<u>385,416</u>	<u>-</u>	<u>3,302,878</u>
FUND BALANCES					
Nonspendable	1,074,923	-	-	-	1,074,923
Restricted	3,242,954	-	-	19,276,969	22,519,923
Committed	129,601	-	-	-	129,601
Assigned	816,915	-	-	2,984,364	3,801,279
Unassigned	55,175,870	-	-	-	55,175,870
Total fund balances	<u>60,440,263</u>	<u>-</u>	<u>-</u>	<u>22,261,333</u>	<u>82,701,596</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 68,263,442</u>	<u>\$ 18,035,527</u>	<u>\$ 385,416</u>	<u>\$ 22,360,454</u>	<u>\$ 109,044,839</u>

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

CITY OF SALEM, VIRGINIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS' BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2022

Total fund balance of governmental funds	\$ 82,701,596
Capital assets used in governmental activities are not considered current financial resources and, therefore, are not reported in the governmental funds.	98,469,835
Some long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	
Deferred inflows of resources for unavailable revenues	1,983,338
For debt refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred outflow of resources or a deferred inflow of resources.	
Deferred amounts on refunding	308,588
Long-term liabilities related to governmental fund activities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Bonds payable	(64,228,966)
Bond premiums	(4,574,052)
Financed purchase obligation	(29,059)
Lease liability	(117,998)
Accrued interest	(397,753)
Compensated absences	(2,326,860)
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	6,982,468
Deferred inflows of resources related to pension	(16,963,821)
Net pension liability	(19,853,994)
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	1,247,352
Deferred inflows of resources related to OPEB	(2,116,540)
Net OPEB liability	(11,649,271)
The internal service fund is used by management to charge the costs of health and dental insurance to individual funds. The assets, liabilities and net position of the internal service fund are included with governmental activities in the Statement of Net Position.	2,197,464
Net position of governmental activities	<u><u>\$ 71,632,327</u></u>

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

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2022

	General	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
REVENUES					
Property taxes	\$ 43,241,702	\$ -	\$ -	\$ -	\$ 43,241,702
Other local taxes	26,733,811	-	-	-	26,733,811
Permits, fees and licenses	411,600	-	-	-	411,600
Fines and forfeitures	123,352	-	-	-	123,352
Revenue from use of money and property	715,091	-	-	35,444	750,535
Charges for services	3,561,617	-	-	-	3,561,617
Other	382,382	-	-	-	382,382
Intergovernmental	13,483,370	4,000	210,368	856,211	14,553,949
Total revenues	<u>88,652,925</u>	<u>4,000</u>	<u>210,368</u>	<u>891,655</u>	<u>89,758,948</u>
EXPENDITURES					
<i>Current:</i>					
General government	6,844,143	-	-	-	6,844,143
Judicial administration	2,458,099	-	-	-	2,458,099
Public safety	17,737,298	-	-	-	17,737,298
Public works	9,044,426	-	-	-	9,044,426
Health and welfare	5,253,983	-	-	-	5,253,983
Education	21,333,674	-	-	5,277,634	26,611,308
Parks, recreation and cultural	5,967,259	-	-	-	5,967,259
Community development	2,776,253	4,000	-	-	2,780,253
Non-departmental	2,168,819	-	-	-	2,168,819
Capital projects	-	-	-	2,919,667	2,919,667
<i>Debt service:</i>					
Principal retirement	26,292	-	3,204,191	-	3,230,483
Interest	3,264	-	1,677,508	-	1,680,772
Bond issuance costs	-	-	-	79,400	79,400
Total expenditures	<u>73,613,510</u>	<u>4,000</u>	<u>4,881,699</u>	<u>8,276,701</u>	<u>86,775,910</u>
Excess (deficiency) of revenues over (under) expenditures	<u>15,039,415</u>	<u>-</u>	<u>(4,671,331)</u>	<u>(7,385,046)</u>	<u>2,983,038</u>
OTHER FINANCING SOURCES (USES)					
Issuance of long-term debt	-	-	-	15,080,000	15,080,000
Proceeds from sale of capital assets	155,902	-	-	-	155,902
Inception of leases	63,096	-	-	-	63,096
Insurance recoveries	75,910	-	-	-	75,910
Transfers in	3,336,762	-	4,670,580	1,829,850	9,837,192
Transfers out	(8,209,598)	-	-	-	(8,209,598)
Total other financing sources (uses), net	<u>(4,577,928)</u>	<u>-</u>	<u>4,670,580</u>	<u>16,909,850</u>	<u>17,002,502</u>
Net change in fund balances	<u>10,461,487</u>	<u>-</u>	<u>(751)</u>	<u>9,524,804</u>	<u>19,985,540</u>
Fund balances, beginning	<u>49,978,776</u>	<u>-</u>	<u>751</u>	<u>12,736,529</u>	<u>62,716,056</u>
Fund balances, ending	<u>\$ 60,440,263</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,261,333</u>	<u>\$ 82,701,596</u>

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

CITY OF SALEM, VIRGINIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS' STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022

Net changes in fund balances of governmental funds	\$ 19,985,540
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense and amortization expense to allocate the costs of those assets over the lives of the assets.	
Capital outlay	5,369,985
Depreciation expense	(5,519,612)
Amortization expense	(27,605)
The net effect of various transactions involving capital assets does not provide or use current financial resources and is not reported as revenues or expenditures in the governmental funds.	699,481
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in governmental funds.	48,912
Issuance of debt and other obligations provides current financial resources to governmental funds but increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Position. Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, but these amounts are deferred and amortized in the Statement of Activities.	
Bond proceeds, net of payment to refunded bond escrow agent	(15,080,000)
Inception of leases	(63,096)
Principal payments	3,230,483
Amortization of current year bond premiums	337,692
Amortization of current year deferred amounts on refunding	(90,716)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Change in accrued interest payable	(25,464)
Change in compensated absences	11,170
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	3,432,073
Pension expense	(2,008,191)
Governmental funds report employer OPEB contributions as expenditures. However, in the Statement of Activities, the cost of OPEB benefits earned is reported as OPEB expense.	
Employer OPEB contributions	1,610,926
OPEB expense	(540,217)
The internal service fund is used by management to charge the costs of health and dental insurance to individual funds. The change in net position of the internal service fund is reported with governmental activities.	(654,808)
Change in net position of governmental activities	<u><u>\$ 10,716,553</u></u>

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

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 40,605,600	\$ 40,605,600	\$ 43,241,702	\$ 2,636,102
Other local taxes	22,027,515	22,049,228	26,733,811	4,684,583
Permits, fees and licenses	337,800	337,800	411,600	73,800
Fines and forfeitures	61,000	61,000	123,352	62,352
Revenue from use of money and property	867,809	932,286	715,091	(217,195)
Charges for services	3,397,771	3,400,771	3,561,617	160,846
Other	223,000	274,000	382,382	108,382
Intergovernmental	13,347,921	13,466,353	13,483,370	17,017
Total revenues	<u>80,868,416</u>	<u>81,127,038</u>	<u>88,652,925</u>	<u>7,525,887</u>
EXPENDITURES				
<i>Current:</i>				
General government	7,139,561	7,686,312	6,844,143	842,169
Judicial administration	2,467,158	2,522,175	2,458,099	64,076
Public safety	18,376,147	19,082,394	17,737,298	1,345,096
Public works	10,579,981	11,611,512	9,044,426	2,567,086
Health and welfare	5,177,833	5,454,986	5,253,983	201,003
Education	20,897,899	21,333,674	21,333,674	-
Parks, recreation and cultural	6,271,065	6,606,962	5,967,259	639,703
Community development	2,715,986	2,894,023	2,776,253	117,770
Non-departmental	3,840,370	2,865,295	2,168,819	696,476
<i>Debt service:</i>				
Principal retirement	-	-	26,292	(26,292)
Interest	-	-	3,264	(3,264)
Total expenditures	<u>77,466,000</u>	<u>80,057,333</u>	<u>73,613,510</u>	<u>6,443,823</u>
Excess of revenues over expenditures	<u>3,402,416</u>	<u>1,069,705</u>	<u>15,039,415</u>	<u>13,969,710</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	155,902	155,902
Inception of leases	-	-	63,096	63,096
Insurance recoveries	-	75,913	75,910	(3)
Transfers in	3,341,000	3,341,000	3,336,762	(4,238)
Transfers out	(6,743,416)	(8,323,266)	(8,209,598)	113,668
Total other financing uses, net	<u>(3,402,416)</u>	<u>(4,906,353)</u>	<u>(4,577,928)</u>	<u>328,425</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ (3,836,648)</u>	<u>\$ 10,461,487</u>	<u>\$ 14,298,135</u>

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

**CITY OF SALEM, VIRGINIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2022**

	Enterprise Funds				Internal Service Fund
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total	
ASSETS					
<i>Current assets:</i>					
Cash and cash equivalents	\$ 29,938,648	\$ 22,278,282	\$ 810,043	\$ 53,026,973	\$ 3,081,630
Receivables, net	5,554,129	1,894,488	38,543	7,487,160	41,319
Lease receivable	-	124,165	-	124,165	-
Due from other funds	420,000	-	-	420,000	-
Due from component unit	1,057,356	-	1,568	1,058,924	-
Inventories	1,914,237	361,289	32,689	2,308,215	-
Prepaid items	45,829	29,098	108,764	183,691	76,967
Total current assets	<u>38,930,199</u>	<u>24,687,322</u>	<u>991,607</u>	<u>64,609,128</u>	<u>3,199,916</u>
<i>Noncurrent assets:</i>					
Receivables, net	121,260	-	-	121,260	-
Due from component unit	4,105,789	-	-	4,105,789	-
Lease receivable	-	243,494	-	243,494	-
<i>Capital assets:</i>					
Nondepreciable	12,199,701	7,415,845	215,453	19,830,999	-
Depreciable, net	30,182,098	49,611,245	2,844,583	82,637,926	-
Intangible right-to-use, net	-	5,615	-	5,615	-
Total capital assets	<u>42,381,799</u>	<u>57,032,705</u>	<u>3,060,036</u>	<u>102,474,540</u>	<u>-</u>
Total noncurrent assets	<u>46,608,848</u>	<u>57,276,199</u>	<u>3,060,036</u>	<u>106,945,083</u>	<u>-</u>
Total assets	<u>85,539,047</u>	<u>81,963,521</u>	<u>4,051,643</u>	<u>171,554,211</u>	<u>3,199,916</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>1,223,814</u>	<u>999,095</u>	<u>386,978</u>	<u>2,609,887</u>	<u>41,258</u>
LIABILITIES					
<i>Current liabilities:</i>					
Accounts payable and accrued liabilities	6,016,873	1,004,685	101,715	7,123,273	207,207
Accrued payroll and related liabilities	185,386	200,518	160,722	546,626	8,942
Accrued interest	78,516	91,646	-	170,162	-
Self-insurance claims liability	-	-	-	-	453,351
Due to other funds	-	-	420,000	420,000	-
Unearned revenues	15,483	-	727,684	743,167	42,229
Customer security deposits	1,033,824	-	-	1,033,824	-
Bonds payable	1,316,671	2,847,364	-	4,164,035	-
Lease liability	-	1,994	-	1,994	-
Compensated absences	197,099	233,092	85,456	515,647	7,666
Total current liabilities	<u>8,843,852</u>	<u>4,379,299</u>	<u>1,495,577</u>	<u>14,718,728</u>	<u>719,395</u>
<i>Noncurrent liabilities:</i>					
Bonds payable	10,660,646	17,889,644	-	28,550,290	-
Lease liability	-	3,643	-	3,643	-
Compensated absences	103,476	31,353	53,452	188,281	3,718
Net pension liability	1,994,381	2,136,791	1,153,576	5,284,748	189,166
Net OPEB liability	1,020,763	1,952,350	576,447	3,549,560	26,521
Total noncurrent liabilities	<u>13,779,266</u>	<u>22,013,781</u>	<u>1,783,475</u>	<u>37,576,522</u>	<u>219,405</u>
Total liabilities	<u>22,623,118</u>	<u>26,393,080</u>	<u>3,279,052</u>	<u>52,295,250</u>	<u>938,800</u>
DEFERRED INFLOWS OF RESOURCES	<u>1,956,773</u>	<u>2,810,366</u>	<u>923,714</u>	<u>5,690,853</u>	<u>104,910</u>
NET POSITION					
Net investment in capital assets	28,300,436	36,040,439	3,060,036	67,400,911	-
Unrestricted (deficit)	33,882,534	17,718,731	(2,824,181)	48,777,084	2,197,464
Total net position	<u>\$ 62,182,970</u>	<u>\$ 53,759,170</u>	<u>\$ 235,855</u>	<u>\$ 116,177,995</u>	<u>\$ 2,197,464</u>

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

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2022

	Enterprise Funds				Internal Service Fund
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total	
OPERATING REVENUES					
Charges for services	\$ 39,756,594	\$ 14,127,943	\$ 3,236,760	\$ 57,121,297	\$ 6,063,588
Connections and transfers	30,050	199,261	-	229,311	-
Penalties	162,228	154,848	-	317,076	-
Pole rentals	267,261	-	-	267,261	-
Commissions	-	-	21,691	21,691	-
Other	116,542	209,745	1,304,406	1,630,693	246,404
Total operating revenues	40,332,675	14,691,797	4,562,857	59,587,329	6,309,992
OPERATING EXPENSES					
Salaries	-	2,045,480	1,298,978	3,344,458	116,925
Fringe benefits	-	681,912	344,573	1,026,485	39,510
Show expenses	-	-	1,789,429	1,789,429	-
Maintenance	-	754,797	194,633	949,430	11,812
Billing and collection	604,548	556,719	-	1,161,267	-
Professional services	30,081	251,734	27,006	308,821	353,678
Insurance	26,388	61,827	28,878	117,093	-
Purchased water	-	25,345	-	25,345	-
Purchased power	29,365,876	-	-	29,365,876	-
Distribution - operations	1,000,599	-	-	1,000,599	-
Distribution - maintenance	1,694,225	-	-	1,694,225	-
Administration	608,789	405,858	117,578	1,132,225	3,074
Travel and training	16,073	22,896	4,602	43,571	-
Materials and supplies	-	127,586	235,800	363,386	7,702
Expendable equipment and small tools	179,686	106,015	13,742	299,443	-
Utilities	-	419,487	304,096	723,583	4,996
Miscellaneous	211,916	12,511	2,990	227,417	2,003
Depreciation	1,447,755	2,343,251	283,680	4,074,686	-
Amortization	-	510	3,071	3,581	-
Treatment of sewage	-	1,804,078	-	1,804,078	-
Commissions	-	-	174,261	174,261	-
Claims	-	-	-	-	6,435,662
Total operating expenses	35,185,936	9,620,006	4,823,317	49,629,259	6,975,362
Operating income (loss)	5,146,739	5,071,791	(260,460)	9,958,070	(665,370)
NONOPERATING REVENUES (EXPENSES)					
Investment income	85,278	9,455	-	94,733	10,562
Interest expense	(309,402)	(247,923)	(96)	(557,421)	-
Bond issuance costs	-	(34,961)	-	(34,961)	-
Gain (loss) on disposal of capital assets	(25,911)	40,107	-	14,196	-
Net nonoperating revenues (expenses)	(250,035)	(233,322)	(96)	(483,453)	10,562
Income (loss) before contributions and transfers	4,896,704	4,838,469	(260,556)	9,474,617	(654,808)
Capital contributions	-	162,746	-	162,746	-
Transfers in	-	-	1,709,168	1,709,168	-
Transfers out	(3,160,000)	(176,762)	-	(3,336,762)	-
Change in net position	1,736,704	4,824,453	1,448,612	8,009,769	(654,808)
Net position, beginning	60,446,266	48,934,717	(1,212,757)	108,168,226	2,852,272
Net position, ending	\$ 62,182,970	\$ 53,759,170	\$ 235,855	\$ 116,177,995	\$ 2,197,464

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

**CITY OF SALEM, VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2022**

	Enterprise Funds				Internal Service Fund
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total	
OPERATING ACTIVITIES					
Receipts from customers	\$ 39,909,912	\$ 14,547,725	\$ 3,708,298	\$ 58,165,935	\$ 6,058,640
Payments to suppliers	(30,924,803)	(4,561,777)	(2,872,015)	(38,358,595)	(342,759)
Payments to employees	(2,704,574)	(3,006,475)	(1,704,731)	(7,415,780)	(159,555)
Payments for claims	-	-	-	-	(6,422,728)
Other receipts	116,542	202,548	1,304,406	1,623,496	246,404
Net cash provided by (used in) operating activities	<u>6,397,077</u>	<u>7,182,021</u>	<u>435,958</u>	<u>14,015,056</u>	<u>(619,998)</u>
NONCAPITAL FINANCING ACTIVITIES					
Interfund loan	1,435,000	-	(1,435,000)	-	-
Component unit loan	298,199	-	-	298,199	-
Transfers in	-	-	1,709,168	1,709,168	-
Transfers out	(3,160,000)	(176,762)	-	(3,336,762)	-
Net cash provided by (used in) noncapital financing activities	<u>(1,426,801)</u>	<u>(176,762)</u>	<u>274,168</u>	<u>(1,329,395)</u>	<u>-</u>
CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of capital assets	-	40,107	-	40,107	-
Purchases of capital assets	(7,052,612)	(2,764,130)	(59,144)	(9,875,886)	-
Proceeds from capital debt	-	1,189,606	-	1,189,606	-
Payment of bond issuance costs	-	(34,961)	-	(34,961)	-
Principal paid on capital debt	(1,046,928)	(2,553,806)	(3,071)	(3,603,805)	-
Interest paid on capital debt	(503,677)	(532,310)	(96)	(1,036,083)	-
Net cash provided by (used in) capital and related financing activities	<u>(8,603,217)</u>	<u>(4,655,494)</u>	<u>(62,311)</u>	<u>(13,321,022)</u>	<u>-</u>
INVESTING ACTIVITIES					
Interest received	85,278	9,455	-	94,733	10,562
Net cash provided by investing activities	<u>85,278</u>	<u>9,455</u>	<u>-</u>	<u>94,733</u>	<u>10,562</u>
Net increase (decrease) in cash and cash equivalents	(3,547,663)	2,359,220	647,815	(540,628)	(609,436)
Cash and cash equivalents, beginning	<u>33,486,311</u>	<u>19,919,062</u>	<u>162,228</u>	<u>53,567,601</u>	<u>3,691,066</u>
Cash and cash equivalents, ending	<u>\$ 29,938,648</u>	<u>\$ 22,278,282</u>	<u>\$ 810,043</u>	<u>\$ 53,026,973</u>	<u>\$ 3,081,630</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Operating income (loss)	\$ 5,146,739	\$ 5,071,791	\$ (260,460)	\$ 9,958,070	\$ (665,370)
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i>					
Depreciation and amortization	1,447,755	2,343,761	286,751	4,078,267	-
Pension expense, net of employer contributions	(133,540)	(473,661)	(58,441)	(665,642)	(5,338)
OPEB expense, net of employer contributions	(82,326)	172,664	(46,123)	44,215	(2,160)
<i>Decrease (increase) in assets:</i>					
Receivables, net	(308,988)	58,476	34,210	(216,302)	5,834
Inventories	(140,380)	(97,478)	(6,628)	(244,486)	-
Prepaid items	(45,829)	(5,492)	(8,310)	(59,631)	(35,179)
<i>Increase (decrease) in liabilities:</i>					
Accounts payable and accrued liabilities	453,113	90,046	35,938	579,097	40,506
Accrued payroll and related liabilities	34,009	22,624	51,788	108,421	852
Self-insurance claims liability	-	-	-	-	48,113
Unearned revenues	(23,550)	-	415,637	392,087	(10,782)
Customer security deposits payable	26,317	-	-	26,317	-
Compensated absences	23,757	(710)	(8,404)	14,643	3,526
Net cash provided by (used in) operating activities	<u>\$ 6,397,077</u>	<u>\$ 7,182,021</u>	<u>\$ 435,958</u>	<u>\$ 14,015,056</u>	<u>\$ (619,998)</u>
<i>Noncash investing, capital, and financing activities</i>					
Capital assets financed with accounts payable	<u>\$ 2,502,277</u>	<u>\$ 363,442</u>	<u>\$ -</u>	<u>\$ 2,865,719</u>	<u>\$ -</u>
Capital asset contributions received	<u>\$ -</u>	<u>\$ 162,746</u>	<u>\$ -</u>	<u>\$ 162,746</u>	<u>\$ -</u>

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

CITY OF SALEM, VIRGINIA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2022

	Custodial Funds	OPEB Trust Fund
ASSETS		
Cash and cash equivalents	\$ 2,307,126	\$ -
Investments held by trustee, fair value of pooled funds	-	9,433,717
Receivables, net	735	-
Due from Commonwealth of Virginia	102,085	-
Total assets	<u>2,409,946</u>	<u>9,433,717</u>
LIABILITIES		
Accounts payable and accrued liabilities	78,602	-
Accrued payroll and related liabilities	88,075	-
Due to City of Salem	9,710	-
Unearned revenues	108,560	-
Total liabilities	<u>284,947</u>	<u>-</u>
NET POSITION		
Restricted for:		
Individuals, organizations, and other governments	2,124,999	-
OPEB	-	9,433,717
Total net position	<u>\$ 2,124,999</u>	<u>\$ 9,433,717</u>

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

CITY OF SALEM, VIRGINIA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2022

	Custodial Funds	OPEB Trust Fund
ADDITIONS		
Funds received for benefit of other organizations	\$ 2,266,899	\$ -
Employer contributions - City	-	1,888,352
Employer contributions - Custodial entities	-	100,059
<i>Investment income (loss)</i>		
Decrease in fair value of investments	-	(947,851)
Total additions	<u>2,266,899</u>	<u>1,040,560</u>
DEDUCTIONS		
Funds disbursed for benefit of other organizations	2,364,228	-
Administrative	-	11,334
Retirement benefits - City	-	1,653,421
Retirement benefits - Custodial entities	-	81,179
Total deductions	<u>2,364,228</u>	<u>1,745,934</u>
Change in fiduciary net position	<u>(97,329)</u>	<u>(705,374)</u>
Net position, beginning	2,222,328	10,139,091
Net position, ending	<u><u>\$ 2,124,999</u></u>	<u><u>\$ 9,433,717</u></u>

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

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF NET POSITION
COMPONENT UNITS
JUNE 30, 2022

	School Division	Economic Development Authority	Total
ASSETS			
Cash and cash equivalents	\$ 18,308,180	\$ 391,181	\$ 18,699,361
Receivables, net	51,230	5,176,250	5,227,480
Due from other governmental units	2,719,490	-	2,719,490
Net pension asset	1,444,155	-	1,444,155
Inventories	138,419	-	138,419
Prepaid items	420,882	-	420,882
<i>Capital assets:</i>			
Nondepreciable	30,584,463	-	30,584,463
Depreciable, net	37,169,735	-	37,169,735
Total assets	<u>90,836,554</u>	<u>5,567,431</u>	<u>96,403,985</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>9,066,342</u>	<u>-</u>	<u>9,066,342</u>
LIABILITIES			
Accounts payable and accrued liabilities	2,642,083	438	2,642,521
Accrued payroll and related liabilities	5,075,745	-	5,075,745
Self-insurance claims liability	331,305	-	331,305
Due to primary government	-	5,164,713	5,164,713
Unearned revenues	284,214	-	284,214
<i>Long-term liabilities due in less than one year:</i>			
Compensated absences	466,234	-	466,234
<i>Long-term liabilities due in more than one year:</i>			
Compensated absences	351,719	-	351,719
Net pension liability	21,062,060	-	21,062,060
Net OPEB liability	5,176,050	-	5,176,050
Total liabilities	<u>35,389,410</u>	<u>5,165,151</u>	<u>40,554,561</u>
DEFERRED INFLOWS OF RESOURCES	<u>17,632,257</u>	<u>-</u>	<u>17,632,257</u>
NET POSITION			
Net investment in capital assets	67,754,198	-	67,754,198
Restricted for:			
Net pension asset	1,444,155	-	1,444,155
Unrestricted (deficit)	(22,317,124)	402,280	(21,914,844)
Total net position	<u>\$ 46,881,229</u>	<u>\$ 402,280</u>	<u>\$ 47,283,509</u>

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

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
YEAR ENDED JUNE 30, 2022

Functions/Programs	Program Revenues				Primary Government			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating		School Division	Economic		
			Grants and Contributions	Capital Grants and Contributions		Development Authority	Total Component Units	
School Division	\$ 52,379,538	\$ 1,291,301	\$ 17,351,097	\$ 637,913	\$ (33,099,227)	\$ -	\$ (33,099,227)	
Economic Development Authority	71,742	-	-	-	-	(71,742)	(71,742)	
Total component units	\$ 52,451,280	\$ 1,291,301	\$ 17,351,097	\$ 637,913	(33,099,227)	(71,742)	(33,170,969)	
General revenues:								
					-	119,298	119,298	
Unrestricted investment earnings					26,611,308	56,010	26,667,318	
Payments from City of Salem					16,404,289	-	16,404,289	
Unrestricted state aid					871,859	-	871,859	
Other								
Total general revenues					43,887,456	175,308	44,062,764	
Change in net position					10,788,229	103,566	10,891,795	
Net position, beginning					36,093,000	298,714	36,391,714	
Net position, ending					\$ 46,881,229	\$ 402,280	\$ 47,283,509	

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

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

1. Summary of Significant Accounting Policies

The Financial Reporting Entity

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

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

Discretely Presented Component Units

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

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

During the current year, the City provided \$20,897,899 of operating support and \$435,775 of capital support to the School Division and made debt service payments of \$2,659,770 on behalf of the School Division. Education expenses included amounts related to school buildings also.

The Economic Development Authority of the City of Salem (Economic Development Authority) is a legally separate entity, which operates under the direction of City Council. The City provides financial resources to the Economic Development Authority, which it then uses for economic development incentives for local businesses and other operating costs. Based on these facts, the City reports the Economic Development Authority as a discretely presented component unit. During the current year, the City provided \$56,010 in operating support to the Economic Development Authority. Separate financial statements are not issued for the Economic Development Authority.

Government-wide Financial Statements

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

1. Summary of Significant Accounting Policies (Continued)

Government-wide Financial Statements (Continued)

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

Fund Financial Statements

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

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

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

- The *General Fund* is the government's primary operating fund and accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Special Revenue Fund* accounts for resources received from revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The revenue source for this fund is federal Coronavirus Local Fiscal Recovery Funds received under the American Rescue Plan Act, which was signed into law on March 11, 2021.
- The *Debt Service Fund* accounts for the accumulation of resources and payments made for principal and interest on long-term general obligation debt not being financed by the proprietary funds.
- The *Capital Projects Fund* accounts for resources to be used for the acquisition or construction of major capital facilities not being financed by the proprietary funds.

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

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

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

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

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

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

1. Summary of Significant Accounting Policies (Continued)

Fund Financial Statements (Continued)

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

- The *OPEB Trust Fund* accounts for the receipt and disbursement of assets held in trust for the other postemployment benefit (OPEB) plan of the City.
- The *Custodial Funds* account for monies held in a custodial capacity on behalf of the Cardinal Criminal Justice Academy and the Court-Community Corrections Program. Since these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the City, these funds are not incorporated into the government-wide financial statements.

Measurement Focus and Basis of Accounting

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

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

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

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

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

Fiduciary Fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. In custodial funds, a liability is recognized when an event occurs that compels the City to disburse fiduciary resources.

Budgets and Budgetary Accounting

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

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

Projects/Grants – The Capital Projects Fund utilizes a project length budget, and the Special Revenue Fund utilizes a grant length budget. These budgets are not legally enacted on an annual basis; therefore, budgetary comparison statements are not presented.

Amendment – The City Manager is authorized to transfer amounts within and between departments and categories within the same fund. City Council must approve budget amendments between funds and any budget amendments increasing or decreasing appropriations. During the year, City Council approved \$4,171,183 of additional appropriations primarily for grants, capital outlay, unforeseen operating expenditures and the reappropriation of fund balances for encumbrances.

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

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

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, Special Revenue 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. These encumbrances are subject to reappropriation by City Council in the subsequent fiscal year. Significant encumbrances as of June 30, 2022, total \$1,269,253 in the General Fund and \$1,184,336 in the Capital Projects Fund.

Deposits and Investments

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

1. Summary of Significant Accounting Policies (Continued)

Allowance for Uncollectible Accounts

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

Property Taxes

The City levies real estate taxes on all real estate within its boundaries, except that exempted by statute, each year as of July 1 based on 100% of estimated fair market value of the property. The City reassesses all property annually. Real estate taxes are due in equal semiannual payments on December 5 and June 5 and are considered delinquent after each due date. Real estate taxes become a lien on real property the first day of the levy year. The tax rate for 2022 was \$1.20 per \$100 of assessed value.

The City levies personal property taxes on motor vehicles and business and other tangible personal property each year as of January 1. Personal property taxes are due the following May 31 and are considered delinquent after the due date. Personal property taxes do not create a lien on property; however, a penalty of 10% of delinquent personal property tax or \$10, whichever is greater, is due for late payment. Interest on delinquent taxes is accrued monthly at a rate of 0.83%, or 10% annually. Personal property transactions during the year are taxed on a prorated basis. The tax rate for personal property for 2022 was \$3.40 per \$100 of assessed value. The tax rate for machinery and tools for 2022 was \$3.20 per \$100 of assessed value.

Interfund Balances

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

Inventory

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

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

Prepaid Items

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

1. Summary of Significant Accounting Policies (Continued)

Leases

City as Lessee – The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the applicable governmental or business-type activities column in the government-wide financial statements. Proprietary fund lease liabilities and intangible right-to-use lease assets are reported in the applicable fund financial statements. The City recognizes lease liabilities with an initial value of \$5,000 or more, individually or in aggregate.

At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is measured initially as the amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset, but if the lease contains a purchase option the City is reasonably certain to exercise, the lease asset is amortized over the useful life of the underlying asset. If the underlying asset is nondepreciable, the lease asset is not amortized.

Key estimates and judgments related to leases include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for equipment leases and prime for building and infrastructure leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and any purchase option price that the City is reasonably certain to exercise.

The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

City as Lessor – The City recognizes a lease receivable and a deferred inflow of resources in the government-wide, governmental fund, and proprietary fund financial statements. At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is measured initially as the amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the City determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The City uses its estimated incremental borrowing rate as the discount rate for equipment leases and prime for building and infrastructure leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee.

The City monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

1. Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets, which include property, plant and equipment, infrastructure, and right-to-use lease assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Proprietary fund capital assets are reported in the applicable fund financial statements. Nondepreciable and depreciable capital assets are defined by the City as assets with initial individual costs in excess of \$0 for land, \$5,000 for machinery and equipment or \$10,000 for buildings, plant and infrastructure, and estimated useful lives in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value on the date of donation. The leases section of this note provides additional information about right-to-use lease assets. The City includes the costs of other intangible assets with definite lives in the appropriate asset classes.

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

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

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

Right-to-use lease assets are amortized as described in the leases section of this note. Other amortizable capital assets are amortized using the straight-line method over the estimated useful lives of the underlying assets. Depreciation expense and amortization expense are identified with functions, whenever possible, and included as direct expenses. Upon the sale or retirement of a capital asset, the cost and related accumulated depreciation or accumulated amortization, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statements that present net position report a separate section for deferred outflows of resources. These items represent a consumption of net assets that applies to future periods and will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statements that present net position report a separate section for deferred inflows of resources. These items represent an acquisition of net assets that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

1. Summary of Significant Accounting Policies (Continued)

Surety Bond Payable

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

Unearned Revenues

Unearned revenues arise when assets are recognized before revenue recognition criteria can be satisfied. Grants and entitlements received before the eligibility requirements are met have been recorded as unearned revenue. Unearned revenues consist primarily of unspent Coronavirus Local Fiscal Recovery Funds received under the American Rescue Plan Act, retiree health insurance premiums billed in advance, event deposits and rentals.

Long-Term Obligations

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

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

Compensated Absences

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

Pensions

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

Other Postemployment Benefits – Retiree Health Plan

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

1. Summary of Significant Accounting Policies (Continued)

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 VRS 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 VRS Political Subdivision Health Insurance Credit Program and VRS 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 VRS Group Life Insurance Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. The VRS Political Subdivision Health Insurance Credit Program and VRS Teacher Employee Health Insurance Program are defined benefit plans that provide credits toward the cost of health insurance coverage for retired political subdivision employees of participating employers and retired teachers. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources, and OPEB expense related to each plan, information about the fiduciary net position and the additions to/deductions from fiduciary net position for each plan 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 the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- **Unrestricted** – all other net position is reported in this category.

Net investment in capital assets for governmental activities excludes \$36,546,364 of School Division debt, \$1,336,776 of Civic Center debt, and \$385,416 of Roanoke Valley Resource Authority (RVRA) debt reported by the City because the related assets are reported by the School Division, Civic Center, and RVRA, respectively. Noncapital debt of \$1,011,192, \$7,302 and \$177,643 is also excluded from the net investment in capital assets for governmental activities, the Electric Fund, and the Water and Sewage Fund, respectively.

The Catering and Concessions Fund, a Non-Major Proprietary Fund, has a deficit of \$783,347 in total net position as of June 30, 2022, because sales revenue has not covered operating expenses in that fund.

Fund Balances

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

- **Nonspendable** – Amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

1. Summary of Significant Accounting Policies (Continued)

Fund Balances (Continued)

- **Restricted** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** – Amounts constrained to specific purposes by the City, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purposes unless the same highest level of action is taken to remove or change the constraint.
- **Assigned** – Amounts the City intends to use for a specified purpose; intent can be expressed by the governing body (City Council) or by an official or body to which the governing body designates the authority.
- **Unassigned** – Amounts that are available for any purpose; positive amounts are reported only in the General Fund.

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

Restricted Amounts

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

Minimum Fund Balance

The City's fund balance policy establishes a minimum acceptable level of unassigned fund balance in the General Fund equal to ten percent of the sum of the General Fund, Debt Service Fund, and School Division operating expenditures net of the General Fund transfer to the School Division. For the purposes of this calculation, the operating expenditures are the budget as originally adopted for the current fiscal year.

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

Reclassifications

Certain amounts in the prior-year comparison information have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

2. Deposits and Investments

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

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

Deposits

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

Investments

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

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

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

	Primary Government	Component Units	Total
Cash and cash equivalents	\$ 133,983,449	\$ 18,699,361	\$ 152,682,810
Cash and cash equivalents, restricted	19,282,547	-	19,282,547
	<u>\$ 153,265,996</u>	<u>\$ 18,699,361</u>	<u>\$ 171,965,357</u>

As of June 30, 2022, the City's deposits and investments consisted of the following:

Investment Type	Fair Value	S&P Credit Rating
Primary Government		
Demand & time deposits	\$ 133,072,883	unrated
Cash on hand	7,985	unrated
Local Government Investment Pool (LGIP)	16,922	AAAm
Local Government Investment Pool (LGIP) EM	885,659	AAAf/S1+
VA State Non-Arbitrage Program (SNAP)	19,282,547	AAAm
Total primary government	<u>153,265,996</u>	

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

2. Deposits and Investments (Continued)

Investments (Continued)

<u>Investment Type</u>	<u>Fair Value</u>	<u>S&P Credit Rating</u>
Component Units		
Demand & time deposits	18,698,846	unrated
Cash on hand	515	unrated
Total component units	18,699,361	
Grand Total	<u>\$ 171,965,357</u>	

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

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The City's investment policy states that the City shall invest only in securities allowed under the *Code of Virginia*, Virginia Security of Public Deposits Act, Section 2.2-4400 through 2.2-4411 and the *Code of Virginia*, Investment of Public Funds Act, Section 2.2-4500 through 2.2-4518.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investment in a single issuer. The City endeavors to diversify its investment portfolio to avoid incurring unreasonable risks regarding an individual financial institution or issuing entity. Target asset allocation strategies are developed by the Director of Finance to provide guidance as to appropriate levels of diversification. The City's investment policy states that, with the exception of U.S. Treasury securities and authorized pools/funds, no more than 50% of the City's total investment may be the obligation of a single financial institution.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City endeavors to diversify its investment portfolio to avoid incurring unreasonable risks regarding maturity. To the extent possible, the City attempts to match its investments with anticipated cash flow requirements. The City's investment policy states that unless matched to a specific cash flow, the City will not directly invest in securities maturing more than one year from the date of purchase.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that all securities purchased for the City be secured through third-party custody and safekeeping procedures. Ownership shall be protected through third-party custodial safekeeping. The securities must be in the City's name or in the custodian's nominee name and identifiable on the custodian's books as belonging to the City. Further, the custodian must be a third party, not a counterparty (buyer, issuer, or seller) to the transaction. This requirement does not apply to excess checking account funds invested overnight in a bank "sweep" agreement or similar vehicle authorized under the City's investment policy.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

3. Receivables

Receivables, Net

Receivables other than lease receivables are aggregated into a single receivables line net of allowances for uncollectible accounts. Details of receivables other than lease receivables are as follows:

	Governmental Activities	Business-type Activities			Component Units
		Electric	Water and Sewage	Nonmajor Proprietary	
Tax receivables	\$ 2,174,325	\$ -	\$ -	\$ -	\$ -
Account receivables	41,319	5,780,593	1,930,146	42,791	-
Other receivables	1,995,388	-	-	-	5,227,480
Gross receivables	4,211,032	5,780,593	1,930,146	42,791	5,227,480
Allowance for uncollectibles	(466,881)	(105,204)	(35,658)	(4,248)	-
Receivables, net	\$ 3,744,151	\$ 5,675,389	\$ 1,894,488	\$ 38,543	\$ 5,227,480

Lease Receivables

In fiscal year 2022, the City implemented the guidance in GASB No. 87, *Leases*, for accounting and reporting of leases that had previously been reported as operating and capital leases.

The City, as a lessor, has entered into lease agreements involving a City-owned baseball facility, City-owned office space, and space on certain City-owned water tanks and property. The total amount of inflows of resources, including lease revenue, interest revenue, and other lease-related inflows, recognized during the fiscal year was \$301,068. This total includes \$2,495 of variable and other payments not previously included in the measurement of the lease receivable.

4. Interfund Balances and Transfers

The composition of the interfund balances is as follows:

		<u>Due from (fund)</u>
		Nonmajor
		Enterprise
Due to (fund)	Electric	\$ 420,000

The amount due to the Electric Fund from the Nonmajor Enterprise Funds is a short-term loan to fund operations in the Catering and Concessions Fund.

The composition of the interfund transfers is as follows:

		Transfer out (fund)		
		General	Electric	Water and Sewage
Transfer in (fund)	General	\$ -	\$ 3,160,000	\$ 176,762
	Debt Service	4,670,580	-	-
	Capital Projects	1,829,850	-	-
	Nonmajor Enterprise	1,709,168	-	-
	Total	\$ 8,209,598	\$ 3,160,000	\$ 176,762
				\$ 11,546,360

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

4. Interfund Balances and Transfers (Continued)

Transfers to the General Fund are payments in lieu of taxes. Transfers to the Debt Service Fund include principal and interest payments for general government and school debt. Transfers to the Capital Projects Fund include funding for current projects. Transfers to Nonmajor Enterprise Funds include funding assistance for operating expenses and building improvements.

5. Due from/to Primary Government and Component Unit

The amount due from a component unit to business-type activities is a loan from the Electric Fund to the Economic Development Authority. The Economic Development Authority used these funds to provide loans to four developers for rehabilitation projects within the City. In addition, a portion of the balance is due to the Catering and Concessions Fund for services provided in June 2022.

The balance outstanding as of June 30, 2022, was \$5,164,713. The loan is being repaid as follows:

- \$801,807 at the end of four years maturing January 31, 2021, with interest accrued at 4% annually. On December 10, 2020, the Economic Development Authority approved an extension of the loan to January 31, 2022, with an additional year of accrued interest. On November 16, 2021, the Economic Development Authority approved an additional extension of the loan to January 31, 2023, with an additional year of accrued interest. As part of the latest extension, interest as of January 31, 2022, was paid in full as of that date.
- \$2,204,429 over twenty years maturing February 1, 2039, with an interest rate of 3.79%.
- \$1,679,471 over twenty years maturing July 22, 2040, with an interest rate of 3.72%.
- \$477,438 over five years maturing September 24, 2025, with an interest rate of 4.25%.
- \$1,568 to the Catering Fund for services provided in June 2022.

6. Due from Other Governmental Units

Amounts due from other governmental units are as follows:

	Governmental Activities	Component Units
Commonwealth of Virginia		
Personal property tax relief	\$ 2,588,707	\$ -
Local sales tax	1,482,402	-
Sales tax	-	856,023
Children's Services Act	689,034	-
Capital projects funding	171,031	-
Communications tax	122,154	-
Compensation Board reimbursement	121,024	
Other	276,492	108,573
Federal government		
School funds	-	1,754,894
Lease payment from General Services Administration	10,911	-
Other	11,183	-
Roanoke Valley Resource Authority	385,416	-
	<u>\$ 5,858,354</u>	<u>\$ 2,719,490</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

7. Capital Assets

Capital asset activity for the year for the primary government is as follows:

	Beginning Balance*	Transfers and Additions	Transfers and Retirements	Ending Balance
Governmental Activities				
Capital assets, nondepreciable				
Land	\$ 6,532,626	\$ 30,500	\$ (202,562)	\$ 6,360,564
Construction in progress	1,874,278	2,645,744	(1,075,457)	3,444,565
Capital assets, nondepreciable	8,406,904	2,676,244	(1,278,019)	9,805,129
Capital assets, depreciable				
Machinery and equipment	28,265,529	2,527,753	(1,341,465)	29,451,817
Buildings and improvements	41,339,950	171,256	-	41,511,206
Leasehold improvements	42,806	-	-	42,806
Public domain infrastructure	115,785,120	2,145,716	(166,580)	117,764,256
Capital assets, depreciable	185,433,405	4,844,725	(1,508,045)	188,770,085
Accumulated depreciation				
Machinery and equipment	(18,033,780)	(1,653,310)	1,241,343	(18,445,747)
Buildings and improvements	(20,892,570)	(1,051,925)	-	(21,944,495)
Leasehold improvements	(14,744)	(2,854)	-	(17,598)
Public domain infrastructure	(57,032,823)	(2,856,339)	74,938	(59,814,224)
Accumulated depreciation	(95,973,917)	(5,564,428)	1,316,281	(100,222,064)
Capital assets, depreciable, net	89,459,488	(719,703)	(191,764)	88,548,021
Intangible right-to-use assets				
Leased machinery and equipment	13,725	63,096	-	76,821
Leased public domain infrastructure	67,469	-	-	67,469
Intangible right-to use assets	81,194	63,096	-	144,290
Accumulated amortization				
Leased machinery and equipment	-	(17,850)	-	(17,850)
Leased public domain infrastructure	-	(9,755)	-	(9,755)
Accumulated amortization	-	(27,605)	-	(27,605)
Intangible right-to-use assets, net	81,194	35,491	-	116,685
Capital assets, net	\$ 97,947,586	\$ 1,992,032	\$ (1,469,783)	\$ 98,469,835
Business-type Activities				
Capital assets, nondepreciable				
Land	\$ 1,585,417	\$ -	\$ -	\$ 1,585,417
Construction in progress	11,824,689	9,848,257	(3,427,364)	18,245,582
Capital assets, nondepreciable	13,410,106	9,848,257	(3,427,364)	19,830,999
Capital assets, depreciable				
Machinery and equipment	9,653,530	179,281	(89,837)	9,742,974
Buildings and improvements	27,497,701	103,623	-	27,601,324
Distribution and transmission	38,884,094	3,702,104	(791,616)	41,794,582
Utility plant	86,447,136	162,747	(1,137,757)	85,472,126
Sewage treatment contract	31,955,606	-	-	31,955,606
Capital assets, depreciable	194,438,067	4,147,755	(2,019,210)	196,566,612

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

7. Capital Assets (Continued)

	Beginning Balance*	Transfers and Additions	Transfers and Retirements	Ending Balance
Business-type Activities (Continued)				
Accumulated depreciation				
Machinery and equipment	(6,872,235)	(558,389)	89,837	(7,340,787)
Buildings and improvements	(12,913,288)	(715,515)	-	(13,628,803)
Distribution and transmission	(23,489,233)	(708,033)	765,704	(23,431,562)
Utility plant	(55,442,666)	(1,268,936)	1,137,758	(55,573,844)
Sewage treatment contract	(13,109,030)	(844,660)	-	(13,953,690)
Accumulated depreciation	(111,826,452)	(4,095,533)	1,993,299	(113,928,686)
Capital assets, depreciable, net	82,611,615	52,222	(25,911)	82,637,926
Intangible right-to-use assets				
Leased machinery and equipment	3,071	6,125	-	9,196
Intangible right-to use assets	3,071	6,125	-	9,196
Accumulated amortization				
Leased machinery and equipment	-	(3,581)	-	(3,581)
Accumulated amortization	-	(3,581)	-	(3,581)
Intangible right-to-use assets, net	3,071	2,544	-	5,615
Capital assets, net	\$ 96,024,792	\$ 9,903,023	\$ (3,453,275)	\$ 102,474,540

* As restated, due to implementation of the guidance in GASB Statement 87, *Leases*

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

Governmental Activities		Business-type Activities	
General government	\$ 410,050	Electric	\$ 1,447,755
Judicial administration	47,959	Water and sewage	2,343,251
Public safety	1,069,010	Civic Center	279,297
Public works	2,969,021	Catering and concessions	4,383
Parks, recreation and cultural	1,008,277	Total depreciation expense	\$ 4,074,686
Community development	15,295		
Total depreciation expense	\$ 5,519,612		

Current year increases to accumulated depreciation shown in the capital asset table for governmental activities exceed depreciation expense by \$44,816 because the table includes accumulated depreciation for machinery and equipment transferred from the Electric Department to the Street Department.

Current year increases to accumulated depreciation shown in the capital asset table for business-type activities exceed depreciation expense by \$20,847 because the table includes accumulated depreciation for machinery and equipment transferred from the Street Department to the Water Department.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

7. Capital Assets (Continued)

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

Governmental Activities		Business-type Activities	
General government	\$ 7,782	Water and sewage	\$ 510
Judicial administration	3,825	Civic Center	3,071
Public safety	2,547	Total amortization expense	<u>\$ 3,581</u>
Public works	996		
Parks, recreation and cultural	2,700		
Community development	9,755		
Total amortization expense	<u>\$ 27,605</u>		

Capital asset activity for the year for the component unit is as follows:

	Beginning Balance	Transfers and Additions	Transfers and Retirements	Ending Balance
Component Unit - School Division				
Capital assets, nondepreciable				
Land	\$ 1,123,637	\$ -	\$ -	\$ 1,123,637
Construction in progress	21,216,515	8,884,315	(640,004)	29,460,826
Capital assets, nondepreciable	<u>22,340,152</u>	<u>8,884,315</u>	<u>(640,004)</u>	<u>30,584,463</u>
Capital assets, depreciable				
Furniture and equipment	9,373,225	537,060	(859,337)	9,050,948
Buildings and improvements	71,156,860	1,299,854	(676,478)	71,780,236
Capital assets, depreciable	<u>80,530,085</u>	<u>1,836,914</u>	<u>(1,535,815)</u>	<u>80,831,184</u>
Accumulated depreciation				
Furniture and equipment	(6,956,626)	(511,616)	850,196	(6,618,046)
Buildings and improvements	(35,678,873)	(1,964,624)	600,094	(37,043,403)
Accumulated depreciation	<u>(42,635,499)</u>	<u>(2,476,240)</u>	<u>1,450,290</u>	<u>(43,661,449)</u>
Capital assets, depreciable, net	<u>37,894,586</u>	<u>(639,326)</u>	<u>(85,525)</u>	<u>37,169,735</u>
Capital assets, net	<u>\$ 60,234,738</u>	<u>\$ 8,244,989</u>	<u>\$ (725,529)</u>	<u>\$ 67,754,198</u>

Intangible Right-to Use Assets

In fiscal year 2022, the City implemented the guidance in GASB No. 87, *Leases*, and recognized right-to-use assets for the value of copiers leased under long-term contracts and a leased parking lot. The intangible right-to-use assets are being amortized over the lease term for each lease. Terms of the leases are described in Note 9.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

8. Deferred Outflows/Inflows of Resources

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

	Governmental Activities	Business-type Activities	Component Units
Deferred outflows of resources			
Deferred loss on refunding of debt	\$ 308,588	\$ 402,015	\$ -
Pension	7,020,360	1,876,388	8,090,362
OPEB	1,250,718	331,484	975,980
Total deferred outflows of resources	<u>\$ 8,579,666</u>	<u>\$ 2,609,887</u>	<u>\$ 9,066,342</u>
Deferred inflows of resources			
Deferred gain on refunding of debt	\$ -	\$ 129,262	\$ -
Property taxes collected in advance	68,669	-	-
Leases	1,250,871	360,462	
Pension	17,063,170	4,637,788	16,620,186
OPEB	2,122,101	563,341	1,012,071
Total deferred inflows of resources	<u>\$ 20,504,811</u>	<u>\$ 5,690,853</u>	<u>\$ 17,632,257</u>

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

	General	Debt Service	Total Governmental Funds
Deferred inflows of resources			
Unavailable revenue - property taxes	\$ 1,280,577	\$ -	\$ 1,280,577
Property taxes collected in advance	68,669	-	68,669
Unavailable revenue - charges for services and fees	317,345	-	317,345
Unavailable revenue - transfer station debt service reimbursement	-	385,416	385,416
Leases	1,250,871	-	1,250,871
Total deferred inflows of resources	<u>\$ 2,917,462</u>	<u>\$ 385,416</u>	<u>\$ 3,302,878</u>

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

	Electric	Water and Sewage	Nonmajor Proprietary Funds	Internal Service Fund
Deferred outflows of resources				
Deferred loss on refunding of debt	\$ 402,015	\$ -	\$ -	\$ -
Pension	715,811	832,087	328,490	37,892
OPEB	105,988	167,008	58,488	3,366
Total deferred outflows of resources	<u>\$ 1,223,814</u>	<u>\$ 999,095</u>	<u>\$ 386,978</u>	<u>\$ 41,258</u>
Deferred inflows of resources				
Deferred gain on refunding of debt	\$ -	\$ 129,262	\$ -	\$ -
Leases	-	360,462	-	-
Pension	1,776,990	2,036,653	824,145	99,349
OPEB	179,783	283,989	99,569	5,561
Total deferred inflows of resources	<u>\$ 1,956,773</u>	<u>\$ 2,810,366</u>	<u>\$ 923,714</u>	<u>\$ 104,910</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

9. Long-Term Liabilities

Summary of Changes in Long-Term Liabilities

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

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

	Beginning Balance*	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds	\$ 52,338,627	\$ 15,080,000	\$ (3,189,661)	\$ 64,228,966	\$ 3,846,669
Bond premiums	4,911,744	-	(337,692)	4,574,052	337,691
Bonds payable	57,250,371	15,080,000	(3,527,353)	68,803,018	4,184,360
Financed purchase obligation	43,589	-	(14,530)	29,059	14,530
Lease liability	81,194	63,096	(26,292)	117,998	29,522
Compensated absences	2,345,888	1,708,149	(1,715,793)	2,338,244	1,715,793
Net pension liability	39,877,736	5,589,573	(25,424,149)	20,043,160	-
Net OPEB liability	11,569,789	4,901,513	(4,795,510)	11,675,792	-
	<u>\$ 111,168,567</u>	<u>\$ 27,342,331</u>	<u>\$ (35,503,627)</u>	<u>\$ 103,007,271</u>	<u>\$ 5,944,205</u>

* As restated, due to implementation of the guidance in GASB Statement 87, *Leases*

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

	Beginning Balance*	Increases	Decreases	Ending Balance	Due Within One Year
Business-type Activities					
General obligation bonds	\$ 32,096,926	\$ 1,189,606	\$ (3,600,246)	\$ 29,686,286	\$ 3,729,517
Bond premiums	3,462,556	-	(434,517)	3,028,039	434,518
Bonds payable	35,559,482	1,189,606	(4,034,763)	32,714,325	4,164,035
Lease liability	3,071	6,125	(3,559)	5,637	1,994
Compensated absences	689,285	530,290	(515,647)	703,928	515,647
Net pension liability	10,666,483	1,519,249	(6,900,984)	5,284,748	-
Net OPEB liability	3,484,734	1,326,277	(1,261,451)	3,549,560	-
	<u>\$ 50,403,055</u>	<u>\$ 4,571,547</u>	<u>\$ (12,716,404)</u>	<u>\$ 42,258,198</u>	<u>\$ 4,681,676</u>

Component Unit - School Division

Compensated absences	\$ 853,459	\$ 430,728	\$ (466,234)	\$ 817,953	\$ 466,234
Net pension liability	39,759,230	7,039,379	(25,736,549)	21,062,060	-
Net OPEB liability	5,688,039	1,644,279	(2,156,268)	5,176,050	-
	<u>\$ 46,300,728</u>	<u>\$ 9,114,386</u>	<u>\$ (28,359,051)</u>	<u>\$ 27,056,063</u>	<u>\$ 466,234</u>

* As restated, due to implementation of the guidance in GASB Statement 87, *Leases*

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

9. Long-Term Liabilities (Continued)

Bonds Payable

Details of long-term indebtedness for bonds payable are as follows:

	Interest Rates	Issue Date	Maturity Date	Issue Amount	Governmental Activities	Business-type Activities
General Obligation Bonds						
2004 Public Improvement	3.00%	04/04	07/26	11,052,222	\$ -	\$ 3,142,061
2010 Public Improvement	3.15%	09/10	03/30	3,648,124	-	1,805,518
2011 Refunding	2.14%	12/11	10/23	9,485,000	1,734,584	-
2012 Public Improvement	2.35%	12/12	08/32	9,545,000	5,249,750	-
2013 Public Improvement	1.25%	03/13	04/35	3,058,522	-	2,068,770
2013 Public Improvement	3.03%	12/13	08/33	7,275,000	4,355,000	-
2016B Public Improvement	2.50%	06/16	04/26	6,393,385	581,080	2,152,148
2018 Public Improvement	0.00%	05/18	07/38	5,452,854	-	4,856,222
2019 Public Improvement	3.24%	02/19	04/39	5,025,000	4,475,000	-
2020 Public Improvement	2.00-5.00%	06/20	05/40	26,555,000	25,855,000	-
2020 Refunding	2.00-5.00%	06/20	05/36	24,035,000	4,988,136	14,611,864
2021 Refunding	1.24%	05/21	02/28	1,555,000	1,525,000	-
2022 Public Improvement	1.15%	03/22	03/43	1,049,703	-	1,049,703
2022 Public Improvement	3.03%	05/22	05/42	15,080,000	15,080,000	-
General Obligation Bonds - RVRA						
2011 Refunding	2.14%	12/11	10/23		385,416	-
					64,228,966	29,686,286
				Bond premiums	4,574,052	3,028,039
					<u>\$ 68,803,018</u>	<u>\$ 32,714,325</u>

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

Fiscal Year	Governmental Activities					
	Governmental Activities		RVRA		Business-type Activities	
	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 3,651,234	\$ 2,002,526	\$ 195,435	\$ 6,156	\$ 3,729,517	\$ 870,610
2024	3,688,294	1,929,105	189,981	2,033	3,903,600	768,921
2025	3,715,455	1,830,299	-	-	4,079,816	634,507
2026	3,834,752	1,683,745	-	-	4,210,399	503,422
2027	3,788,166	1,531,834	-	-	3,422,129	366,721
2028-2032	19,350,399	5,435,582	-	-	8,066,263	613,434
2033-2037	15,253,250	2,453,112	-	-	1,837,548	5,651
2038-2042	10,562,000	687,326	-	-	437,014	-
2043-2047	-	-	-	-	-	-
	<u>\$63,843,550</u>	<u>\$17,553,529</u>	<u>\$ 385,416</u>	<u>\$ 8,189</u>	<u>\$29,686,286</u>	<u>\$ 3,763,266</u>

On November 1, 2016, the City became a member of the already established Roanoke Valley Resource Authority (RVRA). Per the amended and restated Members and Facilities Use Agreement, the City conveyed title of the City's existing transfer station and all related equipment, property, and site work to RVRA. RVRA agreed to pay the City amounts equal to the remaining debt service on the transfer station building. As of June 30, 2022, the City has \$385,416 in outstanding general obligation debt that will be repaid contractually by RVRA over the remaining two-year amortization of the bonds. Further details are presented in Note 19.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

9. Long-Term Liabilities (Continued)

Current Year Bond Issuances

In March 2022, the City agreed to a financing agreement with the Virginia Resources Authority as administrator of the Virginia Water Facilities Revolving Fund for the purpose of providing funds for the City's share of peak flow capacity and anaerobic digestion facility improvements at the Western Virginia Water Authority's Roanoke Regional Water Pollution Control Plant. The City agreed to borrow from the Virginia Resources Authority a principal amount equal to the sum of principal disbursements for which the City submits requisitions, not to exceed \$2,320,437. The City evidenced its obligation to repay the loan by issuing and selling series 2022 general obligation public improvement bonds to the Virginia Resources Authority. Principal disbursements through June 30, 2022, totaled \$1,049,703.

In May 2022, the City issued \$15,080,000 of series 2022 general obligation public improvement bonds for the purpose of providing funding for the Moyer Sports Complex renovation project.

Financed Purchase Obligation

On July 24, 2019, the City entered into a 60-month financed purchase obligation agreement with De Lage Landen Public Finance LLC to purchase two Cisco Firepower 2120 NGFW Appliances. Under the agreement, the City pays \$14,526.60 annually to De Lage Landen Public Finance LLC, representing principal payments only. Ownership transfers to the City at the end of the obligation. The City reported this liability previously as a capital lease liability but began reporting the liability as a financed purchase obligation in fiscal year 2022 due to implementation of the guidance in GASB Statement No. 87, *Leases*. The assets and liability are accounted for in the Statement of Net Position. At June 30, 2022, the original cost of the equipment was \$72,648, and accumulated depreciation was \$42,378. Financed purchase obligation payments over the next five years are as follows:

Fiscal Year	Governmental Activities
	Principal
2023	\$ 14,530
2024	14,529
	<u>\$ 29,059</u>

Lease Liability

In fiscal year 2022, the City implemented the guidance in GASB Statement No. 87, *Leases*, for accounting and reporting of leases that had previously been reported as operating and capital leases.

Copier Leases

The City leases a variety of copiers from Xerox Corporation, US Bank Equipment Finance, and De Lage Landen Financial Services for terms ranging from 36 months to 60 months. For purposes of discounting future payments, the City used its incremental borrowing rate at lease inception. The leased equipment and accumulated amortization of the right-to-use assets are outlined in Note 7. Future minimum lease payments include:

Fiscal Year	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2023	\$ 20,410	\$ 1,546	\$ 1,994	\$ 148
2024	18,442	954	2,057	84
2025	11,592	452	1,586	21
2026	6,789	183	-	-
2027	2,300	17	-	-
	<u>\$ 59,533</u>	<u>\$ 3,152</u>	<u>\$ 5,637</u>	<u>\$ 253</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

9. Long-Term Liabilities (Continued)

Parking Lot Lease

The City leases a parking lot from .com Properties IV LLC. The initial lease term began on June 1, 2018 for a five-year term with the option to renew for one additional five-year term. The current monthly payment is \$981. The lease payment shall escalate annually on June 1 of each lease year with an adjustment due to CPI increase for the year, using April 1 as the base for adjustment. For purposes of discounting future payments, the City used the prime rate as of the date of implementation of GASB 87. The leased infrastructure and accumulated amortization of the right-to-use asset is outlined in Note 7. Future minimum lease payments include:

Fiscal Year	Governmental Activities	
	Principal	Interest
2023	\$ 9,112	\$ 1,760
2024	9,412	1,460
2025	9,722	1,150
2026	10,041	831
2027	10,371	501
2028-2032	9,807	160
	<u>\$ 58,465</u>	<u>\$ 5,862</u>

Legal Debt Limit

The *Constitution of Virginia*, Article VII, Section 10(a), sets forth the City's legal debt limit as ten percent of the assessed valuation of the real estate in the City subject to taxation. As of June 30, 2022, ten percent of the assessed value of real property in the City is \$244,987,011. The City's net debt applicable to the legal debt limit is \$68,446,661, and the legal debt margin is \$176,540,350. Additional information about the City's legal debt margin is available in Table 10.

10. Fund Balance

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

	General	Capital Projects	Total Governmental Funds
Fund Balances:			
Nonspendable:			
Inventories	\$ 715,896	\$ -	\$ 715,896
Prepays	359,027	-	359,027
	<u>1,074,923</u>	<u>-</u>	<u>1,074,923</u>
Restricted for:			
Law enforcement	418,633	-	418,633
Fire and rescue	173,836	-	173,836
Street equipment	-	20,156	20,156
Highway maintenance	2,598,715	-	2,598,715
Education	-	3,892,353	3,892,353
Parks and recreation	51,770	15,364,460	15,416,230
	<u>3,242,954</u>	<u>19,276,969</u>	<u>22,519,923</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

10. Fund Balance (Continued)

	General	Capital Projects	Total Governmental Funds
Fund Balances (Continued):			
Committed to:			
Law enforcement	91,966	-	91,966
Stormwater management	37,635	-	37,635
	129,601	-	129,601
Assigned to:			
Technology systems	86,328	-	86,328
Law enforcement	9,943	-	9,943
Street equipment	260,748	-	260,748
Building maintenance and improvements	162,859	-	162,859
Landscape management	11,197	-	11,197
Engineering	8,914	-	8,914
Public works	-	139,013	139,013
Parks and recreation	191,200	1,057,334	1,248,534
Economic development	32,989	1,730,574	1,763,563
Other purposes	52,737	57,443	110,180
	816,915	2,984,364	3,801,279
Unassigned:	55,175,870	-	55,175,870
Total fund balances	\$ 60,440,263	\$ 22,261,333	\$ 82,701,596

11. Risk Management

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

Workers' Compensation

Workers' Compensation Insurance is provided through the Virginia Risk Sharing Association (VRSA) for the City and through VACORP for the School Division. Benefits are those afforded through the Commonwealth of Virginia as outlined in *Code of Virginia* §65.2-100. Premiums are based on covered payroll, job rates and claims experience. Total premiums for the current year were \$519,685 and \$102,383 for the City and School Division, respectively.

General Liability and Other

The City provides general liability and other insurance through VRSA. General liability and automotive liability have a \$1,000,000 limit per occurrence. Boiler and machinery coverage and property coverage are covered per statement of values. The City maintains an additional \$10,000,000 umbrella policy over all forms of liability. The City has flood insurance coverage through Selective Insurance Company of America for properties in designated flood zones or that are part of the water plant. Total premiums for the current fiscal year were \$442,735.

The School Division provides general liability and other insurance through VACORP. General liability, automobile liability, and property damage have a \$2,000,000 limit per occurrence. The School Division also has a separate student accident insurance policy through VACORP. Total premiums for the current fiscal year were \$125,825.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

11. Risk Management (Continued)

Line of Duty

The Line of Duty Act (LODA) provides benefits to local government employees who hold specified hazardous duty positions (*Code of Virginia* §9.1-400 et seq.). By statute, LODA benefits must be provided. The Virginia Department of Accounts administers the benefit. As of July 1, 2011, the General Assembly shifted the financial responsibility from the state government to local governments. The City provides an insured Line of Duty OPEB benefit plan through coverage with VRSA. In exchange for annual premiums paid while employees are in active service, VRSA covers the Line of Duty OPEB of those employees. The Line of Duty coverage provides a death benefit of \$100,000 to beneficiaries of public safety officers who die in the line of duty and a death benefit of \$25,000 to beneficiaries of public safety employees who die within five years of becoming disabled as a result of a qualifying illness as defined in the LODA. A health insurance benefit is also provided to the disabled public safety employees, their surviving spouses, and their dependents. The City retains an obligation for benefits in the event of VRSA's insolvency. The Commonwealth of Virginia has the authority to establish and amend LODA. Total premiums for the current year to VRSA for Line of Duty coverage were \$126,996.

Healthcare

The City's professionally administered self-insurance program provides health coverage for employees of the City and School Division on a cost-reimbursement basis. All active employees, retired City employees and retired School Division employees pay a premium equivalent for participation. The premium equivalent represents a minimum of 4% active or retired employee participation. The City is obligated for claims payments under the program. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$250,000 per covered individual and approximately \$10,453,066 in the aggregate.

During the current fiscal year, total claim expenses of \$9,042,833, which did not exceed the stop loss provisions, were incurred. This represents claims processed and an estimate for claims incurred but not reported (IBNR) as of June 30, 2022. The estimated liability for the City and School Division was \$444,351 and \$321,305, respectively for a total of \$765,657 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
2022	\$ 716,796	\$ 9,042,833	\$ 8,993,973	\$ 765,656
2021	581,259	8,932,896	8,797,359	716,796
2020	936,640	8,952,998	9,308,379	581,259

Dental

The City's professionally administered self-insurance program provides dental coverage for employees of the City and School Division on a cost-reimbursement basis. The City began offering dental coverage through the self-insurance program on January 1, 2020. All active employees, retired City employees and retired School Division employees pay a premium equivalent for participation. The premium equivalent represents a minimum of 0% active or retired employee participation. The City is obligated for claims payments under the program.

During the current fiscal year, total claim expenses of \$534,284 were incurred. This represents claims processed and an estimate for claims incurred but not reported (IBNR) as of June 30, 2022. The estimated liability for the City and School Division was \$9,000 and \$10,000, respectively for a total of \$19,000 at year-end.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

11. Risk Management (Continued)

Dental (Continued)

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
2022	\$ 24,000	\$ 534,284	\$ 539,284	\$ 19,000
2021	19,400	535,775	531,175	24,000
2020	-	220,597	201,197	19,400

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.

12. Pension Plan

Plan Description

All full-time, salaried permanent (professional) employees of the City and all full-time, salaried permanent (non-professional) employees of the School Division who are not classified as teachers or administrative personnel are automatically covered by the VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (VRS or System) along with plans for other employer groups in the Commonwealth of Virginia. The VRS Retirement Plan is a multi-employer, agent plan.

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

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

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

VRS PLAN 1

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

12. Pension Plan (Continued)

Plan Description (Continued)

VRS PLAN 1 (Continued)

Retirement Contributions – Employees contribute 5% of their compensation each month to their member contribution account through a pretax 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.

Service Credit – Service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit 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 service credit. 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 determined using the average final compensation, service credit and plan multiplier. An early retirement reduction is applied to this amount if the member is retiring with a reduced benefit. In cases where the member has elected an optional form of retirement payment, an option factor specific to the option chosen is then applied.

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

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

Normal Retirement Age – The normal retirement age is age 65 for non-hazardous duty employees and age 60 for hazardous duty employees.

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

12. Pension Plan (Continued)

Plan Description (Continued)

VRS PLAN 1 (Continued)

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 service credit, the COLA will go into effect on July 1st 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 service credit, the COLA will go into effect on July 1st after one calendar year following the unreduced retirement eligibility date.

The COLA is effective July 1st following one full calendar year (January 1st to December 31st) 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.
- 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 1st following one full calendar year (January 1st to December 31st) 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 service credit in their plan. Prior service credit counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.

VRS PLAN 2

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

Under the VRS Retirement Plan, employees are in 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 July 1, 2013.

Under the VRS Teacher Retirement Plan, members are in VRS Plan 2 if their membership date is from July 1, 2010, to December 31, 2013, and they have not taken a refund. Members are covered under VRS Plan 2 if they have a membership date prior to July 1, 2010, and they were not vested as of January 1, 2013.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

12. Pension Plan (Continued)

Plan Description (Continued)

VRS PLAN 2 (Continued)

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

Service Retirement Multiplier – The service retirement multiplier is the same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members, the retirement multiplier is 1.65% for service credit earned, purchased or granted on or after January 1, 2013.

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

Earliest Unreduced Retirement Eligibility – Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age with at least five years (60 months) of service credit or when their age plus service credit equals 90.

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

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.

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

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

12. Pension Plan (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

* 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.

Service Credit – Under the defined benefit component of the plan, service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit 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.

Under the defined contribution component of the plan, service credit is used to determine vesting for the employer contribution portion of the plan.

Vesting – Under the defined benefit component of the plan, defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of service credit. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of service credit who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Under the defined contribution component of the plan, 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. 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.

Distributions are not required, except as governed by law.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

12. Pension Plan (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

Calculating the Benefit – Under the defined contribution component of the plan, 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 – The average final compensation is the same as under VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

Service Retirement Multiplier – The retirement multiplier for the defined benefit component 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. The service retirement multiplier is not applicable for hazardous duty employees or for the defined contribution component of the plan.

Normal Retirement Age – Under the defined benefit component of the plan, the normal retirement age is the same as under VRS Plan 2. The normal retirement age is not applicable to hazardous duty employees. Under the defined contribution component of the plan, members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Unreduced Retirement Eligibility – Under the defined benefit component of the plan, members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of service credit or when their age plus service credit equals 90. The earliest unreduced retirement eligibility is not applicable to hazardous duty employees. Under the defined contribution component of the plan, members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Reduced Retirement Eligibility – Under the defined benefit component of the plan, members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of service credit. The earliest reduced retirement eligibility is not applicable to hazardous duty employees. Under the defined contribution component of the plan, members are eligible to receive distributions upon leaving employment, subject to restrictions.

COLA in Retirement – Under the defined benefit component of the plan, the COLA in retirement is the same as under VRS Plan 2. Under the defined contribution component of the plan, the COLA in retirement is 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 – Under the defined benefit component of the plan, the purchase of prior service is the same as under VRS Plan 1, except Hybrid Retirement Plan members are ineligible for ported service. Under the defined contribution component of the plan, the purchase of prior service is not applicable.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

12. Pension Plan (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2020, actuarial valuation, the following employees were covered by the benefit terms of the VRS Retirement Plan:

	<u>City of Salem</u>	<u>School Division (Non-Professional)</u>
Inactive members or their beneficiaries currently receiving benefits	692	74
Inactive members:		
Vested inactive members	166	19
Non-vested inactive members	203	43
Inactive members active elsewhere in VRS	240	19
Total inactive members	609	81
Active members	492	62
Total covered employees	<u>1,793</u>	<u>217</u>

Contributions

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

The City's contractually required contribution rate for the year ended June 30, 2022, was 18.23% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. 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 VRS Retirement Plan from the City were \$4,356,901 and \$4,093,089 for the years ended June 30, 2022, and June 30, 2021, respectively.

The School Division's non-professional employees' contractually required contribution rate for the year ended June 30, 2022, was 2.30% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. 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 VRS Retirement Plan from the School Division were \$22,143 and \$19,987 for the years ended June 30, 2022, and June 30, 2021, 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, 2022, was 16.62% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. 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 VRS Teacher Retirement Plan from the School Division were \$4,211,083 and \$3,842,114 for the years ended June 30, 2022, and June 30, 2021, respectively.

In June 2021, the Commonwealth made a special contribution of approximately \$61.3 million to the VRS Teacher Retirement Plan. This special payment was authorized by a budget amendment included in Chapter 552 of the 2021 Appropriation Act and is classified as a non-employer contribution.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

12. Pension Plan (Continued)

Net Pension Liability

Under the VRS Retirement Plan, the net pension liability is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. The City's and School Division's net pension liabilities under the VRS Retirement Plan were measured as of June 30, 2021. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2020, rolled forward to the measurement date of June 30, 2021.

Under the VRS Teacher Retirement Plan, the School Division reported a liability of \$21,062,060 for its proportionate share of the net pension liability at June 30, 2022. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2020, and rolled forward to the measurement date of June 30, 2021. 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, 2021, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2021, the School Division's proportion was 0.27131% as compared to 0.27321% at June 30, 2020.

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, 2021, net pension liability amounts for the VRS Teacher Retirement Plan are as follows (amounts expressed in thousands):

	Teacher Employee Retirement Plan
Total Pension Liability	\$ 53,381,141
Plan Fiduciary Net Position	45,617,878
Employers' Net Pension Liability	<u>\$ 7,763,263</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.46%

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, 2020, 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, 2021.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.35%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

12. Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

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

- Pre-Retirement – Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years
- Post-Retirement – Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years
- Post-Disablement – Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years
- Beneficiaries and Survivors – Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years
- Mortality Improvement – Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

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

- Pre-Retirement – Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years
- Post-Retirement – Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years
- Post-Disablement – Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years
- Beneficiaries and Survivors – Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years
- Mortality Improvement – Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest Ten – Non-Hazardous Duty:

- Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) – Updated to Pub-2010 public sector mortality tables; for future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
- Retirement Rates – Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age
- Withdrawal Rates – Adjusted rates to better fit experience at each year age and service through 9 years of service
- Disability Rates – No change
- Salary Scale – No change
- Line of Duty Disability – No change
- Discount Rate – No change

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

12. Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

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

- Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) – Updated to Pub-2010 public sector mortality tables; for future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
- Retirement Rates – Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age
- Withdrawal Rates – Adjusted rates to better fit experience at each year age and service through 9 years of service
- Disability Rates – No change
- Salary Scale – No change
- Line of Duty Disability – No change
- Discount Rate – No change

Actuarial Assumptions – Public Safety Employees with Hazardous Duty Benefits

The total pension liability for public safety employees with hazardous duty benefits in the VRS Retirement Plan was based on an actuarial valuation as of June 30, 2020, 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, 2021:

Inflation	2.50%
Salary increases, including inflation	3.50% - 4.75%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation

Mortality Rates – Largest Ten – Hazardous Duty: 70% of deaths are assumed to be service-related

- Pre-Retirement – Pub-2010 Amount Weighted Safety Employee Rates projected generationally with a Modified MP-2020 Improvement Scale; 95% of rates for males; 105% of rates for females set forward 2 years
- Post-Retirement – Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally with a Modified MP-2020 Improvement Scale; 110% of rates for males; 105% of rates for females set forward 3 years
- Post-Disablement – Pub-2010 Amount Weighted General Disabled Rates projected generationally with a Modified MP-2020 Improvement Scale; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years
- Beneficiaries and Survivors – Pub-2010 Amount Weighted Safety Contingency Annuitant Rates projected generationally with a Modified MP-2020 Improvement Scale; 110% of rates for males and females set forward 2 years
- Mortality Improvement – Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

12. Pension Plan (Continued)

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

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

- Pre-Retirement – Pub-2010 Amount Weighted Safety Employee Rates projected generationally with a Modified MP-2020 Improvement Scale; 95% of rates for males; 105% of rates for females set forward 2 years
- Post-Retirement – Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally with a Modified MP-2020 Improvement Scale; 110% of rates for males; 105% of rates for females set forward 3 years
- Post-Disablement – Pub-2010 Amount Weighted General Disabled Rates projected generationally with a Modified MP-2020 Improvement Scale; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years
- Beneficiaries and Survivors – Pub-2010 Amount Weighted Safety Contingency Annuitant Rates projected generationally with a Modified MP-2020 Improvement Scale; 110% of rates for males and females set forward 2 years
- Mortality Improvement – Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest Ten – Hazardous Duty:

- Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) – Updated to Pub-2010 public sector mortality tables; increased disability life expectancy; for future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
- Retirement Rates – Adjusted rates to better fit experience and changed final retirement age from 65 to 70
- Withdrawal Rates – Decreased rates
- Disability Rates – No change
- Salary Scale – No change
- Line of Duty Disability – No change
- Discount Rate – No change

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

- Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) – Updated to Pub-2010 public sector mortality tables; increased disability life expectancy; for future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
- Retirement Rates – Adjusted rates to better fit experience and changed final retirement age from 65 to 70
- Withdrawal Rates – Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Largest 10 Hazardous Duty
- Disability Rates – No change
- Salary Scale – No change
- Line of Duty Disability – No change
- Discount Rate – No change

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

12. Pension Plan (Continued)

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, 2020, 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, 2021.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.95%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation

Mortality rates:

- Pre-Retirement – Pub-2010 Amount Weighted Teachers Employee Rates projected generationally; 110% of rates for males
- Post-Retirement – Pub-2010 Amount Weighted Teachers Healthy Retiree Rates projected generationally; males set forward 1 year; 105% of rates for females
- Post-Disablement – Pub-2010 Amount Weighted Teachers Disabled Rates projected generationally; 110% of rates for males and females
- Beneficiaries and Survivors – Pub-2010 Amount Weighted Teachers Contingent Annuitant Rates projected generationally
- Mortality Improvement – Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

- Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) – Updated to Pub-2010 public sector mortality tables; for future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
- Retirement Rates – Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan2/Hybrid; changed final retirement age from 75 to 80 for all
- Withdrawal Rates – Adjusted rates to better fit experience at each year age and service through 9 years of service
- Disability Rates – No change
- Salary Scale – No change
- Discount Rate – 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 table on the following page.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

12. Pension Plan (Continued)

Long-Term Expected Rate of Return (Continued)

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return*
Public Equity	34.00%	5.00%	1.70%
Fixed Income	15.00%	0.57%	0.09%
Credit Strategies	14.00%	4.49%	0.63%
Real Assets	14.00%	4.76%	0.67%
Private Equity	14.00%	9.94%	1.39%
MAPS - Multi-Asset Public Strategies	6.00%	3.29%	0.20%
PIP - Private Investment Partnership	3.00%	6.84%	0.21%
Total	<u>100.00%</u>		<u>4.89%</u>
		Inflation	<u>2.50%</u>
		Expected arithmetic nominal return*	<u>7.39%</u>

* The above allocation provides a one-year expected return of 7.39%. 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. These results provide a range of returns over various time periods that ultimately provide a median return of 6.94%, including expected inflation of 2.50%.

* On October 10, 2019, the VRS Board elected a long-term rate of 6.75%, which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate.

Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions, political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2021, the alternate rate was the employer contribution rate used in fiscal year 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017, actuarial valuations, whichever was greater.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

12. Pension Plan (Continued)

Discount Rate (Continued)

Through the fiscal year ending June 30, 2021, the rate contributed by the School Division for the VRS Teacher Retirement Plan was subject to the portion of the VRS Board-certified rates that were funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rates.

From July 1, 2021, on, participating employers and school divisions are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset)

The changes in the net pension liability (asset) for City employees and School Division non-professional employees are as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
City of Salem			
Balances at June 30, 2020	\$ 205,730,759	\$ 155,186,540	\$ 50,544,219
Changes for the year:			
Service cost	2,579,718	-	2,579,718
Interest	13,532,366	-	13,532,366
Changes of assumptions	7,635,262	-	7,635,262
Difference between expected and actual experience	(1,898,137)	-	(1,898,137)
Contributions - employer	-	4,093,089	(4,093,089)
Contributions - employee	-	1,214,809	(1,214,809)
Net investment income	-	41,862,509	(41,862,509)
Benefit payments, including refunds of employee contributions	(12,415,757)	(12,415,757)	-
Administrative expenses	-	(108,142)	108,142
Other changes	-	3,255	(3,255)
Net changes	<u>9,433,452</u>	<u>34,649,763</u>	<u>(25,216,311)</u>
Balances at June 30, 2021	<u>\$ 215,164,211</u>	<u>\$ 189,836,303</u>	<u>\$ 25,327,908</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

12. Pension Plan (Continued)

Changes in Net Pension Liability (Asset) (Continued)

	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, 2020	\$ 5,290,395	\$ 5,655,835	\$ (365,440)
Changes for the year:			
Service cost	106,418	-	106,418
Interest	344,320	-	344,320
Changes of assumptions	150,153	-	150,153
Difference between expected and actual experience	(89,731)	-	(89,731)
Contributions - employer	-	19,987	(19,987)
Contributions - employee	-	57,197	(57,197)
Net investment income	-	1,516,515	(1,516,515)
Benefit payments, including refunds of employee contributions	(378,725)	(378,725)	-
Administrative expenses	-	(3,965)	3,965
Other changes	-	141	(141)
Net changes	<u>132,435</u>	<u>1,211,150</u>	<u>(1,078,715)</u>
Balances at June 30, 2021	<u>\$ 5,422,830</u>	<u>\$ 6,866,985</u>	<u>\$ (1,444,155)</u>

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

The following presents the City's and School Division's net pension liabilities (assets) under the VRS Retirement Plan and the School Division's proportionate share of the net pension liability under the VRS Teacher Retirement Plan using the discount rate of 6.75%, as well as what the net pension liabilities (assets) would be if they were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	Net Pension Liability (Asset)		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
City of Salem			
Retirement Plan	\$ 51,612,339	\$ 25,327,908	\$ 3,500,297
School Division			
Retirement Plan (Non-Professional Staff)	(837,005)	(1,444,155)	(1,952,075)
Teacher Retirement Plan	40,648,635	21,062,060	4,949,486

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

12. Pension Plan (Continued)

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

For the year ended June 30, 2022, the City and School Division recognized pension expense of \$2,568,975 and \$(264,187) respectively, under the VRS Retirement Plan.

For the year ended June 30, 2022, the School Division recognized pension expense of \$72,383 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, 2022, the City and School Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
City of Salem		
Differences between expected and actual experience	\$ 209,894	\$ 1,076,433
Changes in assumptions	4,329,953	-
Net difference between projected and actual earnings on pension plan investments	-	20,624,525
Employer contributions subsequent to the measurement date	4,356,901	-
	<u>\$ 8,896,748</u>	<u>\$ 21,700,958</u>
School Division (Non-Professional Staff)		
Differences between expected and actual experience	\$ -	\$ 41,489
Changes in assumptions	69,426	-
Net difference between projected and actual earnings on pension plan investments	-	750,019
Employer contributions subsequent to the measurement date	22,143	-
	<u>\$ 91,569</u>	<u>\$ 791,508</u>
School Division - Teacher Retirement Plan		
Differences between expected and actual experience	\$ -	\$ 1,793,939
Changes in assumptions	3,690,018	-
Net difference between projected and actual earnings on pension plan investments	-	13,272,746
Changes in proportion and differences between employer contributions and proportionate share of contributions	97,692	761,993
Employer contributions subsequent to the measurement date	4,211,083	-
	<u>\$ 7,998,793</u>	<u>\$ 15,828,678</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

12. Pension Plan (Continued)

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

The deferred outflow of resources related to pensions resulting from the City's contributions of \$4,356,901 subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2023. The deferred outflows of resources related to pensions resulting from the School Division's contributions of \$22,143 and \$4,211,083 subsequent to the measurement date will be recognized as an increase to the net pension asset and a decrease to the net pension liability, respectively, in the fiscal year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30,	City of Salem	School Division (Non-Professional)	School Division - Teacher Retirement Plan
2023	\$ (2,126,590)	\$ (147,790)	\$ (2,846,918)
2024	(3,919,351)	(170,810)	(2,566,504)
2025	(4,802,118)	(174,470)	(2,835,854)
2026	(6,313,052)	(229,012)	(3,794,796)
2027	-	-	3,104
	<u><u>\$(17,161,111)</u></u>	<u><u>\$ (722,082)</u></u>	<u><u>\$(12,040,968)</u></u>

Payable to the Pension Plan

At June 30, 2022, \$486,263 and \$7,987 were payable to the System under the VRS Retirement Plan for the legally required contributions of the City and School Division, respectively, related to the June 2022 payroll. At June 30, 2022, \$524,424 was payable to the System under the VRS Teacher Retirement Plan for the legally required contributions related to the June 2022 payroll.

Pension Plan Data and VRS Teacher Retirement Plan Fiduciary Net Position

Information about the VRS Retirement Plan and the VRS Teacher Retirement Plan, including detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position, is available in the separately issued VRS 2021 Annual Comprehensive Financial Report (ACFR). A copy of the VRS 2021 ACFR may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2021-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

13. Summary of Pension Elements

A summary of the pension-related financial statement elements is as follows:

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units
Pension Expense				
VRS Retirement Plan	\$ 2,019,952	\$ 549,023	\$ 2,568,975	\$ (264,187)
VRS Teacher Retirement Plan	-	-	-	72,383
Total Pension Expense	<u><u>\$ 2,019,952</u></u>	<u><u>\$ 549,023</u></u>	<u><u>\$ 2,568,975</u></u>	<u><u>\$ (191,804)</u></u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

13. Summary of Pension Elements (Continued)

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units
Net Pension Asset				
VRS Retirement Plan	\$ -	\$ -	\$ -	\$ 1,444,155
Net Pension Liability				
VRS Retirement Plan	\$ 20,043,160	\$ 5,284,748	\$ 25,327,908	\$ -
VRS Teacher Retirement Plan	-	-	-	21,062,060
Total Pension Liability	\$ 20,043,160	\$ 5,284,748	\$ 25,327,908	\$ 21,062,060
Deferred Outflows of Resources				
Differences between expected and actual experience				
VRS Retirement Plan	\$ 165,037	\$ 44,857	\$ 209,894	\$ -
Changes in assumptions				
VRS Retirement Plan	3,404,584	925,369	4,329,953	69,426
VRS Teacher Retirement Plan	-	-	-	3,690,018
Changes in proportion and differences between employer contributions and proportionate share of contributions				
VRS Teacher Retirement Plan	-	-	-	97,692
Employer contributions subsequent to the measurement date				
VRS Retirement Plan	3,450,739	906,162	4,356,901	22,143
VRS Teacher Retirement Plan	-	-	-	4,211,083
Total Deferred Outflows of Resources	\$ 7,020,360	\$ 1,876,388	\$ 8,896,748	\$ 8,090,362
Deferred Inflows of Resources				
Differences between expected and actual experience				
VRS Retirement Plan	\$ 846,385	\$ 230,048	\$ 1,076,433	\$ 41,489
VRS Teacher Retirement Plan	-	-	-	1,793,939
Net difference between projected and actual earnings on pension plan investments				
VRS Retirement Plan	16,216,785	4,407,740	20,624,525	750,019
VRS Teacher Retirement Plan	-	-	-	13,272,746
Changes in proportion and differences between employer contributions and proportionate share of contributions				
VRS Teacher Retirement Plan	-	-	-	761,993
Total Deferred Inflows of Resources	\$ 17,063,170	\$ 4,637,788	\$ 21,700,958	\$ 16,620,186

14. Other Postemployment Benefits – Retiree Health Plan

Plan Description

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

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

Plan Description (Continued)

In addition to the implicit rate subsidy, all pre-65 retirees who retired on or before October 1, 2010 receive a premium subsidy based on their coverage election. If the retiree elects retiree-only coverage, the City contributes between 86% and 96% of the subscriber-only premium. If the retiree elects retiree/spouse, retiree/children, or family coverage, the City contributes between 51% and 60% of the retiree/spouse, retiree/children, or family premium. If the retiree elects retiree/child coverage, the City contributes between 74% and 84% of the retiree/child premium. The actual City contribution within each range depends on the health plan selected by the retiree.

For individuals retiring after October 1, 2010, and who were hired before July 1, 2010, the City will contribute 3% of the retiree-only premium for each year of service up to 96% of the total retiree-only premium for the lifetime of the retiree. For employees hired on or after July 1, 2010, the City will contribute 3% of the retiree-only premium for each year of service up to 50% of the total retiree-only premium for the lifetime of the retiree.

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

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

The benefits are governed by City Council or School Board policy and can be amended through Council or School Board action. The Retiree Health Plan does not issue a publicly available financial report.

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

Employees Covered by Benefit Terms

As of June 30, 2021, the date of the latest actuarial valuation for the City and School Division, the following employees were covered by the benefit terms of the Retiree Health Plan:

	<u>City of Salem</u>	<u>School Division</u>
Active employees	478	532
Retired participants	304	29
Total participants	<u>782</u>	<u>561</u>

Contributions

The Retiree Health Plan is funded through member and employer contributions on a pay-as-you-go basis. City Retirees receiving benefits contribute a minimum of 4% to 14%, 16% to 26%, 40% to 49%, 40% to 48%, and 40% to 48% of the health insurance premium rate for retiree only, retiree + one minor child, retiree + spouse, retiree + children, and family coverage, respectively. The actual contribution within each range depends on the health plan selected by the retiree. School Division Retirees receiving benefits contribute 100% of the health insurance premium rate. During the current year, retired City and School Division members contributed \$501,754 and \$218,150, respectively, of the total premiums through their required contributions of between \$16.40 and \$1,707, depending on the type of coverage and years of service.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

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

Contributions (Continued)

The City and School Division contributed \$1,653,422 and \$140,032, respectively, in pay-as-you-go contributions to the Retiree Health Plan for the year ended June 30, 2022. In addition, the City and School Division contributed \$234,930 and \$97,135, respectively, to the OPEB Trust Fund. It is the intent of the City and School Division to fully fund the actuarially determined contributions each year.

Net OPEB Liability

Under the Retiree Health Plan, the City's and School Division's net OPEB liabilities were measured as of June 30, 2022. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation performed as of June 30, 2021. The components of the net OPEB liability as of June 30, 2022, were as follows:

	City of Salem	School Division
Total OPEB liability	\$ 22,891,289	\$ 2,324,032
Plan fiduciary net position	8,956,239	2,062,855
Net OPEB liability	<u>\$ 13,935,050</u>	<u>\$ 261,177</u>
Plan fiduciary net position as a percentage of total OPEB liability	39.13%	88.76%

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, 2021
Measurement date	June 30, 2022
Inflation	2.50%
Investment rate of return	6.5%, net of investment expense
Pre-65 healthcare cost trend rates	City: 5.70% for 2021 graded to 4.00% by 2073 School Division: 5.70% for 2021 graded to 4.00% by 2073
Post-65 healthcare cost trend rates	City: 4.80% for 2021 graded to 4.00% by 2073 School Division: N/A
Pre-retirement mortality	RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020 set back 1 year for males at 85% of rates and set back 1 year for females
Post-retirement mortality	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020 set forward 1 year for males and set back 1 year for females with 1.5% increase compounded from ages 70 to 85

Plan Investments

In an effort to assist local governments in funding their OPEB liabilities, the Virginia Association of Counties and the Virginia Municipal League established the VACo/VML Pooled OPEB Trust (Trust). The Trust is an irrevocable trust offered to local governments and authorities and is governed by a Board of Trustees consisting of local officials of participants in the Trust. The Board of Trustees has adopted an investment policy to achieve a compound annualized rate of return over a market cycle, including current income and capital appreciation, in excess of 5 percent after inflation, in a manner consistent with prudent risk-taking. Investment decisions of the funds' assets are made by the Board of Trustees.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

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

Plan Investments (Continued)

The Board of Trustees establishes investment objectives, risk tolerance and asset allocation policies in light of the investment policy, market and economic conditions, and prevailing prudent investment practices. The Board of Trustees monitors the investments to ensure adherence to the adopted policies and guidelines, while also reviewing and evaluating the performance of the investments and its investment advisors in light of available investment opportunities, market conditions, and publicly available indices for the generally accepted evaluation and measurement of such performance. The Trust provides a diversified portfolio consisting of investments in various asset classes such as bonds, domestic equities, international equities and cash. Specific investment information for the Trust can be obtained by writing to VML/VACo Finance Program, 919 East Main Street, Suite 1100, Richmond, Virginia 23219.

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

Asset Class	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Geometric Long-Term Expected Rate of Return
Core Fixed Income	21.00%	1.39%	1.28%
Large Cap US Equities	26.00%	4.94%	3.46%
Small Cap US Equities	10.00%	6.73%	4.18%
Foreign Developed Equities	13.00%	6.27%	4.52%
Emerging Market Equities	5.00%	8.82%	5.31%
Private Real Estate Property	7.00%	4.61%	3.58%
Private Equity	5.00%	10.36%	6.15%
Commodities	3.00%	1.99%	0.61%
Hedge FOF Strategic	10.00%	3.58%	2.67%
Assumed Inflation - Mean		2.40%	2.40%
Assumed Inflation - Standard Deviation		1.23%	1.23%
Portfolio Real Mean Return		4.76%	3.97%
Portfolio Nominal Mean Return		7.16%	6.46%
Portfolio Standard Deviation			12.28%
Long-Term Expected Rate of Return			6.50%

At June 30, 2022, the Plan held no investments in any one organization that represented 5% or more of fiduciary net position.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

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

Rate of Return

As of June 30, 2022, the annual money-weighted rate of return on the plan investments, net of OPEB plan investment expense, was -9.32% for the City and -9.39% for the School Division. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

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

Changes in Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
City of Salem			
Balances at June 30, 2021	\$ 22,796,606	\$ 9,644,999	\$ 13,151,607
Changes for the year:			
Service cost	296,489	-	296,489
Interest	1,451,615	-	1,451,615
Contributions - employer	-	1,888,352	(1,888,352)
Net investment income	-	(912,887)	912,887
Benefit payments	(1,653,421)	(1,653,421)	-
Administrative expenses	-	(10,804)	10,804
Net changes	94,683	(688,760)	783,443
Balances at June 30, 2022	\$ 22,891,289	\$ 8,956,239	\$ 13,935,050
School Division			
Balances at June 30, 2021	\$ 2,239,811	\$ 2,173,845	\$ 65,966
Changes for the year:			
Service cost	78,070	-	78,070
Interest	146,183	-	146,183
Contributions - employer	-	237,167	(237,167)
Net investment income	-	(205,312)	205,312
Benefit payments	(140,032)	(140,032)	-
Administrative expenses	-	(2,813)	2,813
Net changes	84,221	(110,990)	195,211
Balances at June 30, 2022	\$ 2,324,032	\$ 2,062,855	\$ 261,177

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

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

Changes in Net OPEB Liability (Continued)

(The previous table presents amounts associated with the primary government. The OPEB Trust Fund financial statements present amounts associated with the primary government and custodial entities.)

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

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

	Net OPEB Liability		
	1% Decrease (5.50%)	Current Discount (6.50%)	1% Increase (7.50%)
City of Salem	\$ 16,162,849	\$ 13,935,050	\$ 12,007,906
School Division	439,970	261,177	95,701

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

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

	Net OPEB Liability		
	1% Decrease	Current Trend Rate	1% Increase
City of Salem	\$ 12,557,135	\$ 13,935,050	\$ 15,538,719
School Division	25,473	261,177	534,004

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

For the year ended June 30, 2022, the City and School Division recognized OPEB expense of \$656,164 and \$64,280, respectively. At June 30, 2022, the City and School Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
City of Salem		
Differences between expected and actual experience	\$ -	\$ 1,019,887
Changes in assumptions	882,530	1,075,013
Net difference between projected and actual earnings on plan investments	329,141	-
Total	<u>\$ 1,211,671</u>	<u>\$ 2,094,900</u>
School Division		
Differences between expected and actual experience	\$ 9,350	\$ 39,241
Changes in assumptions	52,993	144,918
Net difference between projected and actual earnings on plan investments	79,817	-
Total	<u>\$ 142,160</u>	<u>\$ 184,159</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

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

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

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

<u>Year ended June 30,</u>	<u>City of Salem</u>	<u>School Division</u>
2023	\$ (447,546)	\$ (16,321)
2024	(479,360)	(23,245)
2025	(527,754)	(33,900)
2026	398,565	41,371
2027	157,150	(12,911)
Thereafter	15,716	3,007
	<u>\$ (883,229)</u>	<u>\$ (41,999)</u>

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

Plan Description

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

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

All full-time, salaried permanent (non-professional) employees of the School Division are automatically covered by the multiple-employer, agent defined benefit VRS Political Subdivision Health Insurance Credit Program upon employment. All full-time, salaried permanent (professional) employees of the School Division are automatically covered by the multiple-employer, cost-sharing VRS 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. The specific information about 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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

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

Plan Description (Continued)

GROUP LIFE INSURANCE PROGRAM (Continued)

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 accumulated 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
 - Seatbelt 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 1st following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1st 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 service credit, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$8,722 as of June 30, 2022.

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 are enrolled automatically upon employment. They include:

- Full-time permanent salaried employees of the participating political subdivision 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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

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

Plan Description (Continued)

POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM (Continued)

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.

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, 2020, 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	25
Inactive members:	
Vested inactive members	2
Total inactive members	27
Active members	62
Total covered employees	89

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

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

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 1.34% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.80% (1.34% x 60%), and the employer component was 0.54% (1.34% 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, 2022, was 0.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Employer contributions from the City were \$133,026 and \$125,503 for the years ended June 30, 2022, and June 30, 2021, respectively. Employer contributions from the School Division for non-professional employees were \$7,833 and \$6,864 for the years ended June 30, 2022, and June 30, 2021, respectively. Employer contributions from the School Division for professional employees were \$141,458 and \$128,847 for years ended June 30, 2022, and June 30, 2021, 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 options provided to political subdivisions by the Virginia General Assembly. The School Division's contractually required employer contribution rate for the year ended June 30, 2022, was 0.68% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. 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. The School Division elected to provide an additional optional employer contribution of 0.45% of covered employee compensation for the year ended June 30, 2022. Contributions from the School Division were \$16,387 and \$8,589 for years ended June 30, 2022, and June 30, 2021, respectively.

During the 2020 session, House Bill 1513 was enacted. This bill required the addition of health insurance credit benefits for non-teacher school division employees effective July 1, 2021. While benefit payments became effective July 1, 2021, employers were required to pre-fund the benefits beginning July 1, 2020. The bill impacted 95 employers and resulted in approximately \$2.5 million of additional employer contributions in fiscal year 2021.

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, 2022, was 1.21% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. 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 \$316,973 and \$287,648 for years ended June 30, 2022, and June 30, 2021, 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, 2021. The total OPEB liability for this program was determined by an actuarial valuation performed as of June 30, 2020, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2021.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

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

Net OPEB Liability (Continued)

Under the Group Life Insurance Program, the City, School Division non-professional employees, and School Division professional employees reported liabilities of \$1,290,302, \$71,486, and \$1,341,822, respectively, for their proportionate shares of the Group Life Insurance Program net OPEB liability as of June 30, 2022. Under the Teacher Employee Health Insurance Credit Program, the School Division reported a liability of \$3,445,100 for its proportionate share of the Teacher Employee Health Insurance Credit Program net OPEB liability as of June 30, 2022. The net OPEB liabilities for the Group Life Insurance Program and Teacher Employee Health Insurance Credit Program were measured as of June 30, 2021, and the total OPEB liabilities used to calculate the net OPEB liabilities for each plan were determined by an actuarial valuation performed as of June 30, 2020, and rolled forward to the measurement date of June 30, 2021. The covered employer's proportions of the net OPEB liabilities for the Group Life Insurance Program and Teacher Employee Health Insurance Credit program were based on the covered employer's actuarially determined employer contributions to the plans for the year ended June 30, 2021, relative to the total of the actuarially determined employer contributions for all participating employers.

At June 30, 2021, the proportions of the Group Life Insurance Program for the City, School Division non-professional employees, and School Division professional employees were 0.11657%, 0.00614%, and 0.11525%, respectively, as compared to 0.11949%, 0.00623%, and 0.11525%, respectively, at June 30, 2020. At June 30, 2021, the proportion of the Teacher Employee Health Insurance Credit Program for the School Division was 0.26840%, as compared to 0.27051% at June 30, 2020.

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 the measurement date of June 30, 2021, net OPEB liability amounts are as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program	Teacher Employee HIC OPEB Program
Total OPEB liability	\$ 3,577,346	\$ 1,477,874
Plan fiduciary net position	2,413,074	194,305
Net OPEB liability	<u>\$ 1,164,272</u>	<u>\$ 1,283,569</u>
Plan fiduciary net position as a percentage of total OPEB liability	67.45%	13.15%

The total OPEB liabilities for the Group Life Insurance Program and Teacher Employee Health Insurance Credit Program are calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net OPEB liabilities for the Group Life Insurance Program and Teacher Employee Health Insurance Credit Program are disclosed in accordance with the requirements of GAAP in the System's notes to the financial statements and required supplementary information.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

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

Actuarial Assumptions – General Employees

The total OPEB liabilities for general employees in the Group Life Insurance Program and Political Subdivision Health Insurance Credit Program were based on actuarial valuations as of June 30, 2020, 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, 2021.

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	6.75%, net of plan investment expenses, including inflation

Group Life Insurance Program – Mortality Rates – Largest Ten Locality Employers – Non-Hazardous Duty:

- Pre-Retirement – Pub-2010 Amount Weighted Safety Employee Rates projected generationally; males set forward 2 years; 105% of rates for females set forward 3 years
- Post-Retirement – Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 95% of rates for males set forward 2 years; 95% of rates for females set forward 1 year
- Post-Disablement – Pub-2010 Amount Weighted General Disabled Rates projected generationally; 110% of rates for males set forward 3 years; 110% of rates for females set forward 2 years
- Beneficiaries and Survivors – Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally
- Mortality Improvement Scale – Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

Group Life Insurance Program – Mortality Rates – Non-Largest Ten Locality Employers – Non-Hazardous Duty:

- Pre-Retirement – Pub-2010 Amount Weighted Safety Employee Rates projected generationally; males set forward 2 years; 105% of rates for females set forward 3 years
- Post-Retirement – Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 95% of rates for males set forward 2 years; 95% of rates for females set forward 1 year
- Post-Disablement – Pub-2010 Amount Weighted General Disabled Rates projected generationally; 110% of rates for males set forward 3 years; 110% of rates for females set forward 2 years
- Beneficiaries and Survivors – Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally
- Mortality Improvement Scale – Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
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15. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

Actuarial Assumptions – General Employees (Continued)

For general employees in the Group Life Insurance Program, the actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest Ten Locality Employers – Non-Hazardous Duty:

- Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) – Updated to Pub-2010 public sector mortality tables; for future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
- Retirement Rates – Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
- Withdrawal Rates – Adjusted rates to better fit experience at each age and service decrement through 9 years of service
- Disability Rates – No change
- Salary Scale – No change
- Line of Duty Disability – No change
- Discount Rate – No change

Non-Largest Ten Locality Employers – Non-Hazardous Duty:

- Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) – Updated to Pub-2010 public sector mortality tables; for future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
- Retirement Rates – Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
- Withdrawal Rates – Adjusted rates to better fit experience at each age and service decrement through 9 years of service
- Disability Rates – No change
- Salary Scale – No change
- Line of Duty Disability – No change
- Discount Rate – No change

Political Subdivision Health Insurance Credit Program – Mortality Rates – Largest Ten Locality Employers – Non-Hazardous Duty:

- Pre-Retirement – Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years
- Post-Retirement – Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rate for males; 105% of rates for females set forward 3 years
- Post-Disablement – Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years
- Beneficiaries and Survivors – Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years
- Mortality Improvement Scale – Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

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

Actuarial Assumptions – General Employees (Continued)

Political Subdivision Health Insurance Credit Program – Non-Largest Ten Locality Employers – Non-Hazardous Duty:

- Pre-Retirement – Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years
- Post-Retirement – Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rate for males; 105% of rates for females set forward 3 years
- Post-Disablement – Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years
- Beneficiaries and Survivors – Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years
- Mortality Improvement Scale – Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

For general employees in the Political Subdivision Health Insurance Credit Program, the actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action in the Political Subdivision Health Insurance Credit Program are as follows:

Largest Ten Locality Employers – Non-Hazardous Duty:

- Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) – Updated to Pub-2010 public sector mortality tables; for future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
- Retirement Rates – Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
- Withdrawal Rates – Adjusted rates to better fit experience at each age and service decrement through 9 years of service
- Disability Rates – No change
- Salary Scale – No change
- Line of Duty Disability – No change
- Discount Rate – No change

Non-Largest Ten Locality Employers – Non-Hazardous Duty:

- Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) – Updated to Pub-2010 public sector mortality tables; for future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
- Retirement Rates – Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
- Withdrawal Rates – Adjusted rates to better fit experience at each age and service decrement through 9 years of service
- Disability Rates – No change
- Salary Scale – No change
- Line of Duty Disability – No change
- Discount Rate – No change

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
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15. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

Actuarial Assumptions – Public Safety Employees with Hazardous Duty Benefits

The total OPEB liability for public safety employees with hazardous duty benefits in the Group Life Insurance Program was based on an actuarial valuation as of June 30, 2020, 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, 2021.

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	6.75%, net of plan investment expenses, including inflation

Group Life Insurance Program – Mortality Rates – Largest Ten Locality Employers – Hazardous Duty:

- Pre-Retirement – Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years
- Post-Retirement – Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years
- Post-Disablement – Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years
- Beneficiaries and Survivors – Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years
- Mortality Improvement Scale – Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

Group Life Insurance Program – Mortality Rates – Non-Largest Ten Locality Employers – Hazardous Duty:

- Pre-Retirement – Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years
- Post-Retirement – Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years
- Post-Disablement – Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years
- Beneficiaries and Survivors – Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years
- Mortality Improvement Scale – Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

**CITY OF SALEM, VIRGINIA
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15. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

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

For hazardous duty employees in the Group Life Insurance Program, the actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study in the Group Life Insurance Program are as follows:

Largest Ten Locality Employers – Hazardous Duty:

- Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) – Updated to Pub-2010 public sector mortality tables; for future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
- Retirement Rates – Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 65 to 70
- Withdrawal Rates – Decreased rates
- Disability Rates – No change
- Salary Scale – No change
- Line of Duty Disability – No change
- Discount Rate – No change

Non-Largest Ten Locality Employers – Hazardous Duty:

- Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) – Updated to Pub-2010 public sector mortality tables; for future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
- Retirement Rates – Adjusted rates to better fit experience and changed final retirement age from 65 to 70
- Withdrawal Rates – Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Top 10 Hazardous Duty
- Disability Rates – No change
- Salary Scale – No change
- Line of Duty Disability – No change
- Discount Rate – No change

Actuarial Assumptions – Teachers

The total OPEB liabilities for teachers and administrative employees of the School Division in the Group Life Insurance Program and Teacher Employee Health Insurance Credit Program were based on actuarial valuations as of June 30, 2020, 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, 2021.

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	6.75%, net of plan investment expenses, including inflation

**CITY OF SALEM, VIRGINIA
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15. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

Actuarial Assumptions – Teachers (Continued)

Group Life Insurance Program and Teacher Employee Health Insurance Credit Program – Mortality Rates:

- Pre-Retirement – Pub-2010 Amount Weighted Teachers Employee Rates projected generationally; 110% of rates for males
- Post-Retirement – Pub-2010 Amount Weighted Teachers Healthy Retiree Rates projected generationally; males set forward 1 year; 105% of rates for females
- Post-Disablement – Pub-2010 Amount Weighted Teachers Disabled Rates projected generationally; 110% of rates for males and females
- Beneficiaries and Survivors – Pub-2010 Amount Weighted Teachers Contingent Annuitant Rates projected generationally
- Mortality Improvement Scale – Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

For teachers and administrative employees of the School Division in the Group Life Insurance Program and Teacher Employee Health Insurance Credit Program, the actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2016, through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action in the Group Life Insurance Program and Teacher Employee Health Insurance Credit Program are as follows:

- Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) – Updated to Pub-2010 public sector mortality tables; for future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
- Retirement Rates – Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
- Withdrawal Rates – Adjusted rates to better fit experience at each age and service decrement through 9 years of service
- Disability Rates – No change
- Salary Scale – No change
- Discount Rate – No change

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 for each major asset class are summarized in the table on the next page.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

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

Long-Term Expected Rate of Return (Continued)

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return*
Public Equity	34.00%	5.00%	1.70%
Fixed Income	15.00%	0.57%	0.09%
Credit Strategies	14.00%	4.49%	0.63%
Real Assets	14.00%	4.76%	0.67%
Private Equity	14.00%	9.94%	1.39%
MAPS - Multi-Asset Public Strategies	6.00%	3.29%	0.20%
PIP - Private Investment Partnership	3.00%	6.84%	0.21%
Total	<u>100.00%</u>		<u>4.89%</u>
		Inflation	<u>2.50%</u>
		* Expected arithmetic nominal return	<u>7.39%</u>

* The above allocation provides a one-year return of 7.39%. 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. These results provide a range of returns over various time periods that ultimately provide a median return of 6.94%, including expected inflation of 2.50%.

* On October 10, 2019, the VRS Board elected a long-term rate of 6.75%, which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

Discount Rate – Group Life Insurance Program and Teacher Employee Health Insurance Credit Program

For the Group Life Insurance Program and Teacher Employee Health Insurance Credit Program, the discount rate used to measure the total OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2021, the rate contributed by the entity for OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2021, on, employers are assumed to continue 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 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, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

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

Discount Rate – Political Subdivision Health Insurance Credit Program

For the Political Subdivision Health Insurance Credit Program, the discount rate used to measure the total OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that 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, 2021, the rate contributed by the entity for OPEB was 100% of the actuarially determined contribution rates. From July 1, 2021, on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

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 Health Insurance Credit			
Balances at June 30, 2020	\$ 127,808	\$ 61,885	\$ 65,923
Changes for the year:			
Service cost	4,085	-	4,085
Interest	8,118	-	8,118
Changes in assumptions	2,663	-	2,663
Differences between expected and actual experience	(750)	-	(750)
Contributions - employer	-	8,589	(8,589)
Net investment income	-	15,149	(15,149)
Benefit payments	(15,100)	(15,100)	-
Administrative expenses	-	(164)	164
Net changes	(984)	8,474	(9,458)
Balances at June 30, 2021	\$ 126,824	\$ 70,359	\$ 56,465

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

The following presents the City's and School Division's proportionate shares 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 6.75%, as well as what the net OPEB liabilities would be if they were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

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

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate (Continued)

	Net OPEB Liability		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
City of Salem			
Group Life Insurance	\$ 1,885,179	\$ 1,290,302	\$ 809,913
School Division			
Group Life Insurance (Non-Professional)	104,444	71,486	44,871
Group Life Insurance (Professional)	1,960,451	1,341,822	842,251
Political Subdivision Health Insurance Credit	68,810	56,465	45,883
Teacher Employee Health Insurance Credit	3,878,228	3,445,100	3,078,571

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

For the year ended June 30, 2022, the City and School Division recognized Group Life Insurance OPEB expense of \$27,972 for City employees, \$1,800 for non-professional School Division employees, and \$44,769 for professional School Division employees. For the year ended June 30, 2022, the School Division recognized Political Subdivision Health Insurance Credit Program OPEB expense of (\$2,311) and Teacher Employee Health Insurance Credit Program OPEB expense of \$255,734. Since there were changes in proportionate share between measurement dates for the Group Life Insurance Program and the Teacher Employee Health Insurance Credit Program, portions of the OPEB expenses for those plans were related to deferred amounts from changes in proportion.

At June 30, 2022, the City and School Division reported deferred outflows of resources and deferred inflows of resources related to Group Life Insurance (GLI) Program and Health Insurance Credit (HIC) Program OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
City of Salem - GLI		
Differences between expected and actual experience	\$ 148,769	\$ 9,939
Net difference between projected and actual earnings on program investments	-	311,332
Changes in assumptions	71,912	178,469
Changes in proportion	16,824	90,802
Employer contributions subsequent to the measurement date	133,026	-
Total	<u>\$ 370,531</u>	<u>\$ 590,542</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
School Division - Non-Professional GLI		
Differences between expected and actual experience	\$ 8,153	\$ 545
Net difference between projected and actual earnings on program investments	-	17,062
Changes in assumptions	3,941	9,781
Changes in proportion	653	5,746
Employer contributions subsequent to the measurement date	7,833	-
Total	<u>\$ 20,580</u>	<u>\$ 33,134</u>
School Division - Professional GLI		
Differences between expected and actual experience	\$ 153,040	\$ 10,224
Net difference between projected and actual earnings on program investments	-	320,264
Changes in assumptions	73,974	183,590
Changes in proportion	1,326	34,601
Employer contributions subsequent to the measurement date	141,458	-
Total	<u>\$ 369,798</u>	<u>\$ 548,679</u>
School Division - Political Subdivision HIC		
Differences between expected and actual experience	\$ -	\$ 9,380
Changes in assumptions	2,844	-
Net difference between projected and actual earnings on program investments	-	6,987
Employer contributions subsequent to the measurement date	16,387	-
Total	<u>\$ 19,231</u>	<u>\$ 16,367</u>
School Division - Teacher Employee HIC		
Differences between expected and actual experience	\$ -	\$ 60,117
Net difference between projected and actual earnings on program investments	-	45,382
Changes in assumptions	93,127	13,846
Changes in proportion	14,111	110,387
Employer contributions subsequent to the measurement date	316,973	-
Total	<u>\$ 424,211</u>	<u>\$ 229,732</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

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

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

The deferred outflow of resources related to OPEB resulting from the City's contribution of \$133,026 subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ending June 30, 2023. The deferred outflows of resources related to OPEB resulting from the School Division's contributions of \$7,833, \$141,458, \$16,387, and \$316,973 subsequent to the measurement date will be recognized reductions of the net pension liabilities in the fiscal year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in future reporting periods as follows:

		<u>City of Salem</u>		
	<u>Year ended June 30,</u>	<u>GLI</u>		
	2023	\$	(89,726)	
	2024		(71,568)	
	2025		(60,487)	
	2026		(105,356)	
	2027		(25,900)	
		\$	<u>(353,037)</u>	
<u>School Division</u>				
<u>Year ended June 30,</u>	<u>GLI Non-Professional</u>	<u>GLI Professional</u>	<u>Political Subdivision HIC</u>	<u>Teacher Employee HIC</u>
2023	\$ (4,650)	\$ (76,306)	\$ (5,578)	\$ (29,057)
2024	(4,102)	(60,425)	(3,887)	(29,572)
2025	(4,270)	(59,303)	(1,954)	(25,498)
2026	(6,091)	(104,601)	(2,104)	(22,426)
2027	(1,274)	(19,704)	-	(10,304)
Thereafter	-	-	-	(5,637)
	<u>\$ (20,387)</u>	<u>\$ (320,339)</u>	<u>\$ (13,523)</u>	<u>\$ (122,494)</u>

Payables to the OPEB Plans

At June 30, 2022, the City had a payable of \$29,155 to VRS under the Group Life Insurance Program, the School Division had a payable of \$1,808 to VRS under the Group Life Insurance Program for non-professional employees, and the School Division had a payable of \$33,796 to VRS under the Group Life Insurance Program for professional employees. These payables related to contributions for the June 2022 payroll.

At June 30, 2022, the School Division had a payable of \$1,525 to VRS under the Political Subdivision Health Insurance Credit Program and a payable of \$30,513 to VRS under the Teacher Employee Health Insurance Credit Program. These payables related to contributions for the June 2022 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 2021 Annual Comprehensive Financial Report (ACFR). A copy of the VRS 2021 ACFR may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2021-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

16. Summary of Other Postemployment Benefit Elements

A summary of the other postemployment benefit financial statement elements is as follows:

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units
OPEB Expense				
Retiree Health Plan	\$ 519,246	\$ 136,918	\$ 656,164	\$ 64,280
VRS Retirement Plan - GLI	21,994	5,978	27,972	1,800
VRS Retirement Plan - HIC	-	-	-	(2,311)
VRS Teacher Retirement Plan - GLI	-	-	-	44,769
VRS Teacher Retirement Plan - HIC	-	-	-	255,734
Total OPEB Expense	<u>\$ 541,240</u>	<u>\$ 142,896</u>	<u>\$ 684,136</u>	<u>\$ 364,272</u>
Net OPEB Liability				
Retiree Health Plan	\$ 10,669,278	\$ 3,265,772	\$ 13,935,050	\$ 261,177
VRS Retirement Plan - GLI	1,006,514	283,788	1,290,302	71,486
VRS Retirement Plan - HIC	-	-	-	56,465
VRS Teacher Retirement Plan - GLI	-	-	-	1,341,822
VRS Teacher Retirement Plan - HIC	-	-	-	3,445,100
Total OPEB Liability	<u>\$ 11,675,792</u>	<u>\$ 3,549,560</u>	<u>\$ 15,225,352</u>	<u>\$ 5,176,050</u>
Deferred Outflows of Resources				
Differences between expected and actual experience				
Retiree Health Plan	\$ -	\$ -	\$ -	\$ 9,350
VRS Retirement Plan - GLI	116,976	31,793	148,769	8,153
VRS Teacher Retirement Plan - GLI	-	-	-	153,040
Net difference between projected and actual earnings on program investments				
Retiree Health Plan	260,461	68,680	329,141	79,817
VRS Retirement Plan - GLI	56,543	15,369	71,912	-
Changes in assumptions				
Retiree Health Plan	698,376	184,154	882,530	52,993
VRS Retirement Plan - GLI	-	-	-	3,941
VRS Retirement Plan - HIC	-	-	-	2,844
VRS Teacher Retirement Plan - GLI	-	-	-	73,974
VRS Teacher Retirement Plan - HIC	-	-	-	93,127
Changes in proportion				
VRS Retirement Plan - GLI	13,228	3,596	16,824	653
VRS Teacher Retirement Plan - GLI	-	-	-	1,326
VRS Teacher Retirement Plan - HIC	-	-	-	14,111
Employer contributions subsequent to the measurement date				
VRS Retirement Plan - GLI	105,134	27,892	133,026	7,833
VRS Retirement Plan - HIC	-	-	-	16,387
VRS Teacher Retirement Plan - GLI	-	-	-	141,458
VRS Teacher Retirement Plan - HIC	-	-	-	316,973
Total Deferred Outflows of Resources	<u>\$ 1,250,718</u>	<u>\$ 331,484</u>	<u>\$ 1,582,202</u>	<u>\$ 975,980</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

16. Summary of Other Postemployment Benefit Elements (Continued)

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units
Deferred Inflows of Resources				
Differences between expected and actual experience				
Retiree Health Plan	\$ 807,072	\$ 212,815	\$ 1,019,887	\$ 39,241
VRS Retirement Plan - GLI	7,815	2,124	9,939	545
VRS Retirement Plan - HIC	-	-	-	9,380
VRS Teacher Retirement Plan - GLI	-	-	-	10,224
VRS Teacher Retirement Plan - HIC	-	-	-	60,117
Net difference between projected and actual earnings on program investments				
VRS Retirement Plan - GLI	244,794	66,538	311,332	17,062
VRS Retirement Plan - HIC	-	-	-	6,987
VRS Teacher Retirement Plan - GLI	-	-	-	320,264
VRS Teacher Retirement Plan - HIC	-	-	-	45,382
Changes in assumptions				
Retiree Health Plan	850,695	224,318	1,075,013	144,918
VRS Retirement Plan - GLI	140,328	38,141	178,469	9,781
VRS Teacher Retirement Plan - GLI	-	-	-	183,590
VRS Teacher Retirement Plan - HIC	-	-	-	13,846
Changes in proportion				
VRS Retirement Plan - GLI	71,397	19,405	90,802	5,746
VRS Teacher Retirement Plan - GLI	-	-	-	34,601
VRS Teacher Retirement Plan - HIC	-	-	-	110,387
Total Deferred Inflows of Resources	<u>\$ 2,122,101</u>	<u>\$ 563,341</u>	<u>\$ 2,685,442</u>	<u>\$ 1,012,071</u>

17. Commitments and Contingencies

Construction Commitments

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

	Spent To Date	Remaining Contract
Digester Project - WVWA (Salem Portion)	\$ 1,297,409	\$ 1,023,028
Electric Substation Upgrades	10,994,145	604,547
Salem High School Renovation	25,396,312	1,732,359
Salem High School Fieldhouse Renovation	620,068	3,160,591
East Salem Elementary HVAC Upgrades	581,535	232,073
West Salem Elementary Roof Replacement	-	456,887
	<u>\$ 38,889,469</u>	<u>\$ 7,209,485</u>

Electrical Service

On July 1, 2006, the City entered into an agreement with American Electric Power Service Corporation to purchase electricity for consumption and resale to City residents. The rates are recalculated annually based on the supplier's cost. As part of the agreement, an annual cost true-up is required based upon American Electric Power's FERC filing. The City's policy is to recognize the true-up as an expense when it is billed. The true-up for December 31, 2021 resulted in an expense of \$247,762 in the current fiscal year. The agreement expires May 31, 2026 with two possible five-year period renewals and may be terminated under certain circumstances.

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

17. Commitments and Contingencies (Continued)

Water and Wastewater Treatment Contract

On July 1, 2021, the City entered into a new agreement with the Western Virginia Water Authority to sell surplus water at a bulk rate determined by a mutually agreed upon formula. The agreement automatically renews for 10-year terms upon expiration and requires a 24-month notification prior to termination.

On November 1, 2003, the City entered into an agreement with the City of Roanoke, Virginia for the transportation and treatment of wastewater and to fund a portion of certain sewage treatment plant improvements. Rates for the former services are adjusted annually, while the costs recognized by the City for the latter have been capitalized as the sewage treatment contract in capital assets. The agreement expires October 31, 2033.

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

Special Services

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

Participation Agreement

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

Consent Order

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

Special Purpose Grants

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

Litigation

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

18. Tax Abatements

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

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

Rebate payments commence upon completion of the rehabilitation, renovation, or replacement, or on January 1 of the year following completion of the rehabilitation, renovation, or replacement and shall run for a period as specified in each performance agreement, typically between five and ten years. In fiscal year 2022, tax abatements for economic development incentives totaled \$60,616.

19. Jointly Governed Organizations

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

Roanoke Valley Resource Authority

The County of Roanoke, the Cities of Roanoke and Salem, and the Town of Vinton jointly participate in the Roanoke Valley Resource Authority (RVRA), which operates the regional sanitary landfill, waste collection and transfer station, and related treatment facilities. RVRA is governed by a seven-member board, of which one member is appointed by the City. The City has control over the budget and financing for RVRA only to the extent of representation by the board member appointed. The participating localities are each responsible for their pro rata share, based on population, of any year-end operating deficit. For the fiscal year ended June 30, 2022, the City remitted \$906,260 to RVRA for services. Financial statements may be obtained from RVRA at 1020 Hollins Road NE, Roanoke, Virginia 24012.

Blue Ridge Behavioral Healthcare

The Counties of Botetourt, Craig and Roanoke and the Cities of Roanoke and Salem formed Blue Ridge Behavioral Healthcare (BRBH) to provide a system of comprehensive community mental health, intellectual disability and substance abuse services. BRBH is governed by a 16-member board; three members are appointed by the City. Each locality's financial obligation is based on the type and amount of services performed for individuals in the locality. For the year ended June 30, 2022, the City remitted \$199,455 to BRBH for services. Financial statements may be obtained from BRBH at 301 Elm Avenue SW, Roanoke, Virginia, 24016.

Roanoke Valley Detention Commission

The Counties of Botetourt, Franklin and Roanoke and the Cities of Roanoke and Salem formed the Roanoke Valley Detention Commission (Commission) to renovate, expand and operate a detention facility for juveniles. The Commission is governed by a six-member board, of which one member is appointed by the City. Each locality's financial obligation is calculated as its percentage of utilization or average daily population, for the previous three fiscal years. The Commission has the authority to issue debt and such debt is the responsibility of the Commission. For the year ended June 30, 2022, the City remitted \$100,956 to the Commission for per diem charges. Financial statements may be obtained from the Commission at 498 Coyner Springs Road, Roanoke, Virginia 24012.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

19. Jointly Governed Organizations (Continued)

Roanoke Valley Regional Fire/EMS Training Center

The County of Roanoke, the Cities of Roanoke and Salem and the Town of Vinton jointly operate a fire/EMS training center (Center). The Center is governed by a committee designated by the participating jurisdictions. New fire/EMS recruits are required to take a 17-week training course at the facility before being assigned to a station. After completion of the training, the new recruits are state certified. Each jurisdiction is responsible for a percentage of the annual operating costs of the facility. The City of Salem is responsible for 8% of the annual operating costs. For the year ended June 30, 2022, the City remitted \$7,090 for operating costs of the facility. Financial statements may be obtained from the Center at 1220 Kessler Mill Road, Salem, Virginia 24153.

Western Virginia Regional Jail Authority

The Counties of Franklin, Montgomery and Roanoke and the City of Salem formed the Western Virginia Regional Jail Authority (Jail Authority) to develop and operate a regional jail. The Jail Authority is governed by a 12-member board; three from each participating locality. Each locality's financial obligation, which includes operating expenses and debt, is based on the number of prisoner days used and a share of the capital costs to build the facility. For the year ended June 30, 2022, the City remitted \$756,901 for per diem charges and \$234,553 for debt service to the Jail Authority. Financial statements may be obtained from the Jail Authority at 5885 West River Road, Salem, Virginia 24153.

Roanoke Valley Broadband Authority

The Counties of Botetourt and Roanoke and the Cities of Salem and Roanoke formed the Roanoke Valley Broadband Authority (RVBA) in order to acquire, finance, construct, operate, manage, and maintain a broadband system and related facilities pursuant to the Virginia Wireless Services Authorities Act. RVBA is governed by a five-member board, of which one member is appointed by the City. Based upon participation in the fiber expansion project, the Cities of Salem and Roanoke share equally in the operating and debt service costs of the Authority. For the year ending June 30, 2022, the City remitted \$310,838 for operating costs and \$333,186 for debt service to the RVBA. Financial statements may be obtained from RVBA at 601 South Jefferson Street SW, Suite 110, Roanoke, Virginia 24011.

Western Virginia Regional Industrial Facility Authority

The Counties of Botetourt, Roanoke and Franklin, the Cities of Roanoke and Salem and the Town of Vinton formed the Western Virginia Regional Industrial Facility Authority (WVRIFA) in order to enhance the economic base of each such locality through the developing, owning and operating of one or more facilities on a cooperative basis in the region. WVRIFA is governed by a twelve-member board, of which two members are appointed by the City. Each locality's financial obligation is based on their percentage of participation in each economic development project. For the year ended June 30, 2022, the City remitted \$4,500 for operating budget member dues and \$30,951 for debt service to WVRIFA. Financial statements may be obtained from WVRIFA at PO Box 2569, Roanoke, Virginia 24010.

Roanoke Valley Governor's School

The Counties of Bedford, Botetourt, Craig, Franklin and Roanoke and the Cities of Roanoke and Salem jointly participate in a regional education program focusing on science, technology, engineering and mathematics operated by Roanoke Valley Governor's School (RVGS). RVGS is governed by a seven member board, with one member from each participating locality. The School Division has control over budget and financing only to the extent of representation by the one board member appointed. Each locality's financial obligation is based on their proportionate share of students attending RVGS. For the year ended June 30, 2022, the School Division remitted \$53,285 for services. Financial statements may be obtained from RVGS at 2104 Grandin Road, Roanoke, Virginia 24015.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

19. Jointly Governed Organizations (Continued)

Roanoke Regional Airport Commission

The County of Roanoke and the Cities of Roanoke and Salem jointly participate in the Roanoke Regional Airport Commission (Commission), owner and operator of the Roanoke-Blacksburg Regional Airport. The Commission is governed by a seven-member board, of which one member is appointed by the City. Financial obligations of participating localities include any year end operating deficit and the current payment with respect to approved capital expenditures. Each locality's pro rata financial obligation is based on their population. For the year ended June 30, 2022, the City did not have a financial obligation to the Commission. Financial statements may be obtained from the Commission at 5202 Aviation Drive NW, Roanoke, VA 24012.

20. Subsequent Events

In July 2022, City Council authorized execution of a contract for renovation of the James I. Moyer Sports Complex in an amount not to exceed \$20,539,000.

In November 2022, the City entered into a performance agreement and memorandum of understanding with Valleydale Catalyst, LLC and the EDA for a project at the former Valleydale Meat Packing and Processing plant. The developer will invest at least \$50,000,000 in the project which includes construction of approximately 300 upscale apartment units and amenities. The EDA will provide a grant of \$5,000,000 and annual incentive payments based on real estate tax, not to exceed \$5,000,000. The City agrees to complete streetscape improvements totaling \$1,500,000.

21. Accounting Change

In fiscal year 2022, the City adopted GASB Statement No. 87, *Leases*. This statement required recognition of certain lease assets and liabilities for leases that were classified previously as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the lease agreements. The adoption of this statement had no effect on beginning net positions, but the primary government recognized the following beginning balances in assets, liabilities, and deferred inflows of resources related to leases:

	Governmental Activities	Business-Type Activities	Total Primary Government
ASSETS			
Lease receivable	\$ 1,426,166	\$ 323,653	\$ 1,749,819
<i>Capital assets:</i>			
Intangible, right-to-use, net	81,194	3,071	84,265
Total assets	<u>\$ 1,507,360</u>	<u>\$ 326,724</u>	<u>\$ 1,834,084</u>
LIABILITIES			
<i>Long-term liabilities due in less than one year:</i>			
Lease liability	\$ 17,009	\$ 3,071	\$ 20,080
<i>Long-term liabilities due in more than one year:</i>			
Lease liability	64,185	-	64,185
Total liabilities	<u>\$ 81,194</u>	<u>\$ 3,071</u>	<u>\$ 84,265</u>
DEFERRED INFLOWS OF RESOURCES	<u>\$ 1,426,166</u>	<u>\$ 323,653</u>	<u>\$ 1,749,819</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

21. Accounting Change (Continued)

Adoption of GASB Statement No. 87, *Leases*, had no effect on beginning fund balances or beginning net positions, but the governmental funds and proprietary funds recognized the following beginning balances in assets, liabilities, and deferred inflows of resources related to leases:

	Governmental Funds		Proprietary Funds
	<u>General</u>		<u>Water and Sewage</u>
ASSETS		ASSETS	
Lease receivable	\$ 1,426,166	<i>Current assets:</i>	
		Lease receivable	\$ 95,263
DEFERRED INFLOWS OF RESOURCES	\$ 1,426,166	<i>Noncurrent assets:</i>	
		Lease receivable	228,390
		<i>Capital assets:</i>	
		Intangible right-to-use, net	3,071
		Total noncurrent assets	231,461
		Total assets	\$ 326,724
		LIABILITIES	
		<i>Current liabilities:</i>	
		Lease liability	\$ 3,071
		DEFERRED INFLOWS OF RESOURCES	\$ 323,653

Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

22. New Accounting Standards

The GASB has issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This statement also provides guidance for accounting and financial reporting for availability payment arrangements. The provisions of this statement are effective for fiscal years beginning after June 15, 2022. 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. 96, *Subscription-Based Information Technology Arrangements*, to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. This statement defines a subscription-based information technology arrangement, establishes that a subscription-based information technology arrangement results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a subscription-based information technology arrangement, and requires note disclosures regarding a subscription-based information technology arrangement. The provisions of this statement are effective for fiscal years beginning after June 15, 2022. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

22. New Accounting Standards (Continued)

The GASB has issued Statement No. 99, *Omnibus 2022*, to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements and accounting and financial reporting for financial guarantees. Some provisions of this statement are effective upon issuance, other provisions of this statement are effective for fiscal years beginning after June 15, 2022, and other provisions of this statement are effective for fiscal years beginning after June 15, 2023. Management has not completed the process of evaluating the impact that will result from full adoption of the standard and is, therefore, unable to disclose the impact of adoption.

The GASB has issued Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The provisions of this statement are effective for fiscal years beginning after June 15, 2023. 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. 101, *Compensated Absences*, to update the recognition and measurement guidance for compensated absences. The provisions of this statement are effective for fiscal years beginning after December 15, 2023. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

REQUIRED SUPPLEMENTARY INFORMATION



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

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
YEAR ENDED JUNE 30, 2022

	City of Salem Plan Year					
	2021	2020	2019	2018	2017	2016
Total pension liability						
Service cost	\$ 2,579,718	\$ 2,591,870	\$ 2,379,695	\$ 2,306,014	\$ 2,482,886	\$ 2,507,103
Interest	13,532,366	13,245,037	13,021,673	12,687,766	12,477,728	12,159,380
Difference between expected and actual experience	(1,898,137)	1,086,023	901,477	351,330	(1,567,004)	906,524
Changes in assumptions	7,635,262	-	5,416,334	-	279,953	-
Benefit payments, including refunds of employee contributions	(12,415,757)	(12,314,513)	(11,777,457)	(11,091,760)	(10,997,027)	(10,244,175)
Net change in total pension liability	9,433,452	4,608,417	9,941,722	4,253,350	2,676,536	2,725,462
Total pension liability - beginning	205,730,759	201,122,342	191,180,620	186,927,270	184,250,734	176,196,440
Total pension liability - ending	\$ 215,164,211	\$ 205,730,759	\$ 201,122,342	\$ 191,180,620	\$ 186,927,270	\$ 176,196,440
Plan fiduciary net position						
Contributions - employer	\$ 4,093,089	\$ 3,730,748	\$ 3,615,284	\$ 3,449,144	\$ 3,496,819	\$ 3,915,838
Contributions - employee	1,214,809	1,144,061	1,102,819	1,061,292	1,106,906	1,149,948
Net investment income	41,862,509	3,024,486	10,202,403	11,076,102	16,881,766	2,383,779
Benefit payments, including refunds of employee contributions	(12,415,757)	(12,314,513)	(11,777,457)	(11,091,760)	(10,997,027)	(10,244,175)
Administrative expense	(108,142)	(107,374)	(106,073)	(99,013)	(101,645)	(91,609)
Other	3,255	(3,719)	(6,401)	(9,719)	(14,845)	(1,350)
Net change in plan fiduciary net position	34,649,763	(4,526,311)	3,030,575	4,386,046	10,371,974	(2,887,260)
Plan fiduciary net position - beginning	155,186,540	159,712,851	156,682,276	152,296,230	141,924,256	144,811,516
Plan fiduciary net position - ending	\$ 189,836,303	\$ 155,186,540	\$ 159,712,851	\$ 156,682,276	\$ 152,296,230	\$ 141,924,256
Net pension liability - ending	\$ 25,327,908	\$ 50,544,219	\$ 41,409,491	\$ 34,498,344	\$ 34,631,040	\$ 42,326,478
Plan fiduciary net position as a percentage of the total pension liability	88.23%	75.43%	79.41%	81.96%	81.47%	77.03%
Covered payroll	\$ 22,452,490	\$ 22,944,330	\$ 22,234,219	\$ 21,264,760	\$ 21,558,687	\$ 21,598,665
Net pension liability as a percentage of covered payroll	112.81%	220.29%	186.24%	162.23%	160.64%	195.97%
						153.51%

Schedule is intended to show information for 10 years. Since fiscal year 2022 (plan year 2021) is the eighth year for this presentation, only seven additional years of data are available. However, additional years will be included as they become available.

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

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS
YEAR ENDED JUNE 30, 2022

	School Division							
	Plan Year							
	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability								
Service cost	\$ 106,418	\$ 119,513	\$ 130,680	\$ 130,240	\$ 120,806	\$ 124,227	\$ 132,051	\$ 145,676
Interest	344,320	350,152	348,873	350,464	345,744	347,691	337,943	323,812
Changes of assumptions	150,153	-	134,293	-	-	-	-	-
Difference between expected and actual experience	(89,731)	(195,286)	(81,471)	(177,270)	(39,860)	(182,245)	(45,142)	-
Changes in assumptions	-	-	-	-	(23,501)	-	-	-
Benefit payments, including refunds of employee contributions	(378,725)	(342,849)	(314,833)	(337,479)	(334,040)	(300,945)	(270,236)	(264,987)
Net change in total pension liability	132,435	(68,470)	217,542	(34,045)	69,149	(11,272)	154,616	204,501
Total pension liability - beginning	5,290,395	5,358,865	5,141,323	5,175,368	5,106,219	5,117,491	4,962,875	4,758,374
Total pension liability - ending	\$ 5,422,830	\$ 5,290,395	\$ 5,358,865	\$ 5,141,323	\$ 5,175,368	\$ 5,106,219	\$ 5,117,491	\$ 4,962,875
Plan fiduciary net position								
Contributions - employer	\$ 19,987	\$ 39,178	\$ 40,178	\$ 51,406	\$ 51,554	\$ 92,100	\$ 93,028	\$ 97,271
Contributions - employee	57,197	58,791	57,762	61,121	61,318	58,188	59,073	61,480
Net investment income	1,516,515	110,040	369,207	399,866	608,458	86,505	228,863	697,591
Benefit payments, including refunds of employee contributions	(378,725)	(342,849)	(314,833)	(337,479)	(334,040)	(300,945)	(270,236)	(264,987)
Administrative expense	(3,965)	(3,871)	(3,796)	(3,562)	(3,661)	(3,256)	(3,202)	(3,812)
Other	141	(128)	(231)	(350)	(535)	(37)	(47)	37
Net change in plan fiduciary net position	1,211,150	(138,839)	148,287	171,002	383,094	(67,445)	107,479	587,580
Plan fiduciary net position - beginning	5,655,835	5,794,674	5,646,387	5,475,385	5,092,291	5,159,736	5,052,257	4,464,677
Plan fiduciary net position - ending	\$ 6,866,985	\$ 5,655,835	\$ 5,794,674	\$ 5,646,387	\$ 5,475,385	\$ 5,092,291	\$ 5,159,736	\$ 5,052,257
Net pension liability (asset) - ending	\$ (1,444,155)	\$ (365,440)	\$ (435,809)	\$ (505,064)	\$ (300,017)	\$ 13,928	\$ (42,245)	\$ (89,382)
Plan fiduciary net position as a percentage of the total pension liability	126.63%	106.91%	108.13%	109.82%	105.80%	99.73%	100.83%	101.80%
Covered payroll	\$ 869,000	\$ 1,061,734	\$ 1,088,835	\$ 1,187,206	\$ 1,190,624	\$ 1,173,248	\$ 1,185,071	\$ 1,229,675
Net pension liability (asset) as a percentage of covered payroll	(166.19%)	(34.42%)	(40.03%)	(42.54%)	(25.20%)	1.19%	(3.56%)	(7.27%)

Schedule is intended to show information for 10 years. Since fiscal year 2022 (plan year 2021) is the eighth year for this presentation, only seven additional years of data are available. However, additional years will be included as they become available.

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

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
YEAR ENDED JUNE 30, 2022**

Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
	(a)	(b)	(a-b)	(c)	(b/c)
City of Salem					
2022	\$ 4,356,901	\$ 4,356,901	\$ -	\$ 23,899,622	18.23%
2021*	4,093,089	4,093,089	-	22,452,490	18.23%
2020	3,730,748	3,730,748	-	22,944,330	16.26%
2019	3,615,284	3,615,284	-	22,234,219	16.26%
2018	3,449,144	3,449,144	-	21,264,760	16.22%
2017	3,496,819	3,496,819	-	21,558,687	16.22%
2016	3,915,838	3,915,838	-	21,598,665	18.13%
2015	3,942,152	3,942,152	-	21,743,806	18.13%
School Division (Non-Professional Staff)					
2022	\$ 22,143	\$ 22,143	\$ -	\$ 962,739	2.30%
2021	19,987	19,987	-	869,000	2.30%
2020	39,178	39,178	-	1,061,734	3.69%
2019**	40,178	40,178	-	1,088,835	3.69%
2018	51,406	51,406	-	1,187,206	4.33%
2017	51,554	51,554	-	1,190,624	4.33%
2016	92,100	92,100	-	1,173,248	7.85%
2015	93,028	93,028	-	1,185,071	7.85%

Schedule is intended to show information for 10 years. Since 2022 is the eighth year for this presentation, only seven additional years of data are available. However, additional years will be included as they become available.

* Revised to reflect actual 2021 amounts as shown in the VRS actuarial report rather than estimated amounts used in the prior year ACFR.

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

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
VRS TEACHER RETIREMENT PLAN
YEAR ENDED JUNE 30, 2022**

Plan Year Ended June 30	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Covered Payroll	Employer's Share of the Net Pension Liability as a % of Covered Payroll	Plan Fiduciary Net Position as a % of the Total Pension Liability
		(a)	(b)	(a/b)	
2021	0.27131%	\$ 21,062,060	\$ 23,117,413	91.11%	85.46%
2020	0.27321%	39,759,230	23,135,236	171.86%	71.47%
2019	0.27613%	36,340,277	22,568,718	161.02%	73.51%
2018	0.28140%	33,092,000	22,299,761	148.40%	74.81%
2017	0.27878%	34,284,000	21,639,120	158.44%	72.92%
2016	0.28026%	39,276,000	21,368,521	183.80%	68.28%
2015	0.28555%	35,941,000	21,230,718	169.29%	70.68%
2014	0.29170%	35,251,000	19,575,450	180.08%	70.88%

Schedule is intended to show information for 10 years. Since fiscal year 2022 (plan year 2021) is the eighth year for this presentation, only seven additional years of data are available. However, additional years will be included as they become available.

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

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
VRS TEACHER RETIREMENT PLAN
YEAR ENDED JUNE 30, 2022**

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)
2022	\$ 4,211,083	\$ 4,211,083	\$ -	\$ 25,337,443	16.62%
2021*	3,842,114	3,842,114	-	23,117,413	16.62%
2020	3,627,605	3,627,605	-	23,135,236	15.68%
2019**	3,538,775	3,538,775	-	22,568,718	15.68%
2018	3,639,321	3,639,321	-	22,299,761	16.32%
2017	3,172,295	3,172,295	-	21,639,120	14.66%
2016	3,004,414	3,004,414	-	21,368,521	14.06%
2015	3,078,454	3,078,454	-	21,230,718	14.50%

Schedule is intended to show information for 10 years. Since 2022 is the eighth year for this presentation, only seven additional years of data are available. However, additional years will be included as they become available.

* Revised to reflect actual 2021 amounts as shown in the VRS actuarial report rather than estimated amounts used in the prior year ACFR.

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

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
RETIREE HEALTH PLAN
YEAR ENDED JUNE 30, 2022

	City of Salem				
	2022	2021	2020	2019	2018
Total OPEB liability					
Service cost	\$ 296,489	\$ 270,595	\$ 298,111	\$ 319,409	\$ 376,793
Interest	1,451,615	1,375,786	1,377,095	1,612,928	1,723,845
Effect of plan changes	-	114,679	-	-	-
Effect of economic/demographic gains or losses	-	(113,226)	-	(2,149,293)	-
Effect of assumption changes	-	1,232,616	(77,972)	(2,370,696)	-
Benefit payments	(1,653,421)	(1,677,090)	(1,496,341)	(1,461,997)	(1,589,537)
Net change in total OPEB liability	94,683	1,203,360	100,893	(4,049,649)	511,101
Total OPEB liability - beginning	22,796,606	21,593,246	21,492,353	25,542,002	25,030,901
Total OPEB liability - ending	\$ 22,891,289	\$ 22,796,606	\$ 21,593,246	\$ 21,492,353	\$ 25,542,002
Plan fiduciary net position					
Contributions - employer	\$ 1,888,352	\$ 1,912,020	\$ 1,731,271	\$ 1,698,429	\$ 1,824,467
Net investment income	(912,887)	2,186,418	223,747	289,012	527,316
Benefit payments	(1,653,421)	(1,677,090)	(1,496,341)	(1,461,997)	(1,589,537)
Administrative expense	(10,804)	(8,677)	(8,014)	(7,245)	(6,596)
Net change in plan fiduciary net position	(688,760)	2,412,671	450,663	518,199	755,650
Plan fiduciary net position - beginning	9,644,999	7,232,328	6,781,665	6,263,466	5,507,816
Plan fiduciary net position - ending	\$ 8,956,239	\$ 9,644,999	\$ 7,232,328	\$ 6,781,665	\$ 6,263,466
Net OPEB liability - ending	\$ 13,935,050	\$ 13,151,607	\$ 14,360,918	\$ 14,710,688	\$ 19,278,536
Plan fiduciary net position as a percentage of the total OPEB liability	39.13%	42.31%	33.49%	31.55%	24.52%
Covered-employee payroll	\$ 23,727,114	\$ 23,727,114	\$ 23,606,599	\$ 23,606,599	\$ 22,779,070
Net OPEB liability as a percentage of covered-employee payroll	58.73%	55.43%	60.83%	62.32%	84.63%
Annual money-weighted rate of return, net of investment expense	(9.32%)	30.04%	3.05%	4.59%	9.55%
					12.83%

Schedule is intended to show information for 10 years. Since 2022 is the sixth year for this presentation, only five additional years of data are available. However, additional years will be included as they become available.

2022 data reflects totals for the City and excludes \$100,059 and \$81,179 of contributions and benefit payments, respectively, of custodial entities.

Notes to Schedule:

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

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
RETIREE HEALTH PLAN
YEAR ENDED JUNE 30, 2022

	School Division					2017
	2022	2021	2020	2019	2018	2017
Total OPEB liability						
Service cost	\$ 78,070	\$ 72,888	\$ 74,370	\$ 73,179	\$ 71,941	\$ 67,235
Interest	146,183	139,914	136,316	158,451	151,536	145,477
Effect of economic/demographic gains or losses	-	(51,503)	-	17,662	-	-
Effect of assumption changes	-	69,553	(16,279)	(255,288)	-	-
Benefit payments	(140,032)	(139,150)	(136,057)	(151,400)	(136,054)	(125,858)
Net change in total OPEB liability	84,221	91,702	58,350	(157,396)	87,423	86,854
Total OPEB liability - beginning	2,239,811	2,148,109	2,089,759	2,247,155	2,159,732	2,072,878
Total OPEB liability - ending	\$ 2,324,032	\$ 2,239,811	\$ 2,148,109	\$ 2,089,759	\$ 2,247,155	\$ 2,159,732
Plan fiduciary net position						
Contributions - employer	\$ 237,167	\$ 236,285	\$ 233,192	\$ 248,535	\$ 233,189	\$ 211,531
Net investment income	(205,312)	480,434	44,595	59,924	105,580	116,176
Benefit payments	(140,032)	(139,150)	(136,057)	(151,400)	(136,054)	(125,858)
Administrative expense	(2,813)	(2,294)	(2,100)	(1,894)	(1,717)	(1,579)
Other	-	-	-	-	-	-
Net change in plan fiduciary net position	(110,990)	575,275	139,630	155,165	200,998	200,270
Plan fiduciary net position - beginning	2,173,845	1,598,570	1,458,940	1,303,775	1,102,777	902,507
Plan fiduciary net position - ending	\$ 2,062,855	\$ 2,173,845	\$ 1,598,570	\$ 1,458,940	\$ 1,303,775	\$ 1,102,777
Net OPEB liability - ending	\$ 261,177	\$ 65,966	\$ 549,539	\$ 630,819	\$ 943,380	\$ 1,056,955
Plan fiduciary net position as a percentage of the total OPEB liability	88.76%	97.05%	74.42%	69.81%	58.02%	51.06%
Covered-employee payroll	\$ 24,787,563	\$ 24,787,563	\$ 23,962,730	\$ 23,962,730	\$ 23,076,891	\$ 23,076,891
Net OPEB liability as a percentage of covered-employee payroll	1.05%	0.27%	2.29%	2.63%	4.09%	4.58%
Annual money-weighted rate of return, net of investment expense	(9.39%)	30.01%	3.05%	4.59%	9.52%	12.79%

Schedule is intended to show information for 10 years. Since 2022 is the sixth year for this presentation, only five additional years of data are 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, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS
RETIREE HEALTH PLAN
YEAR ENDED JUNE 30, 2022**

Year Ended June 30	Actuarially Determined Contribution*	Contributions in Relation to Actuarially Determined Contribution*	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
	(a)	(b)	(a-b)	(c)	(b/c)
City of Salem					
2022	\$ 1,110,672	\$ 1,888,352	\$ (777,680)	\$ 23,727,114	7.96%
2021	1,081,831	1,912,020	(830,189)	23,727,114	8.06%
2020	1,159,709	1,731,271	(571,562)	23,606,599	7.33%
2019	1,111,485	1,698,429	(586,944)	23,606,599	7.19%
2018	1,516,523	1,824,467	(307,944)	22,779,070	8.01%
2017	1,475,809	1,772,562	(296,753)	22,779,070	7.78%
School Division					
2022	\$ 94,871	\$ 237,167	\$ (142,296)	\$ 24,787,563	0.96%
2021	92,108	236,285	(144,177)	24,787,563	0.95%
2020	120,718	233,192	(112,474)	23,962,730	0.97%
2019	114,675	248,535	(133,860)	23,962,730	1.04%
2018	140,801	233,189	(92,388)	23,076,891	1.01%
2017	136,700	211,531	(74,831)	23,076,891	0.92%

Schedule is intended to show information for 10 years. Since 2022 is the sixth year for this presentation, only five additional years of data are available. However, additional years will be included as they become available.

* Contribution amounts for the City of Salem do not include contributions for custodial entities.

Notes to Schedule

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

Methods and assumptions used to determine contribution rates:

Valuation date	June 30, 2021
Measurement date	June 30, 2022
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll
Amortization period	Closed over 25 years
Asset valuation method	Market value
Investment rate of return	6.50%
Projected long-term salary increases	3.00%

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM
YEAR ENDED JUNE 30, 2022

	School Division Plan Year				
	2021	2020	2019	2018	2017
Total HIC OPEB liability					
Service cost	\$ 4,085	\$ 4,133	\$ 3,643	\$ 2,543	\$ 2,412
Interest	8,118	8,927	9,771	11,059	10,832
Changes of benefit terms	-	955	-	-	-
Changes in assumptions	2,663	-	2,818	-	370
Differences between expected and actual experience	(750)	(10,631)	(9,720)	(20,255)	-
Benefit payments	(15,100)	(15,662)	(12,020)	(11,482)	(9,254)
Net change in total HIC OPEB liability	(984)	(12,278)	(5,508)	(18,135)	4,360
Total HIC OPEB liability - beginning	127,808	140,086	145,594	163,729	159,369
Total HIC OPEB liability - ending	\$ 126,824	\$ 127,808	\$ 140,086	\$ 145,594	\$ 163,729
Plan fiduciary net position					
Contributions - employer	\$ 8,589	\$ 7,533	\$ 7,318	\$ 8,875	\$ 8,704
Net investment income	15,149	1,341	4,257	4,693	6,952
Benefit payments	(15,100)	(15,662)	(12,020)	(11,482)	(9,254)
Administrative expense	(164)	(116)	(90)	(108)	(109)
Other	-	(1)	(5)	(359)	359
Net change in plan fiduciary net position	8,474	(6,905)	(540)	1,619	6,652
Plan fiduciary net position - beginning	61,885	68,790	69,330	67,711	61,059
Plan fiduciary net position - ending	\$ 70,359	\$ 61,885	\$ 68,790	\$ 69,330	\$ 67,711
Net OPEB liability - ending	\$ 56,465	\$ 65,923	\$ 71,296	\$ 76,264	\$ 96,018
Plan fiduciary net position as a percentage of the total OPEB liability	55.48%	48.42%	49.11%	47.62%	41.36%
Covered payroll	\$ 1,263,088	\$ 1,276,780	\$ 1,240,339	\$ 1,286,232	\$ 1,261,449
Net OPEB liability as a percentage of covered payroll	4.47%	5.16%	5.75%	5.93%	7.61%

Schedule is intended to show information for 10 years. Since fiscal year 2022 (plan year 2021) is the fifth year for this presentation, only four additional years of data are available. However, additional years will be included as they become available.

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

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS
POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM
YEAR ENDED JUNE 30, 2022**

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)
2022	\$ 9,862	\$ 16,387	\$ (6,525)	\$ 1,450,177	1.13%
2021*	8,589	8,589	-	1,263,088	0.68%
2020	7,533	7,533	-	1,276,780	0.59%
2019**	7,318	7,318	-	1,240,339	0.59%
2018	8,875	8,875	-	1,286,232	0.69%

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* Revised to reflect actual 2021 amounts as shown in the VRS actuarial report rather than estimated amounts used in the prior year ACFR.

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

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
GLI AND TEACHER EMPLOYEE HIC PROGRAMS
YEAR ENDED JUNE 30, 2022**

Plan Year Ended June 30	Employer's Proportion of the Net OPEB Liability	Employer's Proportionate Share of the Net OPEB Liability (a)	Covered Payroll (b)	Employer's Share of the Net OPEB Liability as a % of Covered Payroll (a/b)	Plan Fiduciary Net Position as a % of the Total OPEB Liability
City of Salem - Group Life Insurance Program					
2021	0.11657%	\$ 1,290,302	\$ 23,241,296	5.55%	67.45%
2020	0.11949%	1,902,916	23,655,385	8.04%	52.64%
2019	0.12131%	1,883,072	22,818,462	8.25%	52.00%
2018	0.11921%	1,726,760	21,687,115	7.96%	51.22%
2017	0.12390%	1,778,837	22,853,532	7.78%	48.86%
School Division - Group Life Insurance Program (Non-Professional Staff)					
2021	0.00614%	\$ 71,486	\$ 1,271,111	5.62%	67.45%
2020	0.00623%	103,968	1,285,000	8.09%	52.64%
2019	0.00634%	103,169	1,243,077	8.30%	52.00%
2018	0.00676%	102,000	1,286,154	7.93%	51.22%
2017	0.00687%	103,000	1,268,277	8.12%	48.86%
School Division - Group Life Insurance Program (Professional Staff)					
2021	0.11525%	\$ 1,341,822	\$ 23,860,556	5.62%	67.45%
2020	0.11525%	1,923,334	23,770,577	8.09%	52.64%
2019	0.11726%	1,908,133	22,986,731	8.30%	52.00%
2018	0.11861%	1,801,000	22,553,654	7.99%	51.22%
2017	0.11835%	1,781,000	21,829,358	8.16%	48.86%
School Division - Teacher Employee Health Insurance Credit Program					
2021	0.26840%	\$ 3,445,100	\$ 23,772,562	14.49%	9.95%
2020	0.27051%	3,528,848	23,716,667	14.88%	9.95%
2019	0.27380%	3,584,308	22,965,750	15.61%	8.97%
2018	0.27878%	3,540,000	22,545,854	15.70%	8.08%
2017	0.27639%	3,506,000	21,812,560	16.07%	7.04%

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

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS
GLI AND TEACHER EMPLOYEE HIC PROGRAMS
YEAR ENDED JUNE 30, 2022**

Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
	(a)	(b)	(a-b)	(c)	(b/c)
City of Salem - Group Life Insurance Program					
2022	\$ 133,026	\$ 133,026	\$ -	\$ 24,634,444	0.54%
2021*	125,503	125,503	-	23,241,296	0.54%
2020	123,008	123,008	-	23,655,385	0.52%
2019	118,656	118,656	-	22,818,462	0.52%
2018	112,773	112,773	-	21,687,115	0.52%
School Division - Group Life Insurance Program (Non-Professional Staff)					
2022	\$ 7,833	\$ 7,833	\$ -	\$ 1,450,556	0.54%
2021*	6,864	6,864	-	1,271,111	0.54%
2020	6,682	6,682	-	1,285,000	0.52%
2019**	6,464	6,464	-	1,243,077	0.52%
2018	6,688	6,688	-	1,286,154	0.52%
School Division - Group Life Insurance Program (Professional Staff)					
2022	\$ 141,458	\$ 141,458	\$ -	\$ 26,195,926	0.54%
2021*	128,847	128,847	-	23,860,556	0.54%
2020	123,607	123,607	-	23,770,577	0.52%
2019**	119,531	119,531	-	22,986,731	0.52%
2018	117,279	117,279	-	22,553,654	0.52%
School Division - Teacher Employee Health Insurance Credit Program					
2022	\$ 316,973	\$ 316,973	\$ -	\$ 26,196,116	1.21%
2021*	287,648	287,648	-	23,772,562	1.21%
2020	284,600	284,600	-	23,716,667	1.20%
2019**	275,589	275,589	-	22,965,750	1.20%
2018	277,314	277,314	-	22,545,854	1.23%

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CITY OF SALEM, VIRGINIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2022

1. Changes of Benefit Terms

Pension

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

Other Postemployment Benefits (OPEB)

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

2. Changes of Assumptions

The actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest Ten – Non-Hazardous Duty:

- Update mortality table to Pub-2010 public sector mortality tables; for future mortality improvements, replace load with a modified Mortality Scape MP-2020
- Adjusted retirement rates to better fit experience for Plan 1; set separate rates based on experience for Plan2/Hybrid; changed final retirement age
- Adjusted withdrawal rates to better fit experience at each year and service through 9 years of service
- No change to disability rates
- No change to salary scale
- No change to line of duty rates
- No change to discount rate

Largest Ten – Hazardous Duty/Public Safety Employees:

- Update mortality table to Pub-2010 public sector mortality tables; for future mortality improvements, replace load with a modified Mortality Scape MP-2020
- Adjusted retirement rates to better fit experience and changed final retirement age from 65 to 70
- Decreased withdrawal rates
- No change to disability rates
- No change to salary scale
- No change to line of duty rates
- No change to discount rate

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

- Update mortality table to Pub-2010 public sector mortality tables; for future mortality improvements, replace load with a modified Mortality Scape MP-2020
- Adjusted retirement rates to better fit experience for Plan 1; set separate rates based on experience for Plan2/Hybrid; changed final retirement age
- Adjusted withdrawal rates to better fit experience at each year and service through 9 years of service
- No change to disability rates
- No changes to salary scale
- No change to line of duty rates
- No change to discount rate

CITY OF SALEM, VIRGINIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2022

2. Changes of Assumptions (Continued)

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

- Update mortality table to Pub-2010 public sector mortality tables; for future mortality improvements, replace load with a modified Mortality Scape MP-2020
- Adjusted retirement rates to better fit experience and changed final retirement age from 65 to 70
- Decreased withdrawal rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Largest 10 Hazardous Duty
- No change to disability rates
- No change to salary scale
- No change to line of duty rates
- No change to discount rate

Teacher Cost-Sharing Pool:

- Update mortality table to Pub-2010 public sector mortality tables; for future mortality improvements, replace load with a modified Mortality Scape MP-2020
- Adjusted retirement rates to better fit experience for Plan 1; set separate rates based on experience for Plan2/Hybrid; changed final retirement age from 78 to 80 for all
- Adjusted withdrawal rates to better fit experience at each year and service through 9 years of service
- No change to disability rates
- No changes to salary scale
- No change to discount rate

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OTHER SUPPLEMENTARY INFORMATION



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

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2022

	Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
ASSETS			
<i>Current assets:</i>			
Cash and cash equivalents	\$ 744,283	\$ 65,760	\$ 810,043
Receivables, net	4,622	33,921	38,543
Due from component unit	-	1,568	1,568
Inventories	-	32,689	32,689
Prepaid items	108,764	-	108,764
Total current assets	857,669	133,938	991,607
<i>Noncurrent assets:</i>			
Capital assets:			
Nondepreciable	215,453	-	215,453
Depreciable, net	2,815,940	28,643	2,844,583
Total capital assets	3,031,393	28,643	3,060,036
Total noncurrent assets	3,031,393	28,643	3,060,036
Total assets	3,889,062	162,581	4,051,643
DEFERRED OUTFLOWS OF RESOURCES	328,027	58,951	386,978
LIABILITIES			
<i>Current liabilities:</i>			
Accounts payable and accrued liabilities	84,335	17,380	101,715
Accrued payroll and related liabilities	128,945	31,777	160,722
Due to other funds	-	420,000	420,000
Unearned revenues	727,684	-	727,684
Compensated absences	73,972	11,484	85,456
Total current liabilities	1,014,936	480,641	1,495,577
<i>Noncurrent liabilities:</i>			
Compensated absences	53,452	-	53,452
Net pension liability	878,792	274,784	1,153,576
Net OPEB liability	479,366	97,081	576,447
Total noncurrent liabilities	1,411,610	371,865	1,783,475
Total liabilities	2,426,546	852,506	3,279,052
DEFERRED INFLOWS OF RESOURCES	771,341	152,373	923,714
NET POSITION			
Net investment in capital assets	3,031,393	28,643	3,060,036
Unrestricted (deficit)	(2,012,191)	(811,990)	(2,824,181)
Total net position	\$ 1,019,202	\$ (783,347)	\$ 235,855

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2022

	Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
OPERATING REVENUES			
Charges for services	\$ 2,555,524	\$ 681,236	\$ 3,236,760
Commissions	21,691	-	21,691
Other	1,287,325	17,081	1,304,406
Total operating revenues	<u>3,864,540</u>	<u>698,317</u>	<u>4,562,857</u>
OPERATING EXPENSES			
Salaries	1,035,080	263,898	1,298,978
Fringe benefits	300,578	43,995	344,573
Show expenses	1,789,429	-	1,789,429
Maintenance	192,671	1,962	194,633
Professional services	15,722	11,284	27,006
Insurance	27,138	1,740	28,878
Administration	101,102	16,476	117,578
Travel and training	4,602	-	4,602
Materials and supplies	20,372	215,428	235,800
Expendable equipment and small tools	9,087	4,655	13,742
Utilities	303,942	154	304,096
Miscellaneous	2,986	4	2,990
Depreciation	279,297	4,383	283,680
Amortization	3,071	-	3,071
Commissions	-	174,261	174,261
Total operating expenses	<u>4,085,077</u>	<u>738,240</u>	<u>4,823,317</u>
Operating loss	<u>(220,537)</u>	<u>(39,923)</u>	<u>(260,460)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest expense	(96)	-	(96)
Net nonoperating revenues (expenses)	(96)	-	(96)
Loss before transfers	<u>(220,633)</u>	<u>(39,923)</u>	<u>(260,556)</u>
Transfers in	<u>1,659,168</u>	<u>50,000</u>	<u>1,709,168</u>
Change in net position	<u>1,438,535</u>	<u>10,077</u>	<u>1,448,612</u>
Net position, beginning	<u>(419,333)</u>	<u>(793,424)</u>	<u>(1,212,757)</u>
Net position, ending	<u>\$ 1,019,202</u>	<u>\$ (783,347)</u>	<u>\$ 235,855</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2022

	Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
OPERATING ACTIVITIES			
Receipts from customers	\$ 3,041,609	\$ 666,689	\$ 3,708,298
Payments to suppliers	(2,450,759)	(421,256)	(2,872,015)
Payments to employees	(1,379,924)	(324,807)	(1,704,731)
Other receipts	1,287,325	17,081	1,304,406
Net cash provided by (used in) operating activities	498,251	(62,293)	435,958
NONCAPITAL FINANCING ACTIVITIES			
Interfund Loan	(1,355,000)	(80,000)	(1,435,000)
Transfers in	1,659,168	50,000	1,709,168
Net cash provided by (used in) noncapital financing activities	304,168	(30,000)	274,168
CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(59,144)	-	(59,144)
Principal paid on capital debt	(3,071)	-	(3,071)
Interest paid on capital debt	(96)	-	(96)
Net cash used in capital and related financing activities	(62,311)	-	(62,311)
Net increase (decrease) in cash and cash equivalents	740,108	(92,293)	647,815
Cash and cash equivalents, beginning	4,175	158,053	162,228
Cash and cash equivalents, ending	\$ 744,283	\$ 65,760	\$ 810,043
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Operating loss	\$ (220,537)	\$ (39,923)	\$ (260,460)
<i>Adjustments to reconcile operating loss to net cash provided by (used in) operating activities</i>			
Depreciation and amortization	282,368	4,383	286,751
Pension expense, net of employer contributions	(52,531)	(5,910)	(58,441)
OPEB expense, net of employer contributions	(40,942)	(5,181)	(46,123)
<i>Decrease (increase) in assets:</i>			
Receivables, net	48,757	(14,547)	34,210
Inventories	-	(6,628)	(6,628)
Prepaid items	(8,310)	-	(8,310)
<i>Increase (decrease) in liabilities:</i>			
Accounts payable and accrued liabilities	24,602	11,336	35,938
Accrued payroll and related liabilities	42,324	9,464	51,788
Unearned revenues	415,637	-	415,637
Compensated absences	6,883	(15,287)	(8,404)
Net cash provided by (used in) operating activities	\$ 498,251	\$ (62,293)	\$ 435,958

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF FIDUCIARY NET POSITION
CUSTODIAL FUNDS
JUNE 30, 2022

	Cardinal Criminal Justice Academy	Court- Community Corrections Program	Total Custodial Funds
ASSETS			
Cash and cash equivalents	\$ 534,475	\$ 1,772,651	\$ 2,307,126
Receivables, net	48	687	735
Due from Commonwealth of Virginia	54,820	47,265	102,085
Total assets	<u>589,343</u>	<u>1,820,603</u>	<u>2,409,946</u>
LIABILITIES			
Accounts payable and accrued liabilities	2,302	76,300	78,602
Accrued payroll and related liabilities	47,987	40,088	88,075
Due to City of Salem	3,182	6,528	9,710
Unearned revenues	108,560	-	108,560
Total liabilities	<u>162,031</u>	<u>122,916</u>	<u>284,947</u>
NET POSITION			
Restricted for:			
Individuals, organizations, and other governments	427,312	1,697,687	2,124,999
Total net position	<u>\$ 427,312</u>	<u>\$ 1,697,687</u>	<u>\$ 2,124,999</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
CUSTODIAL FUNDS
YEAR ENDED JUNE 30, 2022

	Cardinal Criminal Justice Academy	Court- Community Corrections Program	Total Custodial Funds
ADDITIONS			
Funds received for benefit of other organizations	\$ 782,662	\$ 1,484,237	\$ 2,266,899
Total additions	<u>782,662</u>	<u>1,484,237</u>	<u>2,266,899</u>
DEDUCTIONS			
Funds disbursed for benefit of other organizations	845,125	1,519,103	2,364,228
Total deductions	<u>845,125</u>	<u>1,519,103</u>	<u>2,364,228</u>
Change in fiduciary net position	<u>(62,463)</u>	<u>(34,866)</u>	<u>(97,329)</u>
Net position, beginning	489,775	1,732,553	2,222,328
Net position, ending	<u><u>\$ 427,312</u></u>	<u><u>\$ 1,697,687</u></u>	<u><u>\$ 2,124,999</u></u>

CITY OF SALEM, VIRGINIA
 BALANCE SHEET
 ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF SALEM
 GOVERNMENTAL FUND
 JUNE 30, 2022

ASSETS

Cash and cash equivalents	\$ 391,181
Receivables, net	5,176,250
Total assets	<u>\$ 5,567,431</u>

LIABILITIES

Accounts payable and accrued liabilities	\$ 438
Due to primary government	5,164,713
Total liabilities	<u>5,165,151</u>

FUND BALANCE

Committed	50,000
Assigned	352,280
Total fund balance	<u>402,280</u>
Total liabilities and fund balance	<u>\$ 5,567,431</u>

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF SALEM
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2022

REVENUES

Revenue from use of money and property	\$ 119,298
Intergovernmental	56,010
Total revenues	<u>175,308</u>

EXPENDITURES

Community development	<u>71,742</u>
Total expenditures	<u>71,742</u>

Net change in fund balance	<u>103,566</u>
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Fund balance, beginning	<u>298,714</u>
Fund balance, ending	<u><u>\$ 402,280</u></u>



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

Contents	Page
Financial Trends.....	141
<i>These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</i>	
Revenue Capacity.....	146
<i>These schedules contain information to help the reader assess the City's most significant local revenue sources, property tax and sale of electricity.</i>	
Debt Capacity.....	149
<i>These schedules present information to help the reader assess the affordability of the City's current level of outstanding debt and the government's ability to issue additional debt in the future.</i>	
Demographic and Economic Information.....	151
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.</i>	
Operating Information.....	153
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the government provides and the activities it performs.</i>	

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TABLE 1
UNAUDITED

CITY OF SALEM, VIRGINIA NET POSITION BY COMPONENT LAST TEN FISCAL YEARS										
	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
			(1)		(2)		(3), (4)	(3), (4), (5)	(4), (6)	(4)
Governmental Activities										
Net investment in capital assets	\$ 84,385,804	\$ 83,813,635	\$ 74,013,712	\$ 75,906,865	\$ 75,637,028	\$ 76,704,584	\$ 80,613,041	\$ 82,468,633	\$ 84,803,933	\$ 87,305,352
Restricted	3,242,954	2,264,159	7,407,955	5,868,862	4,211,042	4,247,628	1,962,017	4,246,340	2,987,926	1,896,959
Unrestricted	(15,996,431)	(25,162,020)	(18,144,742)	(21,585,631)	(30,860,648)	(24,252,734)	(33,750,410)	(44,779,654)	(22,664,736)	(20,157,809)
Total governmental activities net position	\$ 71,632,327	\$ 60,915,774	\$ 63,276,925	\$ 60,190,096	\$ 48,987,422	\$ 56,699,478	\$ 48,824,648	\$ 41,935,319	\$ 65,127,123	\$ 69,044,502
Business-type activities										
Net investment in capital assets	\$ 67,400,911	\$ 60,959,490	\$ 55,215,300	\$ 52,850,038	\$ 49,386,338	\$ 46,775,751	\$ 44,477,804	\$ 42,195,035	\$ 42,936,315	\$ 43,413,519
Unrestricted	48,777,084	47,208,736	47,252,971	42,561,767	37,549,539	34,837,935	29,574,731	24,406,951	27,531,700	24,273,387
Total business-type activities net position	\$ 116,177,995	\$ 108,168,226	\$ 102,468,271	\$ 95,411,805	\$ 86,935,877	\$ 81,613,686	\$ 74,052,535	\$ 66,601,986	\$ 70,468,015	\$ 67,686,906
Primary Government										
Net investment in capital assets	\$ 151,786,715	\$ 144,773,125	\$ 129,229,012	\$ 128,756,903	\$ 125,023,367	\$ 123,480,335	\$ 125,090,845	\$ 124,663,668	\$ 127,740,248	\$ 130,718,871
Restricted	3,242,954	2,264,159	7,407,955	5,868,862	4,211,042	4,247,628	1,962,017	4,246,340	2,987,926	1,896,959
Unrestricted	32,780,653	22,046,716	29,108,229	20,976,136	6,688,890	10,585,201	(4,175,679)	(20,372,703)	4,866,964	4,115,578
Total primary government net position	\$ 187,810,322	\$ 169,084,000	\$ 165,745,196	\$ 155,601,901	\$ 135,923,299	\$ 138,313,164	\$ 122,877,183	\$ 108,537,305	\$ 135,595,138	\$ 136,731,408

Notes:

Source: City of Salem Finance Department

(1) There were reclassifications within the net position of governmental activities and the net position of the primary government for comparative purposes to conform with the presentation in other fiscal years.

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

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

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

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

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

TABLE 2
UNAUDITED

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

	2022 (1)	2021 (2)	2020 (3)	2019	2018	2017	2016 (4), (5)	2015 (4), (5)	2014 (5), (6), (7)	2013 (5), (8)
Expenses										
<i>Governmental activities:</i>										
General government	\$ 6,946,772	\$ 7,398,186	\$ 7,732,057	\$ 5,999,310	\$ 6,388,884	\$ 6,864,181	\$ 5,943,899	\$ 6,335,563	\$ 6,248,574	\$ 6,450,069
Judicial administration	2,460,730	2,685,074	2,427,038	2,019,802	2,009,007	2,072,538	1,934,263	1,921,789	2,026,034	1,952,657
Public safety	18,560,637	19,746,567	19,710,088	15,953,011	15,776,102	17,011,463	15,753,795	16,192,190	17,532,682	17,279,490
Public works	10,777,374	16,605,367	10,268,769	9,434,930	11,617,750	12,228,329	16,652,913	12,758,967	13,399,134	13,809,579
Health and welfare	5,441,656	5,707,730	4,969,943	4,014,354	3,318,498	3,026,330	2,974,663	3,050,634	2,578,984	2,709,561
Education	26,611,308	34,606,636	25,341,148	21,032,249	20,170,298	19,760,242	19,739,512	19,151,270	25,103,243	30,295,228
Parks, recreation and cultural	6,835,914	6,871,297	6,286,470	6,300,706	6,129,809	5,937,858	5,335,902	5,127,367	5,279,886	5,436,335
Community development	2,748,883	3,046,081	3,392,520	3,173,232	3,429,290	3,296,760	2,107,808	2,006,736	2,388,701	2,327,751
Interest and other fiscal changes	1,567,370	1,598,185	1,312,981	1,008,095	950,247	988,059	1,011,115	1,093,989	1,118,286	1,060,727
Total governmental activities	81,950,644	98,265,123	81,441,014	68,935,689	69,789,885	71,185,760	71,453,870	67,638,505	75,675,524	81,321,397
<i>Business-type activities:</i>										
Electric	35,521,249	32,791,502	32,282,516	33,022,574	31,361,242	31,628,232	30,200,956	33,901,497	34,182,987	33,171,403
Water and sewage	9,902,890	10,491,167	10,141,238	9,538,640	9,206,719	9,776,628	10,000,056	10,568,840	10,999,420	10,671,798
Civic Center	4,085,173	2,693,683	4,382,316	4,291,121	4,708,634	4,046,125	4,103,577	2,888,263	2,600,249	2,838,499
Catering and concessions	738,240	457,944	875,293	937,758	981,396	933,894	980,147	851,760	886,866	849,306
Total business-type activities	50,247,552	46,434,296	47,681,363	47,790,093	46,257,991	46,384,879	45,284,736	48,210,360	48,639,522	47,531,006
Total Primary Government	\$ 132,198,196	\$ 144,699,419	\$ 129,122,377	\$ 116,725,782	\$ 116,047,876	\$ 117,570,639	\$ 116,738,606	\$ 115,848,865	\$ 124,315,046	\$ 128,852,403
Program revenues										
<i>Governmental activities:</i>										
Charges for services										
Public safety	\$ 1,516,411	\$ 1,406,150	\$ 1,378,117	\$ 1,487,180	\$ 1,358,612	\$ 1,237,985	\$ 1,281,509	\$ 1,237,901	\$ 1,103,765	\$ 1,069,969
Public works	1,964,802	1,888,588	1,859,310	1,488,934	1,528,945	2,563,620	4,706,219	4,351,157	3,695,667	3,523,970
Other activities	975,700	724,797	777,397	981,634	1,162,193	1,254,639	779,384	849,596	1,009,342	1,034,129
Operating grants and contributions	9,863,682	9,856,578	9,458,112	8,466,964	8,207,848	8,318,690	7,623,373	7,567,973	6,975,699	7,436,195
Capital grants and contributions	1,950,019	8,608,472	1,344,324	566,366	1,403,327	202,451	80,406	192,430	391,399	2,003,251
Total governmental activities	16,270,614	22,484,585	14,817,260	12,991,078	13,660,925	13,577,385	14,470,891	14,199,057	13,175,872	15,067,514
<i>Business-type activities:</i>										
Charges for services										
Electric	40,294,957	38,045,804	38,441,256	39,719,859	40,153,923	39,437,330	38,080,149	39,715,705	39,861,201	40,280,161
Water and sewage	14,664,782	14,200,570	14,222,844	14,165,379	14,009,576	13,530,659	13,537,310	13,658,281	12,645,216	11,729,755
Civic Center	2,595,998	522,276	2,282,153	2,745,582	3,106,144	2,475,661	2,313,348	799,948	934,047	775,437
Catering and concessions	698,317	206,559	674,404	778,605	922,287	819,571	935,973	791,311	779,220	781,469
Operating grants and contributions										
Electric	37,718	-	-	-	-	-	-	-	-	-
Civic Center	1,268,542	-	-	-	-	-	-	-	-	-
Water and sewage	27,015	-	-	-	-	-	-	-	-	-
Capital grants and contributions										
Electric	-	-	78,034	-	124,385	-	-	47,196	27,380	-
Civic Center	-	-	-	-	51,133	-	-	-	-	-
Water and sewage	162,746	541,915	-	-	-	-	-	-	21,671	-
Total business-type activities	59,750,075	53,517,124	55,698,691	57,409,425	58,367,448	56,263,221	54,866,780	55,012,441	54,268,735	53,566,822
Total Primary Government	\$ 76,020,689	\$ 76,001,709	\$ 70,515,951	\$ 70,400,503	\$ 72,028,373	\$ 69,840,606	\$ 69,337,671	\$ 69,211,498	\$ 67,444,607	\$ 68,634,336

Net (expense) revenue		2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Total governmental activities		\$ (65,680,030)	\$ (75,780,538)	\$ (66,623,754)	\$ (55,944,611)	\$ (56,128,960)	\$ (57,608,375)	\$ (56,982,979)	\$ (53,439,448)	\$ (62,499,652)	\$ (66,253,883)
Total business-type activities		9,502,523	7,082,828	8,017,328	9,619,332	12,109,457	9,878,342	9,582,044	6,802,081	5,629,213	6,035,816
Total primary government		<u>\$ (56,177,507)</u>	<u>\$ (68,697,710)</u>	<u>\$ (58,606,426)</u>	<u>\$ (46,325,279)</u>	<u>\$ (44,019,503)</u>	<u>\$ (47,730,033)</u>	<u>\$ (47,400,935)</u>	<u>\$ (46,637,367)</u>	<u>\$ (56,870,439)</u>	<u>\$ (60,218,067)</u>

General Revenues and Other Changes in Net Position

<i>Governmental activities:</i>											
Taxes											
Property taxes		\$ 43,037,351	\$ 40,367,128	\$ 38,374,597	\$ 36,825,133	\$ 35,688,231	\$ 35,631,665	\$ 34,610,154	\$ 33,371,609	\$ 32,666,172	\$ 32,272,995
Local sales and use taxes		9,071,908	7,837,554	7,661,772	7,296,272	7,015,296	7,174,034	6,638,448	6,688,509	6,432,110	6,083,030
Business license tax		6,176,361	5,546,287	5,572,638	5,615,337	5,333,382	5,320,865	5,391,215	5,088,724	5,078,755	5,107,983
Meals tax		5,835,238	4,973,630	4,747,513	5,085,168	4,802,780	4,718,631	4,715,137	4,464,873	4,277,741	4,118,041
Utility taxes		1,220,636	1,179,676	1,190,153	1,203,020	1,208,943	1,182,963	1,169,894	1,217,299	1,150,691	1,153,190
Other taxes		4,429,669	3,580,064	3,459,728	4,042,474	3,997,697	3,908,064	3,869,411	3,497,219	3,184,568	2,924,694
Intergovernmental revenue not restricted		3,728,399	7,160,161	5,003,579	3,951,338	3,952,121	3,941,937	3,989,413	3,942,960	3,961,782	3,859,380
Unrestricted investment earnings		420,399	248,514	1,707,740	994,037	752,672	554,437	269,350	164,585	143,186	134,650
Gain on sale of property		105,486	93,131	40,778	44,471	35,647	20,985	100,081	389,290	33,051	1,198
Other		743,542	744,086	641,479	757,329	626,372	676,502	986,182	586,008	554,303	606,657
Transfers		1,627,594	1,689,156	1,310,606	1,332,706	2,008,304	2,353,122	2,133,023	2,266,120	1,694,330	1,069,822
Total governmental activities		<u>76,396,583</u>	<u>73,419,387</u>	<u>69,710,583</u>	<u>67,147,285</u>	<u>65,421,445</u>	<u>65,483,205</u>	<u>63,872,308</u>	<u>61,677,196</u>	<u>59,176,689</u>	<u>57,331,640</u>
<i>Business-type activities:</i>											
Unrestricted investment earnings		94,733	85,199	166,317	189,302	78,511	35,931	93	158	172	168
Gain on sale of property		40,107	-	-	-	8,483	-	1,435	8,225	5,013	1,638
Other		-	221,084	183,427	-	-	-	-	-	-	-
Transfers		(1,627,594)	(1,689,156)	(1,310,606)	(1,332,706)	(2,008,304)	(2,353,122)	(2,133,023)	(2,266,120)	(1,694,330)	(1,069,822)
Total business-type activities		<u>(1,492,754)</u>	<u>(1,382,873)</u>	<u>(960,862)</u>	<u>(1,143,404)</u>	<u>(1,921,310)</u>	<u>(2,317,191)</u>	<u>(2,131,495)</u>	<u>(2,257,737)</u>	<u>(1,689,145)</u>	<u>(1,068,016)</u>
Total Primary Government		<u>\$ 74,903,829</u>	<u>\$ 72,036,514</u>	<u>\$ 68,749,721</u>	<u>\$ 66,003,881</u>	<u>\$ 63,500,135</u>	<u>\$ 63,166,014</u>	<u>\$ 61,740,813</u>	<u>\$ 59,419,459</u>	<u>\$ 57,487,544</u>	<u>\$ 56,263,624</u>

Changes in Net Position

Total governmental activities		\$ 10,716,553	\$ (2,361,151)	\$ 3,086,829	\$ 11,202,674	\$ 9,292,485	\$ 7,874,830	\$ 6,889,329	\$ 8,237,748	\$ (3,322,963)	\$ (8,922,243)
Total business-type activities		8,009,769	5,699,955	7,056,466	8,475,928	10,188,147	7,561,151	7,450,549	4,544,344	3,940,068	4,967,800
Total Primary Government		<u>\$ 18,726,322</u>	<u>\$ 3,338,804</u>	<u>\$ 10,143,295</u>	<u>\$ 19,678,602</u>	<u>\$ 19,480,632</u>	<u>\$ 15,435,981</u>	<u>\$ 14,339,878</u>	<u>\$ 12,782,092</u>	<u>\$ 617,105</u>	<u>\$ (3,954,443)</u>

Notes:

- (1) Education expenses of governmental activities include \$5,277,634 of bond funds transferred to the School Division to fund capital projects.
- (2) Education expenses of governmental activities include \$14,384,051 of bond funds transferred to the School Division to fund capital projects.
- (3) Education expenses of governmental activities include \$3,445,962 of bond funds transferred to the School Division to fund capital projects.
- (4) Interest and other fiscal charges of governmental activities and Electric expenses of business-type activities were restated to record amortization of the deferred loss on refunding of debt from the 2011 refunding bonds.
- (5) Interest and other fiscal charges of governmental activities was restated to record amortization of the deferred loss on refunding on debt from the 2015 refunding bonds.
- (6) Education expenses of governmental activities include \$5,481,200 of bond funds transferred to the School Division to fund capital projects.
- (7) In 2014, the City implemented GASB Statement No. 65 requiring debt issuance costs to be expensed as incurred and also segregated health insurance into internal service funds.
- (8) Education expenses of governmental activities include \$9,518,800 of bond funds transferred to the School Division to fund capital projects.

TABLE 3
UNAUDITED

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

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
General Fund									(1)	
Nonspendable	\$ 1,074,923	\$ 788,399	\$ 1,009,261	\$ 862,437	\$ 694,658	\$ 588,204	\$ 567,605	\$ 514,556	\$ 421,117	\$ 447,097
Restricted	3,242,954	2,264,159	7,407,955	5,868,862	4,071,765	4,245,248	1,959,638	4,180,415	2,661,958	1,896,731
Committed	129,601	97,692	120,291	110,092	94,789	89,261	76,219	-	-	-
Assigned	816,915	875,274	857,041	697,043	741,677	672,251	743,727	505,633	465,178	941,626
Unassigned	55,175,870	45,953,252	37,456,968	32,652,599	28,803,322	22,212,433	15,701,124	9,797,393	5,271,609	3,517,718
Total General Fund	\$ 60,440,263	\$ 49,978,776	\$ 46,851,516	\$ 40,191,033	\$ 34,406,211	\$ 27,807,397	\$ 19,048,313	\$ 14,997,997	\$ 8,819,862	\$ 6,803,172
All Other Governmental Funds										
Restricted	\$ 19,276,969	\$ 10,729,118	\$ 27,358,827	\$ 1,983,825	\$ 935,933	\$ 2,894,061	\$ 4,193,169	\$ 65,925	\$ 325,968	\$ 228
Committed	-	-	-	-	-	54,458	81,754	96,503	125,651	115,000
Assigned	2,984,364	2,008,162	1,320,266	736,959	551,356	342,149	63,848	-	8,291	-
Unassigned	-	-	-	-	-	-	-	-	-	(432,316)
Total all other governmental funds	\$ 22,261,333	\$ 12,737,280	\$ 28,679,093	\$ 2,720,784	\$ 1,487,289	\$ 3,290,668	\$ 4,338,771	\$ 162,428	\$ 459,910	\$ (317,088)

Notes:

Source: City of Salem Finance Department

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

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

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
									(1)	(2)
Revenues										
Taxes	\$ 69,975,513	\$ 63,943,565	\$ 61,066,795	\$ 60,404,459	\$ 58,583,459	\$ 58,668,891	\$ 57,116,158	\$ 54,697,901	\$ 53,203,553	\$ 52,276,472
Permits, fees and licenses	411,600	340,649	349,081	343,811	313,860	277,582	394,968	394,827	218,804	198,742
Fines and forfeitures	123,352	62,489	64,460	109,705	137,911	145,820	116,417	127,002	126,761	153,584
Revenue from use of money and property	750,535	568,607	1,992,301	1,293,449	1,049,368	842,624	531,379	511,980	697,565	697,140
Charges for services	3,561,617	3,217,818	3,576,056	3,212,585	3,118,065	4,192,436	6,075,639	5,632,172	4,956,368	4,925,221
Other	382,382	354,698	277,828	250,381	496,510	409,131	357,115	153,748	160,095	247,149
Intergovernmental	14,553,949	18,781,397	15,762,773	13,165,857	13,360,836	12,652,827	11,603,416	11,638,740	11,289,569	13,129,214
Total revenues	89,758,948	87,269,223	83,089,294	78,780,247	77,060,009	77,189,311	76,195,092	73,156,370	70,652,715	71,627,522
Expenditures										
General government	6,844,143	6,679,583	6,703,274	6,152,838	5,679,004	6,410,086	5,918,110	6,062,763	5,689,510	5,881,344
Judicial administration	2,458,099	2,368,502	2,180,401	2,092,625	2,033,068	2,018,898	2,026,255	1,913,666	1,919,961	1,866,050
Public safety	17,737,298	17,615,998	17,368,101	16,112,960	15,741,300	16,403,627	15,824,899	15,779,717	16,358,165	16,371,685
Public works	9,044,426	15,144,607	8,507,779	8,289,463	9,796,765	8,452,569	14,672,498	10,709,120	11,087,740	11,502,485
Health and welfare	5,253,983	5,523,827	4,779,853	3,877,830	3,202,498	2,909,343	2,827,459	2,900,389	2,465,194	2,672,631
Education	26,611,308	34,606,636	25,341,148	21,026,377	20,170,298	19,760,242	19,739,512	19,151,270	25,103,243	30,295,228
Parks, recreation and cultural	5,967,259	5,471,944	5,134,939	5,225,517	5,106,766	5,071,566	4,482,414	4,401,263	4,323,040	4,508,319
Community development	2,780,253	2,864,732	3,255,301	4,582,992	3,340,911	3,178,844	1,087,606	1,062,184	857,219	829,081
Non-departmental	2,168,819	2,187,212	2,210,715	2,018,406	1,978,778	2,085,343	3,240,075	3,248,409	2,759,940	2,867,807
Capital projects	2,919,667	4,256,021	2,768,847	4,886,835	3,302,614	1,674,861	2,187,595	697,503	1,788,469	2,377,884
<i>Debt service:</i>										
Principal retirement	3,230,483	3,285,371	3,017,446	3,056,511	3,055,319	3,082,999	2,988,314	3,018,738	2,647,514	7,765,685
Interest	1,680,772	1,649,830	928,405	831,282	908,720	960,419	941,386	1,101,829	980,558	824,824
Bond issuance cost	79,400	61,160	350,394	73,849	-	-	32,987	10,377	15,500	45,750
Total expenditures	86,775,910	101,715,423	82,546,603	78,227,485	74,316,041	72,008,797	75,969,110	70,057,228	75,996,053	87,808,773
Excess (deficiency) of revenues over (under) expenditures	2,983,038	(14,446,200)	542,691	552,762	2,743,968	5,180,514	225,982	3,099,142	(5,343,338)	(16,181,251)
Other Financing Sources (Uses)										
Issuance of long-term debt	15,080,000	-	26,555,000	5,025,000	-	-	5,281,400	-	7,275,000	9,518,800
Issuance of refunding bonds	-	1,555,000	5,799,023	-	-	-	-	1,932,097	-	5,036,200
Payment to refunded bond escrow agent	-	(1,493,089)	(7,074,459)	-	-	-	-	(1,921,720)	-	-
Premium on sale of bonds	-	-	5,282,352	-	-	-	-	-	-	-
Proceeds from sale of capital assets	155,902	92,605	40,778	41,167	34,084	177,345	211,254	505,014	-	-
Issuance of financed purchase obligation	-	-	72,648	-	-	-	375,000	-	-	-
Inception of leases	63,096	-	-	-	-	-	-	-	-	-
Insurance recoveries	75,910	21,835	72,653	66,682	9,079	-	-	-	-	-
Transfers in	9,837,192	9,229,573	7,880,961	7,552,251	7,383,186	7,676,999	7,930,241	7,766,233	6,832,903	5,626,851
Transfers out	(8,209,598)	(7,774,277)	(6,532,855)	(6,219,545)	(5,374,882)	(5,323,877)	(5,797,218)	(5,500,113)	(5,131,569)	(4,557,029)
Total other financing sources, net	17,002,502	1,631,647	32,076,101	6,465,555	2,051,467	2,530,467	8,000,677	2,781,511	8,976,334	15,624,822
Net change in fund balances	\$ 19,985,540	\$ (12,814,553)	\$ 32,618,792	\$ 7,018,317	\$ 4,795,435	\$ 7,710,981	\$ 8,226,659	\$ 5,880,653	\$ 3,632,996	\$ (556,429)
Debt service as a percentage of noncapital expenditures	6.03%	5.29%	5.09%	5.53%	5.62%	5.87%	5.44%	6.06%	4.93%	10.16%

Notes:

Source: City of Salem Finance Department

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

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

TABLE 5
UNAUDITED

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

Fiscal Year	Real Estate			Personal Property			Machinery and Tools			Public Service Corporation			Mobile Homes			Total Taxable			Total Direct Rate
	Assessed Value	Tax	Direct Rate	Assessed Value	Tax	Direct Rate	Assessed Value	Tax	Direct Rate	Assessed Value	Tax	Direct Rate	Assessed Value	Tax	Direct Rate	Assessed Value	Tax	Direct Rate	
2022	\$ 2,384,635,100	\$1.20		\$ 417,131,385	\$3.40		\$ 102,879,430	\$3.20		\$ 65,235,010	\$1.20		\$ 741,052	\$1.20		\$ 2,970,621,977		\$1.54	
2021	2,296,615,563	1.20		346,874,881	3.40		99,551,587	3.20		64,324,330	1.20		827,954	1.20		2,808,194,315		1.54	
2020	2,223,003,261	1.20		319,099,250	3.40		98,084,487	3.20		60,840,085	1.20		758,822	1.20		2,701,785,905		1.54	
2019	2,144,567,539	1.18		310,426,127	3.25		91,646,255	3.20		53,418,469	1.18		749,392	1.18		2,600,807,782		1.51	
2018	2,092,863,676	1.18		306,890,700	3.25		97,999,444	3.20		51,247,569	1.18		816,174	1.18		2,549,817,563		1.50	
2017	2,054,446,049	1.18		312,495,313	3.25		89,186,639	3.20		44,507,648	1.18		984,368	1.18		2,501,620,017		1.51	
2016	2,022,951,024	1.18		295,173,346	3.25		91,322,128	3.20		41,308,358	1.18		1,059,063	1.18		2,451,813,919		1.50	
2015	2,012,050,247	1.18		282,311,121	3.25		91,977,805	3.20		40,513,445	1.18		1,195,515	1.18		2,428,048,133		1.50	
2014	2,003,007,334	1.18		276,846,201	3.20		91,226,535	3.20		41,408,575	1.18		1,249,050	1.18		2,413,737,695		1.49	
2013	1,997,447,800	1.18		267,755,307	3.20		84,169,172	3.20		42,281,759	1.18		1,431,949	1.18		2,393,085,987		1.47	

Note:

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

TABLE 6
UNAUDITED

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

Calendar Year Ended December 31,	Taxes Levied for the Calendar Year	Collected within the		Supplemental Assessments & Exonerations Levied in Subsequent Years	Collections in Subsequent Years	Total Collections to Date	
		Calendar Year of the Levy	Percentage of Levy			Amount	Percentage of Levy
		Amount					
2022	\$ 43,896,135	\$ 41,921,818	95.50%	\$ -	-	\$ 41,921,818	95.50%
2021	40,322,441	38,719,642	96.03%	17,644	1,158,000	39,877,642	98.85%
2020	38,547,607	35,634,651	92.44%	36,505	2,611,162	38,245,813	99.12%
2019	36,274,839	35,191,478	97.01%	168,263	1,192,427	36,383,905	99.84%
2018	35,837,963	34,375,408	95.92%	(350,519)	1,070,849	35,446,257	99.88%
2017	35,253,119	34,012,836	96.48%	(71,996)	1,137,161	35,149,997	99.91%
2016	33,896,364	32,608,317	96.20%	(19,524)	1,222,259	33,830,576	99.86%
2015	33,407,499	31,903,905	95.50%	(62,546)	1,332,578	33,236,483	99.67%
2014	32,905,743	31,229,276	94.91%	(83,736)	1,552,138	32,781,414	99.88%
2013	32,537,416	30,854,728	94.83%	64,769	1,686,852	32,541,580	99.81%

Notes:

Source: City of Salem Finance Department

In 2020, the due date for the second half of Real Estate and Personal Property was extended to June 30th due to the COVID-19 pandemic.

**TABLE 7
UNAUDITED**

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

Taxpayer	2022			2013		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Lewis-Gale Medical Center LLC (1)	\$ 63,942,600	1	2.55%	\$ 36,118,600	1	1.81%
Yokohama Industries	15,155,300	2	0.60%	13,946,300	3	0.70%
Lowes/VALO LLC	14,778,300	3	0.59%	12,462,800	5	0.63%
Carter Machinery/Carthy Corp/Mount Sinai	12,882,400	4	0.51%	7,586,000	10	0.38%
Spartan Square	11,797,000	5	0.47%	8,953,000	8	0.45%
US Foods	11,123,000	6	0.44%	10,683,600	6	0.54%
Phoenix Investors	9,922,700	7	0.40%			
TKC CCXXIX LLC	9,496,300	8	0.38%			
Chateau Riviera Apartments	9,401,300	9	0.37%	9,466,900	7	0.47%
Salem Terrace	9,365,100	10	0.37%	8,361,700	9	0.42%
Lewis-Gale Clinic/HRT				22,095,300	2	1.11%
General Electric				12,685,600	4	0.64%

Notes:

Source: City of Salem Real Estate Valuation Department

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

**TABLE 8
UNAUDITED**

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

Customer	2022			2013		
	Services Billed	Rank	Percentage of Total Services Billed	Services Billed	Rank	Percentage of Total Services Billed
Lewis Gale Hospital HCA	\$ 2,484,498	1	6.50%	\$ 2,012,086	1	5.04%
Roanoke College	1,650,229	2	4.32%	1,485,268	2	3.72%
Lake Regional Medical	1,025,356	3	2.68%			
US Foods	944,674	4	2.47%	778,241	5	1.95%
Graham White	785,225	5	2.05%	904,802	3	2.27%
Rowe Furniture/Salem Frame	639,989	6	1.67%	815,651	4	2.04%
Kroger	573,742	7	1.50%	589,700	6	1.48%
Sewell Products	564,280	8	1.48%	551,815	7	1.38%
Carter Machinery	524,958	9	1.37%	507,042	8	1.27%
Novozymes	428,800	10	1.12%			
Wal-Mart, Inc.				375,485	9	0.94%
Old Virginia Brick Co.				363,011	10	0.91%

Note:

Source: City of Salem Finance Department

TABLE 9
UNAUDITED

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

Fiscal Year	Governmental Activities	Business-Type Activities	Total Primary Government	Financed Purchase Obligation
	General Obligation Bonds	General Obligation Bonds		
	(1)			
2022	\$ 68,803,018	\$ 32,714,325	\$ 101,517,343	\$ 29,059
2021	57,250,371	35,559,482	92,809,853	43,589
2020	60,686,620	39,296,513	99,983,133	99,520
2019	32,910,038	40,780,877	73,690,915	121,467
2018	30,897,265	41,669,640	72,566,905	198,016
2017	33,916,905	45,723,894	79,640,799	271,203
2016	36,971,375	49,665,950	86,637,325	341,175
2015	34,681,163	47,663,394	82,344,557	-
2014	37,640,582	49,258,943	86,899,525	-
2013	32,625,067	50,697,384	83,322,451	-

Fiscal Year	Total Taxable Assessed Value	Percentage of Estimated Actual Value of Taxable Property	Population	Bonded Debt Per Capita	Per Capita Personal Income	Percentage of Bonded Debt Per Capita to Per Capita Personal Income
	(2)		(3)		(3)	
2022	\$ 2,970,621,977	3.42%	25,373	\$ 4,001	\$ 54,977	7.00%
2021	2,808,194,315	3.30%	25,346	3,662	53,489	7.00%
2020	2,701,785,905	3.70%	25,301	3,952	52,248	8.00%
2019	2,600,807,782	2.83%	25,643	2,874	49,860	6.00%
2018	2,549,817,563	2.85%	25,862	2,806	48,384	6.00%
2017	2,501,620,017	3.18%	25,549	3,117	48,047	6.00%
2016	2,451,813,919	3.53%	25,432	3,407	45,577	7.00%
2015	2,428,048,133	3.39%	25,483	3,231	43,418	7.00%
2014	2,413,737,695	3.60%	25,299	3,435	42,288	8.00%
2013	2,393,085,987	3.48%	25,267	3,298	40,688	8.00%

Source: City of Salem Finance Department

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

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

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

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

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

TABLE 10
UNAUDITED

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

Fiscal Year	Assessed Value of Real Property	Debt Limit 10% of Assessed Value	Amount of Debt Applicable to Limit						Net Debt Applicable to Limit as a Percent of Debt Limit
			Total General Obligation Bonds	Financed Purchase Obligation	Enterprise Bonds	RVRA Supported Debt	Net Debt Applicable to Limit	Legal Debt Margin	
					(2)		(3)		
2022	\$ 2,449,870,110	\$ 244,987,011	\$ 101,517,343	\$ 29,059	\$ (32,714,325)	\$ (385,416)	\$ 68,446,661	\$ 176,540,350	27.94%
2021	2,360,939,893	236,093,989	92,809,853	43,589	(35,559,482)	(585,396)	56,708,564	179,385,425	24.02%
2020	2,283,843,346	228,384,335	99,983,133	99,520	(39,296,513)	(789,921)	59,996,219	168,388,116	26.27%
2019	2,197,986,008	219,798,601	73,690,915	121,467	(40,780,877)	(998,082)	32,033,423	187,765,178	14.57%
2018	2,144,111,245	214,411,125	72,566,905	198,016	(41,669,640)	(1,209,879)	29,885,402	184,525,723	13.94%
2017	2,098,953,697	209,895,370	79,640,799	271,203	(45,723,894)	(1,425,312)	32,762,796	177,132,574	15.61%
2016	2,064,259,382	206,425,938	86,637,325	341,175	(49,665,950)	-	37,312,550	169,113,388	18.08%
2015	2,052,563,692	205,256,369	82,344,557	-	(47,663,394)	-	34,681,163	170,575,206	16.90%
2014	2,044,415,909	204,441,591	86,899,525	-	(49,258,943)	-	37,640,582	166,801,009	18.41%
2013	2,039,729,559	203,972,956	83,322,451	-	(50,697,384)	-	32,625,067	171,347,889	15.99%

Notes:

Source: City of Salem Finance Department

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

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

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

TABLE 11
UNAUDITED

CITY OF SALEM, VIRGINIA
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS

Fiscal Year Ended	Population	Total Personal Income (In Thousands)	Per Capita Personal Income	Public School Enrollment	Unemployment Rate
(1)	(2)	(3)	(3)	(4)	(5)
2022	25,373	\$ 6,588,916	\$ 54,977	3,701	3.0%
2021	25,346	6,391,212	53,489	3,756	4.0%
2020	25,301	6,254,966	52,248	3,882	7.7%
2019	25,643	5,962,802	49,860	3,872	2.9%
2018	25,862	5,785,780	48,384	3,889	3.4%
2017	25,549	5,758,037	48,047	3,843	4.1%
2016	25,432	5,435,865	45,577	3,751	4.0%
2015	25,483	5,159,100	43,418	3,797	5.2%
2014	25,299	4,984,547	42,288	3,770	5.2%
2013	25,267	4,789,030	40,688	3,823	6.6%

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 November 2021.

(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 2012 through 2021 was obtained from U.S. Census Bureau Population Estimates Program.

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

(4) Director of Business, School Division

(5) Virginia Employment Commission

TABLE 12
UNAUDITED

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

Employer	2022			2013		
	Rank	Ownership	Number of Employees	Rank	Ownership	Number of Employees
Veterans Administration Medical Center	1	Fed Govt.	1500-1999	1	Fed Govt.	1500-1999
Lewis-Gale Hospital HCA	2	Private	1000-1499	2	Private	1000-1499
Virginia Department of Transportation	3	State Govt.	500-999	5	State Govt.	500-999
Yokohama Industries	4	Private	500-999	3	Private	500-999
Lewis Gale Physicians	5	Private	500-999			
City of Salem Schools	6	Local Govt.	500-999	6	Local Govt.	500-999
City of Salem	7	Local Govt.	250-499	7	Local Govt.	250-499
Roanoke College	8	Private	250-499	8	Private	250-499
Integer	9	Private	250-499			
Carter Machinery	10	Private	250-499	10	Private	250-499
US Foods				9	Private	250-499
General Electric				4	Private	500-999

Notes:

Source: City of Salem Economic Development Department

TABLE 13
UNAUDITED

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

Function	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
General government	74	71	77	71	76	70	69	69	67	66
Judicial administration	22	22	22	21	19	20	18	19	19	19
Public safety	158	163	166	167	153	152	157	157	159	162
Public works	79	80	84	84	82	79	89	88	94	94
Parks, recreation and cultural	34	33	34	33	32	30	32	32	31	32
Community development	3	2	3	3	3	3	2	3	3	3
Electric	27	23	28	29	28	27	27	29	27	26
Water and sewage	46	49	48	49	48	47	48	52	49	49
Civic Center	16	17	19	18	15	15	16	17	17	17
Catering and concessions	2	3	3	4	4	4	4	4	4	4
Total	461	463	484	479	460	447	462	470	470	472

Note:

Source: City of Salem Finance Department

TABLE 14
UNAUDITED

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

Function	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
General government										
<i>Finance</i>										
Accounts payable checks issued	10,600	11,518	10,983	10,817	9,926	10,942	9,238	8,601	9,280	8,937
<i>Human resources</i>										
Positions filled (full-time and temporary)	223	126	138	156	164	158	154	140	184	142
<i>Registrar</i>										
Number of registered voters	17,756	17,542	17,158	16,785	16,887	16,704	16,584	16,282	16,695	16,625
<i>Fleet</i>										
Pieces of equipment maintained	584	593	573	576	568	575	567	583	576	572
Judicial administration										
<i>Sheriff</i>										
Inmates housed	1,867	1,987	2,373	2,790	2,961	3,132	2,681	2,730	2,885	2,776
Inmate transports	427	354	1,039	1,479	1,489	1,333	1,222	1,137	1,240	1,062
Courts worked	536	589	500	462	525	680	595	614	699	686
Public safety										
<i>Police</i>										
Calls for service	44,501	40,504	35,830	30,790	32,905	31,651	27,017	27,018	27,990	39,519
Accidents	911	830	917	1,079	1,026	1,015	1,108	983	1,053	905
DUI Arrests	58	60	66	109	137	91	92	63	68	107
<i>Fire</i>										
Calls for service	5,875	5,272	5,123	5,264	5,135	4,872	4,274	3,991	3,784	3,776
Emergency Responses - Fire	80	79	95	82	111	93	95	71	101	83
Emergency Responses - EMS	4,855	4,278	4,122	4,321	4,169	4,048	3,446	3,264	3,042	2,999
<i>Building inspections</i>										
Residential construction permits	187	183	177	181	188	175	158	150	198	106
Commercial construction permits	93	104	98	126	133	120	133	139	148	110
Public works										
<i>Refuse collection</i>										
Refuse collected (tons per year)*	15,351	16,040	17,424	16,409	16,261	18,208	88,565	80,827	82,905	80,609
Tons recycled	1,599	3,195	4,350	7,419	9,139	9,152	5,060	1,404	1,386	2,315
<i>Other public works</i>										
Tons of asphalt used in resurfacing	-	27,480	-	-	13,263	-	15,453	-	639	5,770
Square yards of milling completed	-	546,965	1,208	-	219,862	-	302,937	-	10,718	92,988
Tons of salt used	729	650	85	915	1,330	315	848	705	769	1,098
Leaves collected (loads)	285	246	335	302	350	113	295	360	293	316
Parks, recreation and cultural										
<i>Parks and recreation</i>										
Tournaments hosted	35	41	23	58	52	48	52	47	58	62
Special events held	27	22	29	35	28	26	25	26	24	24
Youth sports teams	127	51	130	135	148	151	151	155	164	170
Adult sports teams	20	17	34	30	27	28	29	27	29	39
<i>Library</i>										
Circulation	148,771	86,953	147,646	194,000	212,350	227,443	230,454	240,516	252,237	271,600
Children's program attendance	1,862	2,149	5,077	9,516	10,901	7,226	8,972	3,622	3,616	3,924
Patron visits to the library	71,798	27,034	102,485	152,091	167,389	170,879	172,012	178,323	195,878	211,605
New patrons	830	188	773	769	904	879	968	1,049	1,138	1,373
Internet sessions	26,022	26,332	41,008	55,932	39,884	28,554	25,944	27,571	28,965	33,885
Electric										
Number of customer accounts	13,333	13,227	13,217	13,129	13,084	12,838	12,880	13,021	13,204	13,198
Water										
Number of customer accounts	9,739	9,720	9,665	9,636	9,482	9,567	9,486	9,381	9,372	9,375
Million gallons sold to customers	871	862	859	910	861	850	932	989	876	838
Sewage										
Number of customer accounts	9,181	9,160	9,108	9,072	9,041	9,018	8,952	8,929	8,824	8,823
Waste/water treated (million gallons/day)	5.8	7.9	7.3	8.7	6.0	7.2	9.1	6.8	7.8	7.0
Civic Center										
Concerts	13	5	13	13	15	13	11	6	9	11
Meetings	609	522	475	614	599	660	852	778	721	614
Tickets sold	81,276	16,531	66,954	78,745	93,510	88,662	93,373	73,668	82,929	83,638
Arena utilization days	156	86	108	155	162	202	215	198	191	175

Notes:

Source: Various City of Salem Departments

*In FY2017, Roanoke Valley Resource Authority (RVRA) started managing waste disposal services instead of the City Transfer Station.

TABLE 15
UNAUDITED

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

Function	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Public safety										
Police station	1	1	1	1	1	1	1	1	1	1
Law enforcement vehicles	60	57	52	53	48	47	47	46	48	47
Fire stations	3	3	3	3	3	3	3	3	3	3
Fire trucks	6	5	5	6	7	7	7	6	6	6
Ambulances	5	4	4	4	4	4	4	4	4	4
Public works										
Primary streets (lane miles)	68	68	68	68	68	68	68	68	68	68
Secondary streets (lane miles)	272	272	272	272	272	272	272	272	272	272
Alleys (lane miles)	12	12	12	12	12	12	12	12	12	12
Garbage trucks	18	19	17	17	16	16	16	16	14	13
Parks, recreation and cultural										
Community center/senior center	1	1	1	1	1	1	1	1	1	1
Parks/athletic fields	15	15	15	15	15	15	15	15	15	15
Acres of parks maintained	495	495	495	495	495	495	495	495	495	495
Library	1	1	1	1	1	1	1	1	1	1
Golf course	1	1	1	1	1	1	1	1	1	1
Dog park	1	1	1	1	1	1	1	1	1	1
Electric										
Substations	11	11	11	11	11	11	11	11	11	11
Overhead distribution lines (miles)	161	161	161	163	163	166	165	172	172	172
Underground distribution lines (miles)	41	41	41	42	42	40	42	38	38	38
Transmission lines (miles)	17	17	17	17	17	17	17	17	17	17
Water and sewage										
Water treatment plant	1	1	1	1	1	1	1	1	1	1
Water distribution lines (miles)	177	176	176	176	176	176	176	175	175	175
Sanitary sewer lines (miles)	171	171	171	170	170	170	170	170	170	170

Notes:

Source: City of Salem Finance Department

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COMPLIANCE SECTION



The Compliance Section of the City of Salem, Virginia's Annual Comprehensive Financial Report includes reports from the independent auditors.

CITY OF SALEM, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2022

Federal Grantor <i>Pass-through Grantor</i> Program Title or Cluster Title	Federal ALN Number	Pass-Through Entity Identifying Number		Federal Expenditures	Passed Through to Subrecipients
Department of Agriculture					
Local Environmental Agricultural Project Inc					
Food Insecurity Nutrition Incentive Grants Program	10.331	FINI-120		\$ 2,843	
Virginia Department of Agriculture and Consumer Services					
SNAP Cluster:					
Supplemental Nutrition Assistance Program	10.551	--	\$ 4,063		
Total SNAP Cluster					4,063
Child Nutrition Cluster:					
Food Distribution - Commodities	10.555	--	197,081		
Summer Food Service Program for Children	10.559	--	15,291		
COVID-19 State Pandemic Electronic Benefit Transfer (P-EBT) Administrative Costs Grant	10.649	202121S900941			3,063
Virginia Department of Education					
Child Nutrition Cluster (Continued):					
National School Breakfast Program	10.553	202121N11994 1	53,328		
National School Breakfast Program	10.553	202221N11994 1	228,478		
National School Breakfast Program	10.553	202222N11994 1	248,754		
National School Lunch Program	10.555	202121N11994 1	217,874		
National School Lunch Program	10.555	202221N11994 1	991,014		
National School Lunch Program	10.555	202222N11994 1	582,631		
National School Lunch Program - Supply Chain Assistance	10.555	202221N89034 1	63,378		
Child Nutrition Discretionary Grants Limited Availability	10.579	202020N81034 1			14,790
Department of Justice					
Direct Payments					
Bulletproof Vest Partnership Program	16.607	--			295
Equitable Sharing Program	16.922	--			6,630
Virginia Department of Criminal Justice Services					
COVID-19 Coronavirus Emergency Supplemental Funding Program	16.034	20-A5109CE20			5,000
Crime Victim Assistance	16.575	22-O1281VW19			66,126
Edward Byrne Memorial Justice Assistance Grant Program	16.738	21-U1117LO18			1,118
Department of Labor					
Goodwill Industries of the Valleys					
YouthBuild Program	17.274	--			2,260
Department of Transportation					
Virginia Department of Transportation					
Highway Planning and Construction Cluster:					
Highway Planning and Construction:					
Hanging Rock Battlefield Phase 2	20.205	UPC 106268	13,468		
Downtown Streetscape and Intersection Improvements	20.205	UPC 109612	4,471		
Apperson Drive Bridge Replacement	20.205	UPC 110574	132,012		
Mason Creek Greenway Phase 3	20.205	UPC 111367	58,726		
Downtown Streetscape and Intersection Improvements	20.205	UPC 111371	46,764		
Elizabeth Campus Greenway	20.205	UPC 113566	45,661		
Total Highway Planning and Construction Cluster					301,102
Virginia Division of Motor Vehicles					
Highway Safety Cluster:					
State and Community Highway Safety:					
Selective Enforcement - Speed FY21	20.600	FCS-2021-51002-21002	3,207		
Selective Enforcement - Speed FY22	20.600	FCS-2022-52190-22190	11,420		
Selective Enforcement - Pedestrian/Bicycle FY21	20.600	FHLE-2021-51003-21003	805		
Selective Enforcement - Pedestrian/Bicycle FY22	20.600	FPS-2022-52191-22191	1,498		
Total Highway Safety Cluster					16,930
Alcohol Open Container Requirements:					
Selective Enforcement - Alcohol FY21	20.607	154AL-2021-51001-21001			711
Selective Enforcement - Alcohol FY22	20.607	154AL-2022-52192-22192			9,780
Department of the Treasury					
Virginia Department of Accounts					
COVID-19 Coronavirus State and Local Fiscal Recovery Funds - City	21.027	Not available			4,000
COVID-19 Coronavirus State and Local Fiscal Recovery Funds - Municipal					
Utility Relief Program to Assist Residential Customers	21.027	Not available			53,155
Virginia Department of Education					
COVID-19 Coronavirus State and Local Fiscal Recovery Funds - School Division	21.027	SLFRP1026			50,080
Federal Communications Commission (FCC)					
Direct Payments					
Emergency Connectivity Fund Program	32.009	BEAR202110520			648,725
Emergency Connectivity Fund Program	32.009	BEAR202201311			459,675
Institute of Museum and Library Services					
Library of Virginia					
State Library Program	45.310	LS-250242-OLS-21			18,007

(Continued)

CITY OF SALEM, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
JUNE 30, 2022

Federal Grantor Pass-through Grantor Program Title or Cluster Title	Federal ALN Number	Pass-Through Entity Identifying Number	Federal Expenditures	Passed Through to Subrecipients
U.S. Small Business Administration				
Direct Payments				
COVID-19 Shuttered Venue Operators Grant	59.075	--	593,541	
Environmental Protection Agency (EPA)				
Direct Payments				
Diesel Emission Reduction Act (DERA) National Grants	66.039	--	20,000	
Department of Education				
Virginia Department of Education				
Adult Education - Basic Grants to States 2020	84.002	V002A200047	44,571	10,658
Adult Education - Basic Grants to States 2021	84.002	V002A210047	333,833	158,692
Title I Grants to Local Educational Agencies 2019	84.010	S010A190046	12,378	
Title I Grants to Local Educational Agencies 2020	84.010	S010A200046	65,405	
Title I Grants to Local Educational Agencies 2021	84.010	S010A210046	482,365	
Special Education Cluster (IDEA)				
Special Education - Grants to States (IDEA, Part B) 2020	84.027	H027A200107	85,223	
Special Education - Grants to States (IDEA, Part B) 2021	84.027	H027A210107	764,337	
Special Education - Grants to States (IDEA, Part B) 2022	84.027	H027A220107	58,307	
Special Education - Grants to States (IDEA, Part B ARP) 2021	84.027X	H027X210107	74,138	
Special Education - Preschool Grants (IDEA Preschool) 2020	84.173	H173A200112	1,033	
Special Education - Preschool Grants (IDEA Preschool) 2021	84.173	H173A210112	16,241	
Total Special Education Cluster (IDEA)			999,279	
Career and Technical Education - Basic Grants to States (Perkins IV) 2020	84.048	V048A200046	2,012	
Career and Technical Education - Basic Grants to States (Perkins IV) 2021	84.048	V048A210046	56,852	
English Language Acquisition State Grants 2018	84.365	S365A180046	283	
English Language Acquisition State Grants 2019	84.365	S365A190046	374	
English Language Acquisition State Grants 2020	84.365	S365A200046	2,527	
English Language Acquisition State Grants 2021	84.365	S365A210046	16,000	
Supporting Effective Instruction State Grants 2019	84.367	S367A190044	6,861	
Supporting Effective Instruction State Grants 2020	84.367	S367A200044	55,085	
Supporting Effective Instruction State Grants 2021	84.367	S367A200044	88,979	
Student Support and Academic Enrichment Grants 2019	84.424	S424A190048	82	
Student Support and Academic Enrichment Grants 2020	84.424	S424A200048	6,007	
Student Support and Academic Enrichment Grants 2021	84.424	S424A210048	37,993	
COVID-19 Governor's Emergency Education Relief (GEER) Fund	84.425C	S425C200042	95,766	
COVID-19 Elementary and Secondary School Emergency Relief (ESSER)				
Fund 2020	84.425D	S425D200008	165,281	
COVID-19 Elementary and Secondary School Emergency Relief (ESSER)				
Fund 2021	84.425D	S425D210008	1,253,923	
COVID-19 American Rescue Plan Elementary and Secondary School				
Emergency Relief Fund (ARP ESSER)	84.425U	S425U210008	1,061,774	
The College of William & Mary				
COVID-19 American Rescue Plan Elementary and Secondary School				
Emergency Relief - Homeless Children and Youth	84.425W	S425W210048	8,345	
Department of Health and Human Services				
Virginia Department of Health				
Child Nutrition Cluster (Continued):				
COVID-19 Summer Food Service Program for Children	10.559	202121N11994 1	140,836	
Total Child Nutrition Cluster			2,738,665	
Preventative Health and Health Services Block Grant	93.991	709BI220076	11,578	
Virginia Office of Children's Services				
Social Services Block Grant	93.667	--	33,492	
Goodwill Industries of the Valleys				
Affordable Care Act (ACA) Health Profession Opportunity Grants	93.093	90FX0038-01-01	296	
Department of Homeland Security				
Virginia Department of Emergency Management				
Homeland Security Grant Program	97.067	8306	12,726	
Homeland Security Grant Program	97.067	8318	39,085	
Total Expenditures of Federal Awards			\$ 9,913,711	\$ 169,350

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, 2022, the City of Salem School Division (School Division) had food commodities in inventory of \$109,073.

Note 3: Indirect Cost Rate

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

Note 4: Outstanding Loan Balances

At June 30, 2022, the City and School Division had no outstanding loan balances requiring continuing disclosure.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Salem, Virginia (the "City"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 17, 2022.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 17, 2022

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

Opinion on Compliance for Each Major Federal Program

We have audited the City of Salem, Virginia's (the "City") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2022. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements related to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal documentation of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Report on Compliance for Each Major Federal Program (Continued)

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the City's compliance the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2022-01. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion the response.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. **Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.**

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 17, 2022

CITY OF SALEM, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2022

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

STATE COMPLIANCE MATTERS

Code of Virginia:

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

State Agency Requirements:

Education
Highway Maintenance Funds

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

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

CITY OF SALEM, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2022**

A. SUMMARY OF AUDITOR'S RESULTS

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

Name of Programs	Assistance Listing #
Emergency Connectivity Fund Program	32.009
Special Education Cluster:	
Special Education – Grants to States	84.027
Special Education – Preschool Grants	84.173
CARES Act ESSERF LEA Activities, ESSR, GEER	84.425

8. The **threshold for** distinguishing Types A and B programs was **\$750,000**.
9. The City **was determined to be a low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS

2022-01: Emergency Connectivity Fund Program – Assistance Listing #32.009, Equipment and Real Property Management

Condition:

In our testing of the City Schools' inventory of devices for the ECF program, we noted one instance of a user appearing twice on the listing giving the appearance they could have had two devices issued to them. We also noted that the listing appeared to contain one more additional asset than that purchased with program funds.

CITY OF SALEM, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2022
(Continued)**

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

2022-01: Emergency Connectivity Fund Program – Assistance Listing #32.009, Equipment and Real Property Management (Continued)

Criteria:

The Schools should strive to maintain an accurate listing of all devices and all users that have devices assigned to them. A key requirement of the program is to maintain an accurate listing of all devices and who they are assigned to.

Cause:

The inventory listings of devices appear to be maintained in Excel for the program, which means that errors could result from simple data entry errors, failure to catch all changes or updates that should be recorded, or other

Effect:

Errors in the listing could result in devices being unaccounted for accidentally as they could be reported as assigned when they are not, may be on the listing when they should no longer be, or may not be recorded when they should be.

Questioned Costs:

Not applicable.

Perspective Information:

Not applicable.

Repeat Finding:

Not applicable.

Recommendation:

The Schools should work to maintain accurate listings that provide all the required information for the program. Given the nature of the equipment for the ECF program, it is important that these listings are reconciled periodically to ensure their accuracy and completeness.

Views of Responsible Officials and Planned Corrective Action:

The Division leverages a true inventory tracking system for purposes of maintaining the thousands of laptops and Chromebooks in Salem City Schools. Even with a system in place, there can be opportunities for keying errors or duplicate entry when dealing with such a large amount of devices being tracked. The Technology Department will review the asset listings, the processes for generation, and continue to seek efficiencies for existing and future management of assets.

D. FINDINGS – COMMONWEALTH OF VIRGINIA

None.

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

Rosemarie B. Jordan, CPA

Director of Finance

Accounting/Accounts Payable/Purchasing

Patricia L. Bidanset
Ellen T. Bowen, CPA
Jordan M. Doyle
Vacant

Dawn M. Layne
Amy R. Morris, CPA
Troy P. Philpott
Tammy H. Todd, CPA, CPFO

Senior Accountant
Financial Services Supervisor
Accountant
Senior Accountant
Accounting Supervisor
Special Projects Accountant
Buyer
Assistant Director of Finance

Administrative

Alyson R. Chaisson

Finance Administrative Secretary/
Accounting Technician

Payroll

Tara N. Pugh
Carrington R. Sumner

Payroll Technician
Payroll Manager