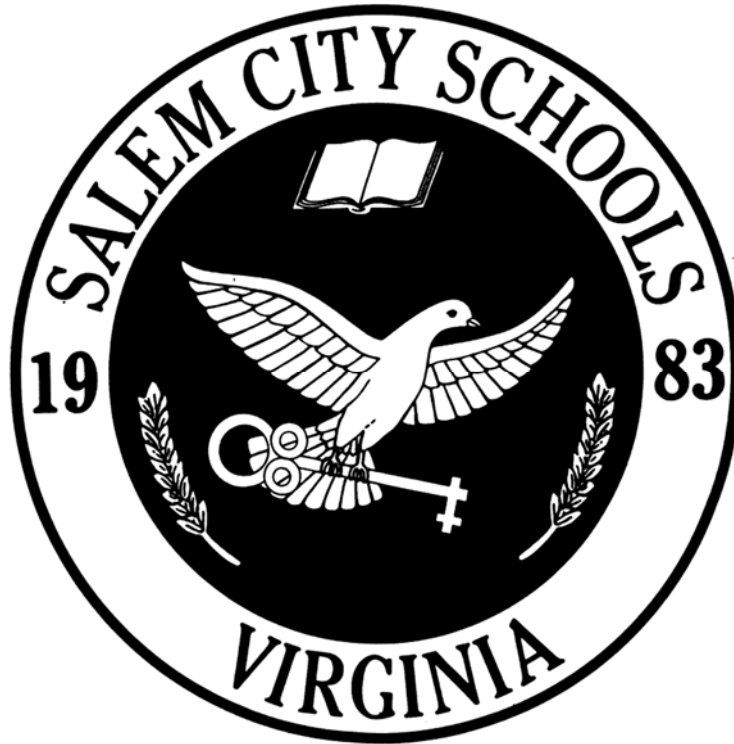


CITY OF SALEM SCHOOL DIVISION
(A Component Unit of the City of Salem)



ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2015

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

**CITY OF SALEM SCHOOL DIVISION
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INTRODUCTORY SECTION

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November 17, 2015

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

We are pleased to present to you the Annual Financial Report of the City of Salem School Division (School Division) for the fiscal year ended June 30, 2015. This report was prepared by the City of Salem Department of Finance in conformity with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB).

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the School Division. The data as presented is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the School Division as measured by the financial activity of various funds. All disclosures necessary to enable the reader to gain the maximum understanding of the School Division's financial activity have been included. The independent certified public accounting firm of Brown, Edwards & Company, L.L.P. has audited the basic financial statements contained herein.

The Reporting Entity and Services Provided

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

Profile of the School System

The School Division is a small city public education system for approximately 3,800 students. Salem's student population is represented by several ethnic categories. Approximately 78.9% of the students are Caucasian, 10.6% are African-American, 4.1% are Hispanic, 1.9% are Asian, and 4.5% are in other categories (including mixed). Facilities include a high school, a middle school, four elementary schools, an alternative education center and a central administrative office. Salem's School Division is recognized as a high achieving school system on the basis of standardized testing and the percentage of students who attend post-secondary educational institutions.

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

Approximately 31.71% of Salem's students on a division-wide basis qualify for free and reduced lunches (June 2015) under the National School Lunch Program. Individual school percentages range from 22.63% to 51.59%.

The school system budget for fiscal year 2015 was based on a projected average daily student membership of 3,760. Actual average daily membership for the period through March 31, 2015 was 3,774. Average daily membership for most state revenue funding formulas is computed based on the period which begins on the first student day and extends through March 31.

Local Economic Condition and Outlook

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

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

Despite continuing financial challenges during fiscal year 2015, Salem continues to provide an atmosphere and quality of life conducive to families and businesses. Over the years, Salem has been able to maintain stable property tax rates. Salem's unemployment rate of 5.2% (June 2015), no change from the prior year, was above the state rate of 5.0% and slightly below the national unemployment rate of 5.5%. A strong educational system providing a well-educated and skilled workforce along with generally lower operating costs is a key reason why employers have chosen to relocate to Salem and the rest of the Valley. The City's effort to retain existing business and industry is an integral part of its economic development efforts.

Major Initiatives and Accomplishments

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

During fiscal year 2015, a number of notable activities occurred in the division:

- All six Salem schools were fully accredited by the Virginia Department of Education.
- All six Salem schools met Federal Annual Measurable Objectives (AMO) under the *No Child Left Behind Act* based on testing in the 2014-2015 school year.
- Salem teachers continue to achieve national recognition with 32 National Board Certified teachers on staff in fiscal year 2015.
- The Salem Education Foundation and the City of Salem continued their tradition of awarding substantial scholarships to graduating seniors of the Salem High Class of 2015.
- Salem City Schools continued its participation as one of seven charter members of the Eastern States Consortium for Learning and School Excellence, a select group of school districts in the eastern United States that develop and disseminate best practices.
- The School Division continued to emphasize building improvements as part of its \$42.9 million Capital Improvement Plan, including the following projects: regular school bus replacements, computer and network replacements, roofing replacement as required, phased band instrument replacement, and other equipment or building upgrades.
- The City of Salem and Virginia Western Community College continued their partnership under the Community College Access Program to provide free tuition for qualifying graduates.
- West Salem Elementary School earned the VIP Distinguished Achievement Award from the Virginia Board of Education.

- Salem students continued to excel academically and in extracurricular areas:
 - Salem High School had 7 International Baccalaureate (IB) diploma candidates, 85 IB certificate candidates, and 51 Distinguished Scholars in the Class of 2015.
 - In 2014-2015, 297 high school students took at least one IB course (747 total IB enrollments), many freshmen and sophomores took Pre-IB courses, and 726 students took at least one dual enrollment course.
 - The Salem High School Forensics Team won the VHSL Group AA State championship for the 10th consecutive year.
 - 323 students earned an Industry Credential during the 2014-2015 school year.
 - Average SAT scores for Salem students in the math, verbal, and writing sections continued to exceed federal averages.
 - The Salem High School yearbook staff was one of only thirty-seven nationally to win a Crown (silver) at the Columbia Scholastic Press Association national yearbook event.
 - Nine Salem High School students were placed in the Governor's School Project Forum (Science Fair) in the area of Science and Technology.
 - The Salem High School choral and band programs received the prestigious Blue Ribbon Award for Superior Music from the Virginia Music Educators Association.
- Salem teachers and staff continued to receive recognition:
 - Sherri Shupe, Andrew Lewis Middle, was selected as a 2015 Virginia Lottery Super Teacher.
 - Natalie DiFusco-Funk, West Salem Elementary, was selected as the 2015 Salem School Division Teacher of the Year. She was subsequently selected as the 2016 Virginia Teacher of the Year.
 - Laura O'Dell, Salem High School, was named a Gold Star Teacher for her students' excellence in Financial Literacy by Wise.

Cash Management

The City is the custodian of all cash and investments of the School Division except certain petty cash, cash in hand or bank accounts and investments of the School Activity Funds. The City uses a pooled cash concept to allow greater investment flexibility and consequently a better return on investments. Cash from all funds except those restricted for specific purposes is pooled for investment purposes with maturities planned to coincide with cash needs. Funds not immediately needed (30 days or greater) are invested in certificates of deposit or other approved investments, while funds available for periods of less than 30 days are invested with the City's lead bank as a part of its cash management program. All School Division funds are collateralized in accordance with the Virginia Security for Public Deposits Act or covered by Federal Depository Insurance.

Risk Management

The School Division utilizes a variety of techniques to identify and monitor risks and exposures for the School Division activities. Risk management is a function of the Assistant Superintendent and the Director of Business. The School Division is insured for most general liability and property coverage through the Virginia Municipal League Insurance Program (VMLIP). In addition, worker's compensation is insured through School Systems of Virginia. The City is self-insured for health coverage, which includes School Division employees. Note 7 of the financial statements provides an outline of the School Division's risk management coverage.

Independent Audit

Brown, Edwards & Company, L.L.P. has performed an annual audit of the Annual Financial Report. Their audit was conducted in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. The auditor's report, which includes their opinion on the financial statements of the School Division, is contained in the Financial Section of this report. Other auditor's reports are included in the Compliance Section.

Acknowledgements

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

Respectfully Submitted,



H. Alan Seibert
Superintendent



Mandy C. Hall
Director of Business



Rosemarie B. Jordan
Director of Finance

**CITY OF SALEM SCHOOL DIVISION
DIRECTORY OF PRINCIPAL OFFICIALS
JUNE 30, 2015**

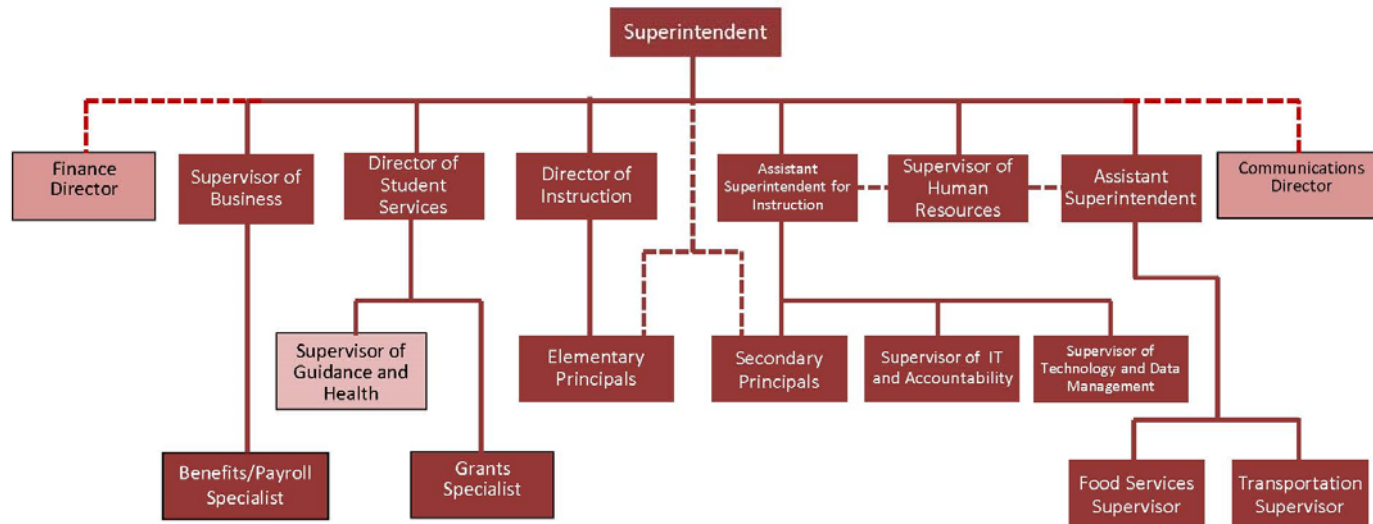
MEMBERS OF SCHOOL BOARD

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

SCHOOL ADMINISTRATION

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

Salem City School Division Organizational Chart 2014-2015



City
Personnel

School Based
Personnel

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Salem School Division (the "School Division"), a component unit of the City of Salem, Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School Division's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Salem School Division, as of June 30, 2015, and the respective changes in financial position and, the respective budgetary comparisons for the operating and cafeteria funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 13 to the financial statements, in 2015 the School Division adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – and Amendment of GASB Statement No. 27, as amended by GASB Statement No. 71*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

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

Other Matters (Continued)

Other Information (Continued)

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

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

Other Reporting Required by Government Auditing Standards

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 17, 2015

BASIC FINANCIAL STATEMENTS

**CITY OF SALEM SCHOOL DIVISION
STATEMENT OF NET POSITION
JUNE 30, 2015**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 8,235,756
Receivables	168,173
Due from other governmental units	1,346,715
Other postemployment benefits asset	186,976
Inventories	34,125
<i>Restricted assets:</i>	
Cash and cash equivalents, restricted	1,160,351
<i>Capital assets:</i>	
Non-depreciable	1,194,205
Depreciable, net	46,927,128
Total assets	<u>59,253,429</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension contributions subsequent to measurement date	3,120,057
LIABILITIES	
Accounts payable and accrued liabilities	469,015
Accrued payroll and related liabilities	5,248,650
Self insurance claims liability	516,878
Unearned revenue	55,462
<i>Long-term liabilities due in less than one year:</i>	
Compensated absences	360,720
<i>Long-term liabilities due in more than one year:</i>	
Compensated absences	595,259
Net pension liability	35,161,618
Total liabilities	<u>42,407,602</u>
DEFERRED INFLOWS OF RESOURCES	
Net difference between projected and actual investment earnings on pension plan investments	5,543,131
Changes in proportion - teacher cost sharing pool	1,682,000
Total deferred inflows of resources	<u>7,225,131</u>
NET POSITION	
Net Investment in capital assets	48,121,333
Restricted for education grants	78,474
Unrestricted	(35,459,054)
Total net position	<u><u>\$ 12,740,753</u></u>

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

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

					Net (Expense) Revenue and Changes in Net Position
Program Revenues					
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<i>Governmental activities:</i>					
Central administration	\$ 1,695,545	\$ 20,106	\$ -	\$ -	\$ (1,675,439)
Centralized Instructional costs	3,636,537	587,734	-	-	(3,048,803)
Instructional costs	32,699,399	175,813	5,538,478	5,174	(26,979,934)
Attendance and health services	981,451	-	-	-	(981,451)
Transportation	1,463,135	-	-	-	(1,463,135)
Food services	1,973,317	759,141	819,941	-	(394,235)
Federal and state grants programs	1,969,993	-	1,761,396	-	(208,597)
Total governmental activities	<u>\$ 44,419,377</u>	<u>\$ 1,542,794</u>	<u>\$ 8,119,815</u>	<u>\$ 5,174</u>	<u>(34,751,594)</u>
<i>General revenues:</i>					
Payments from City of Salem					19,151,270
State aid					13,916,982
Other					954,837
Total general revenues					<u>34,023,089</u>
Change in net position					(728,505)
Net position, beginning, as restated (Note 13)					<u>13,469,258</u>
Net position, ending					<u>\$ 12,740,753</u>

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

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

	Special Revenue Funds		Capital Projects	Total Governmental Funds
	Operating	Cafeteria		
ASSETS				
Cash and cash equivalents	\$ 6,925,045	\$ 422,947	\$ -	\$ 7,347,992
Cash and cash equivalents, restricted	-	-	1,160,351	1,160,351
Receivables	2,816	134,188	-	137,004
Due from other governmental units	1,315,662	31,053	-	1,346,715
Inventories	-	34,125	-	34,125
Total assets	<u>\$ 8,243,523</u>	<u>\$ 622,313</u>	<u>\$ 1,160,351</u>	<u>\$ 10,026,187</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 265,016	\$ 131,664	\$ 13,862	\$ 410,542
Accrued payroll and related liabilities	5,138,507	110,143	-	5,248,650
Unearned revenue	-	21,778	-	21,778
Total liabilities	<u>5,403,523</u>	<u>263,585</u>	<u>13,862</u>	<u>5,680,970</u>
FUND BALANCES				
Nonspendable	-	34,125	-	34,125
Restricted	78,474	-	-	78,474
Committed	-	-	1,146,489	1,146,489
Assigned	2,761,526	324,603	-	3,086,129
Total fund balances	<u>2,840,000</u>	<u>358,728</u>	<u>1,146,489</u>	<u>4,345,217</u>
Total liabilities and fund balances	<u>\$ 8,243,523</u>	<u>\$ 622,313</u>	<u>\$ 1,160,351</u>	

RECONCILIATION TO THE STATEMENT OF NET POSITION

Capital assets used in governmental activities are not considered current financial resources and, therefore, are not reported in the governmental funds.	48,121,333
Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.	
Deferred outflows of resources for 2015 employer contributions	3,120,057
Deferred inflows of resources for the net differences between projected and actual investment earnings on pension plan investments	(5,543,131)
Deferred inflows of resources due to changes in proportion and differences between employer contributions and proportionate share of contributions - teacher cost sharing pool	(1,682,000)
Net pension liability	(35,161,618)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences, net of sick leave	(955,979)
Other postemployment benefits	186,976
The internal service fund is used by management to charge the costs of employee benefits. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Position.	309,898
Net position of governmental activities	<u>\$ 12,740,753</u>

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

CITY OF SALEM SCHOOL DIVISION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015

	Special Revenue Funds		Capital Projects	Total Governmental Funds
	Operating	Cafeteria		
REVENUES				
<i>Intergovernmental:</i>				
City of Salem	\$ 19,151,270	\$ -	\$ -	\$ 19,151,270
Commonwealth of Virginia	19,455,460	24,581	-	19,480,041
Federal Government	1,761,396	795,360	-	2,556,756
<i>Other:</i>				
Charges for services	783,653	759,141	-	1,542,794
Other	810,937	143,900	5,174	960,011
Total revenues	<u>41,962,716</u>	<u>1,722,982</u>	<u>5,174</u>	<u>43,690,872</u>
EXPENDITURES				
Central administration	1,658,908	-	-	1,658,908
Centralized instruction costs	3,832,984	-	-	3,832,984
Instructional costs	30,504,728	-	-	30,504,728
Attendance and health services	988,485	-	-	988,485
Transportation	1,269,076	-	-	1,269,076
Food services	-	1,871,733	-	1,871,733
Federal and state grants programs	1,958,910	-	-	1,958,910
Capital projects	-	-	1,335,621	1,335,621
Total expenditures	<u>40,213,091</u>	<u>1,871,733</u>	<u>1,335,621</u>	<u>43,420,445</u>
Excess of revenues over expenditures	<u>1,749,625</u>	<u>(148,751)</u>	<u>(1,330,447)</u>	<u>270,427</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	926,492	926,492
Transfers out	(926,492)	-	-	(926,492)
Total other financing sources (uses)	<u>(926,492)</u>	<u>-</u>	<u>926,492</u>	<u>-</u>
Net change in fund balances	<u>823,133</u>	<u>(148,751)</u>	<u>(403,955)</u>	<u>270,427</u>
Fund balances, beginning	<u>2,016,867</u>	<u>507,479</u>	<u>1,550,444</u>	
Fund balances, ending	<u>\$ 2,840,000</u>	<u>\$ 358,728</u>	<u>\$ 1,146,489</u>	

RECONCILIATION TO THE STATEMENT OF ACTIVITIES

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate the cost of those assets over the life of the assets.

Capital outlay	1,202,283
Depreciation expense	(2,442,244)

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	3,120,057
Pension expense	(2,442,323)

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

Proceeds from sale of assets	(5,654)
Loss from sale of assets	(74,618)

Governmental funds report payments to the OPEB trust fund as an expenditure while governmental activities report the reduction of the liability or increase of an asset.

120,830

Compensated absences reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

65,997

The internal service fund is used by management to charge the costs of employee benefits.

The net revenue (expense) of the internal service fund is reported in governmental activities.	(543,260)
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Change in net position of governmental activities	<u>\$ (728,505)</u>
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The Notes to Financial Statements are an integral part of this statement.

CITY OF SALEM SCHOOL DIVISION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - SPECIAL REVENUE FUND - OPERATING FUND
YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				Positive
				(Negative)
<i>Intergovernmental:</i>				
City of Salem	\$ 18,844,881	\$ 18,805,881	\$ 19,151,270	\$ 345,389
Commonwealth of Virginia	19,229,271	19,321,113	19,455,460	134,347
Federal Government	1,734,485	1,997,638	1,761,396	(236,242)
<i>Other:</i>				
Charges for Services	579,000	958,500	783,653	(174,847)
Other	774,980	825,180	810,937	(14,243)
Total revenues	<u>41,162,617</u>	<u>41,908,312</u>	<u>41,962,716</u>	<u>54,404</u>
EXPENDITURES				
Central administration	1,909,205	2,016,124	1,658,908	357,216
Centralized instruction costs	3,630,535	3,872,007	3,832,984	39,023
Instructional costs:				
Salem High School	9,874,357	10,099,832	9,976,964	122,868
Andrew Lewis Middle School	6,894,574	7,028,480	6,769,119	259,361
G.W. Carver Elementary School	3,628,488	3,702,122	3,590,403	111,719
West Salem Elementary School	3,280,802	3,351,416	3,013,001	338,415
South Salem Elementary School	3,117,550	3,185,994	2,985,015	200,979
East Salem Elementary School	3,272,280	3,352,591	3,472,215	(119,624)
Regional	728,788	728,788	698,011	30,777
Attendance and health services	961,049	984,830	988,485	(3,655)
Transportation	1,285,123	1,318,638	1,269,076	49,562
Federal and state grants programs	1,986,313	2,314,231	1,958,910	355,321
Non-departmental	593,553	-	-	-
Total expenditures	<u>41,162,617</u>	<u>41,955,053</u>	<u>40,213,091</u>	<u>1,741,962</u>
Excess of revenues				
over expenditures	<u>-</u>	<u>(46,741)</u>	<u>1,749,625</u>	<u>1,796,366</u>
OTHER FINANCING USES				
Transfers out	-	(926,492)	(926,492)	-
Total other financing uses	-	(926,492)	(926,492)	-
Net change in fund balances	<u>\$ -</u>	<u>\$ (973,233)</u>	<u>\$ 823,133</u>	<u>\$ 1,796,366</u>

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

CITY OF SALEM SCHOOL DIVISION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - SPECIAL REVENUE FUND - CAFETERIA FUND
YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES				
<i>Intergovernmental:</i>				
Commonwealth of Virginia	\$ 35,254	\$ 35,254	\$ 24,581	\$ (10,673)
Federal Government	628,000	628,000	795,360	167,360
<i>Other:</i>				
Charges for services	944,000	944,000	759,141	(184,859)
Other	12,250	146,224	143,900	(2,324)
Total revenues	<u>1,619,504</u>	<u>1,753,478</u>	<u>1,722,982</u>	<u>(30,496)</u>
EXPENDITURES				
Food services:				
Salem High School	443,004	471,513	476,702	(5,189)
Andrew Lewis Middle School	353,530	379,605	392,335	(12,730)
G.W. Carver Elementary School	230,566	295,182	284,188	10,994
West Salem Elementary School	171,339	233,594	215,263	18,331
South Salem Elementary School	214,343	269,016	260,220	8,796
East Salem Elementary School	206,722	258,318	243,025	15,293
Total expenditures	<u>1,619,504</u>	<u>1,907,228</u>	<u>1,871,733</u>	<u>35,495</u>
Excess of expenditures				
over revenues	-	(153,750)	(148,751)	4,999
Net change in fund balances	<u>\$ -</u>	<u>\$ (153,750)</u>	<u>\$ (148,751)</u>	<u>\$ 4,999</u>

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

**CITY OF SALEM SCHOOL DIVISION
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2015**

	Internal Service Fund
ASSETS	
Cash and cash equivalents	\$ 887,764
Receivables	31,169
Total assets	<u>918,933</u>
LIABILITIES	
Accounts payable and accrued liabilities	58,473
Self insurance claims liability	516,878
Unearned revenue	33,684
Total liabilities	<u>609,035</u>
NET POSITION	
Unrestricted	309,898
Total net position	<u><u>\$ 309,898</u></u>

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

CITY OF SALEM SCHOOL DIVISION
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2015

	Internal Service Fund
OPERATING REVENUES	
Charges for services	\$ 4,982,881
Total revenues	<u>4,982,881</u>
OPERATING EXPENSES	
Claims	5,287,740
Contractual services	5,336
Affordable Care Act fees	53,046
Administrative costs	180,019
Total operating expenses	<u>5,526,141</u>
Operating loss	<u>(543,260)</u>
Change in net position	<u>(543,260)</u>
Net position, beginning	853,158
Net position, ending	<u><u>\$ 309,898</u></u>

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

**CITY OF SALEM SCHOOL DIVISION
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2015**

	Internal Service Fund
OPERATING ACTIVITIES	
Receipts from customers and users	\$ 4,981,305
Payments to City	(180,019)
Payments for claims	(5,555,996)
Payments for contractual services	(5,336)
Net cash used in operating activities	<u>(760,046)</u>
Cash and cash equivalents, beginning	1,647,810
Cash and cash equivalents, ending	<u><u>\$ 887,764</u></u>
<u>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</u>	
Operating loss	\$ (543,260)
<i>Adjustments to reconcile operating loss to net cash used in operating activities</i>	
<i>Decrease in assets:</i>	
Receivables	644
<i>Increase in liabilities:</i>	
Self-insurance claims liability	77,030
<i>Decrease in liabilities:</i>	
Accounts payable and accrued liabilities	(292,240)
Unearned revenue	(2,220)
Net cash used in operating activities	<u><u>\$ (760,046)</u></u>

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

EXHIBIT 10

CITY OF SALEM SCHOOL DIVISION
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2015

	<u>OPEB Trust Fund</u>
ASSETS	
Investments held by trustee, fair value of pooled funds	\$ 907,957
Total assets	<u>907,957</u>
NET POSITION	
Held in trust for other postemployment benefits	<u><u>\$ 907,957</u></u>

EXHIBIT 11

CITY OF SALEM SCHOOL DIVISION
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2015

	<u>OPEB Trust Fund</u>
ADDITIONS	
Employer contributions	\$ 65,000
<i>Investment Income:</i>	
Increase in fair value of investments	19,010
Less investment expenses and transfers	<u>(1,469)</u>
Total additions	<u>82,541</u>
Net increase in plan net position	<u>82,541</u>
Net position held in trust for other postemployment benefits, beginning	<u>825,416</u>
Net position held in trust for other postemployment benefits, ending	<u><u>\$ 907,957</u></u>

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

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

1. Summary of Significant Accounting Policies

The Financial Reporting Entity

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

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

Government-Wide Statements

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

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

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

Fund Financial Statements

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

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

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

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

Proprietary Funds account for operations that are financed and operated in a manner similar to private business enterprises. The School Division reports the following enterprise fund:

- The *insurance internal service fund* accounts for funding, claims, and operating costs of the self-insurance program.

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

1. Summary of Significant Accounting Policies (Continued)

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

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

Measurement Focus and Basis of Accounting

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the current period. General revenues are considered measurable and available if collected within 60 days of year-end. Grant revenues are considered measurable when the legal and contractual requirements have been met and available if collected within 90 days of year-end. All other revenue items are considered measurable and available when cash is received by the government. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, compensated absences, other postemployment benefit expenditures, as well as expenditures related to claims and judgments are recorded only when payment is due.

As a result of the different measurement focus and basis of accounting used in preparing the government-wide statements versus the governmental fund financial statements, a reconciliation between the government-wide and fund financial statements is necessary. The reconciliations are presented at the bottom of the governmental fund financial statements. As part of the reconciliation process, non-departmental indirect expenditures are allocated to functional expenses based on a percent of functional expenditures. Remaining non-departmental expenditures are contributions to the City of Salem for debt service and capital projects.

Proprietary fund financial statements are reported using the *economic financial resources measurement focus* and the *accrual basis of accounting*. These statements distinguish *operating* from *nonoperating* revenues and expenses. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's principal ongoing operations. Operating revenues include charges to customers or users 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 School Division's policy to use restricted resources first, then unrestricted resources, as they are needed.

Fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

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

1. Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting

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

- In March, the Superintendent submits to the School Board a proposed operating and capital budget for the fiscal year commencing the following July 1. This budget includes proposed expenditures and the means of financing them for the operating and cafeteria funds. The capital projects fund utilizes a project length budget in lieu of an annual budget; therefore, no annual budget for capital projects is presented.
- Public hearings are conducted to obtain citizen comments.
- Prior to March 31, the budget is adopted through passage of a resolution. The budget is then presented to the City Manager to be incorporated in the City budget. Prior to May 15, City Council approves the School Division budget.
- The School Board, with the concurrence of City Council, may amend the budget providing for additional expenditures and the means for financing them. The School Board approved additional appropriations of \$1,718,928 during the current year primarily for grants, new capital projects, re-appropriation of fund balance for encumbrances, and unforeseen operating expenditures.
- The appropriations ordinance places legal restrictions on expenditures at the fund level. City Council has adopted the policy of appropriating the School Division budget in total rather than by categories. The School Board is authorized to transfer budget amounts within the fund at its discretion. The impact of changes in market values on commodities donated by the United States Department of Agriculture can, at times, cause expenditures to exceed budgeted amounts in the Cafeteria Fund. The effects of these market changes are excluded from consideration of budget noncompliance.
- The Superintendent is authorized to transfer budget amounts within and between the major categories subject to School Board approval.
- Formal budgetary integration is employed as a management control device for the operating and cafeteria funds.
- All appropriations lapse on June 30 except for the capital projects fund, which carries unexpended balances into the following year.

Encumbrances

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

Interfund Receivables and Payables

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

Inventory

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

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

1. Summary of Significant Accounting Policies (Continued)

Prepaid Items

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

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the School Division as assets with an initial individual cost of more than \$0 for land, \$2,000 for furniture and equipment or \$5,000 for buildings and improvements and an estimated useful life of at least five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value on the date of donation. The School Division includes the cost of certain intangible assets with a definite life in the appropriate asset class.

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

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

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

Capital Assets and Related Debt Reporting

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

Unearned and Unavailable Revenue

In the statement of net position, unearned revenue arises when assets are received or are billed to customers before revenue recognition criteria are satisfied. In the governmental fund balance sheet, unavailable revenue arises when assets are recognized but are not available to finance expenditures of the current fiscal period or when assets are received before revenue recognition criteria are satisfied. Unearned revenue primarily consists of payments made in advance for cafeteria meals and health insurance premiums billed to retirees in advance of the month of coverage.

Compensated Absences

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

Pensions

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

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

1. Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources which represents a consumption of net position that applies to future periods and so will *not* be recognized as an outflow of resources (expense) until then. The School Division has only one item that qualifies for reporting in this category, which consists of contributions subsequent to the measurement date for pensions. This will be applied to the net pension liability in the next fiscal year.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources which represents an acquisition of net position that applies to future periods and so will *not* be recognized as an inflow of resources (revenue) until that time. The School Division has two items that qualify for reporting in this category. The first item is the net difference between projected and actual earnings on pension plan investments. This difference will be recognized in pension expense over a closed five year period. The second item results from participation in the Virginia Retirement System's teacher cost sharing pool, where changes in proportion and differences between employer contributions and the proportionate share of employer contributions are reported as a deferred inflow or outflow, as appropriate.

Other Postemployment Benefits

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

Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the School Division is bound to observe constraints imposed upon the use of the resources in the governmental funds.

The classifications are as follows:

- **Nonspendable** – Amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, such as prepaid items and inventory. It also includes the long-term amount of interfund loans.
- **Restricted** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** – Amounts constrained to specific purposes by the City of Salem School Division, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purposes unless the same highest level of action is taken to remove or change the constraint.
- **Assigned** – Amounts the City of Salem School Division intends to use for a specified purpose; intent can be expressed by the governing body (School Board) 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 OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

1. Summary of Significant Accounting Policies (Continued)

Fund Balances (Continued)

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

Restricted Amounts

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Significant encumbrances as of June 30, 2015 total \$48,269 in the school operating fund, and \$253,411 in the capital projects fund.

Estimates

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

2. Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. 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.

3. Due from Other Governmental Units

Amounts due from other governmental units are as follows:

	Operating Fund	Cafeteria Fund	Governmental Activities
Commonwealth of Virginia			
Sales tax	\$ 726,873	\$ -	\$ 726,873
Federal Government			
Special Education – Grants to States	217,663	-	217,663
Adult Education – Grants to States	130,297	-	130,297
National School Breakfast and Lunch Programs	-	31,053	31,053
Title I: Grants to Local Educational Agencies	150,708	-	150,708
Title II: Part A, Improving Teacher			
Quality State Grants	79,480	-	79,480
Other	10,641	-	10,641
	<u>\$ 1,315,662</u>	<u>\$ 31,053</u>	<u>\$ 1,346,715</u>

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

4. Capital Assets

Capital asset activity for the year was as follows:

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

Depreciation expense was charged to functions as follows:

Central administration	\$ 89,671
Instructional costs	2,155,890
Transportation	143,627
Food services	<u>53,056</u>
Total depreciation expense	<u>\$ 2,442,244</u>

5. Long-Term Liabilities

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

	Beginning Balance*	Increases	Decreases	Ending Balance	Due Within One Year
Compensated absences	\$ 1,099,901	\$ 216,798	\$ (360,720)	\$ 955,979	\$ 360,720
Net pension liability	39,944,426	2,442,323	(7,225,131)	35,161,618	-
Other post- employment benefits	<u>(66,146)</u>	<u>174,218</u>	<u>(295,048)</u>	<u>(186,976)</u>	<u>-</u>
	<u>\$40,978,181</u>	<u>\$2,833,339</u>	<u>\$ (7,880,899)</u>	<u>\$35,930,621</u>	<u>\$ 360,720</u>

*Restated

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

6. Fund Balances

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

	<u>School Operating Fund</u>	<u>Cafeteria Fund</u>	<u>Capital Projects Fund</u>
Fund Balances:			
Nonspendable:			
Inventories	\$ -	\$ 34,125	\$ -
Restricted:			
Education grants	78,474	-	-
Committed To:			
Capital projects	-	-	1,146,489
Assigned To:			
General education	2,761,526	-	-
Food services	-	324,603	-
	<u>\$ 2,840,000</u>	<u>\$ 358,728</u>	<u>\$ 1,146,489</u>

7. Risk Management

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

Worker's Compensation

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

General Liability and Other

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

Healthcare

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

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

7. Risk Management (Continued)

Healthcare (Continued)

During the current fiscal year, total claim expenses for both the City and School Division of \$9,052,509 were incurred. This represents claims processed and an estimate for claims incurred but not reported (IBNR) as of June 30, 2015. Certain claims expenses, incurred before year end and included in the estimated liability, exceeded stop loss provisions. The effect of the stop loss reimbursement has been considered in determining the estimated claims liability. The estimated liability for both the City and the School Division was \$968,628 at year-end which includes \$516,878 for the School Division.

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

Year Ended June 30	Beginning Balance	Claim Expenses	Claim Payments	Ending Balance
2015	\$ 898,880	\$ 9,052,509	\$ 8,982,761	\$ 968,628
2014	\$ 689,276	\$ 8,331,624	\$ 8,122,020	\$ 898,880
2013	\$ 738,264	\$ 7,948,001	\$ 7,996,989	\$ 689,276

Other

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

8. Pension Plan

Plan Description

All full-time, salaried permanent employees of the School Division are automatically covered by the VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the "System") along with plans for other employer groups in the Commonwealth of Virginia. Professional employees of the School Division participate in a VRS statewide teacher cost-sharing pool (Note 9) and non-professional employees of the School Division participate as a separate group in the VRS Retirement Plan. Members earn one month of service credit for each month they are employed and for which they and their employer are paying contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

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

VRS PLAN 1

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

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

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

8. Pension Plan (Continued)

VRS PLAN 1 (Continued)

Retirement Contributions – Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contributions; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

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

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

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

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

Service Retirement Multiplier – The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.

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

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

Earliest Reduced Retirement Eligibility – Members who are not in hazardous duty positions may retire with a reduced benefit as early as age 55 with at least five years of creditable service or age 50 with at least 10 years of creditable service. Hazardous duty members may retire with a reduced benefit as early as age 50 with at least 5 years of creditable service.

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

8. Pension Plan (Continued)

VRS PLAN 1 (Continued)

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

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

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

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

Disability Coverage – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

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

VRS PLAN 2

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

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

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

8. Pension Plan (Continued)

VRS PLAN 2 (Continued)

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

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

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

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

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

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

Disability Coverage – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

HYBRID RETIREMENT PLAN

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

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

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

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

8. Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

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

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

* Non-Eligible Members

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

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

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

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

Creditable Service

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

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

Vesting

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

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

8. Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

Vesting (Continued)

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

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

Distribution is not required by law until age 70½.

Calculating the Benefit

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

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

Service Retirement Multiplier – The retirement multiplier is 1.0%. For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

Normal Retirement Age

Defined Benefit Component: Same as VRS Plan 2.

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

Earliest Unreduced Retirement Eligibility

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

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

Earliest Reduced Retirement Eligibility

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

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

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

8. Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Not applicable.

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

Purchase of Prior Service

Defined Benefit Component: Same as VRS Plan 1, with the following exceptions:

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

Defined Contribution Component: Not applicable

Employees Covered by Benefit Terms

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

	<u>School Division (Non-Professional)</u>
Inactive members or their beneficiaries currently receiving benefits	<u>57</u>
Inactive members:	
Vested inactive members	8
Non-vested inactive members	26
Inactive members active elsewhere in VRS	<u>17</u>
Total inactive members	<u>51</u>
Active members	<u>80</u>
Total covered employees	<u><u>188</u></u>

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

8. Pension Plan (Continued)

Contributions

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

The School Division's non-professional employees' contractually required contribution rate for the year ended June 30, 2015 was 7.85% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by the employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School Division were \$154,622 and \$160,259 for the years ended June 30, 2015 and June 30, 2014, respectively.

Net Pension Liability (Asset)

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

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the School Division's Retirement Plans was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

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

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

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

8. Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest 10 – Non-LEOS:

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

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

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

Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees in the Political Subdivision Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

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

8. Pension Plan (Continued)

Actuarial Assumptions – Public Safety Employees (Continued)

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

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

Mortality rates: 60% of deaths are assumed to be service related.

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

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

8. Pension Plan (Continued)

Actuarial Assumptions – Public Safety Employees (Continued)

All Others (Non 10 Largest) – LEOS:

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

Long-Term Expected Rate of Return

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

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

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

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

8. Pension Plan (Continued)

Discount Rate

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

Changes in Net Pension Liability (Asset)

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

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
School Division's Net Pension Liability (Asset)	\$ 487,991	\$ (89,382)	\$ (573,782)

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

8. Pension Plan (Continued)

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

For the year ended June 30, 2015, the School Division recognized pension expense of \$25,323. At June 30, 2015, the 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
School Division (Non-Professional Staff)		
Net differences between projected and actual earnings on pension plan investments	\$ -	\$ 311,131
Employer contributions subsequent to the measurement date	94,579	-
Total	<u>\$ 94,579</u>	<u>\$ 311,131</u>

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

Year Ending June 30,	School Division (Non-Professional)
2016	\$ (77,783)
2017	(77,783)
2018	(77,783)
2019	(77,782)
Thereafter	-

Payable to the Pension Plan

At June 30, 2015, approximately \$20,225 was payable to the Virginia Retirement System for the legally required contributions related to June 2015 payroll.

9. Pension Plan – Teacher Cost Sharing Pool

Plan Description

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

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

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

9. Pension Plan – Teacher Cost Sharing Pool (Continued)

Plan Description (Continued)

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

VRS PLAN 1

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

Hybrid Opt-In Election – VRS plan members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Retirement Contributions – Employees contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions elected to phase in the required 5% member contributions, but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

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

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

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

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

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

9. Pension Plan – Teacher Cost Sharing Pool (Continued)

VRS PLAN 1 (Continued)

Service Retirement Multiplier – The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for members is 1.7%.

Normal Retirement Age – Age 65.

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

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

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

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

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

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

Disability Coverage – Not applicable.

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

VRS PLAN 2

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

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

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

9. Pension Plan – Teacher Cost Sharing Pool (Continued)

VRS PLAN 2 (Continued)

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

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

Normal Retirement Age – Normal Social Security retirement age.

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

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

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

HYBRID RETIREMENT PLAN

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

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

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

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

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

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

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

9. Pension Plan – Teacher Cost Sharing Pool (Continued)

HYBRID RETIREMENT PLAN (Continued)

Creditable Service

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

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

Vesting

Defined Benefit Component: Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

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

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

Distribution is not required by law until age 70½.

Calculating the Benefit

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

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

Service Retirement Multiplier – The retirement multiplier is 1.0%. For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

Normal Retirement Age

Defined Benefit Component: Same as VRS Plan 2.

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

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

9. Pension Plan – Teacher Cost Sharing Pool (Continued)

HYBRID RETIREMENT PLAN (Continued)

Earliest Unreduced Retirement Eligibility

Defined Benefit Component: Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

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

Earliest Reduced Retirement Eligibility

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

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

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Not applicable.

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

Purchase of Prior Service

Defined Benefit Component: Same as VRS Plan 1, with the following exceptions:

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

Defined Contribution Component: Not applicable.

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

9. Pension Plan – Teacher Cost Sharing Pool (Continued)

Contributions

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

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

At June 30, 2015, the school division reported a liability of \$35,251,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2014 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2014 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2014, the school division's proportion was 0.29170% as compared to 0.30660% at June 30, 2013.

For the year ended June 30, 2015, the school division recognized pension expense of \$2,417,000. Since there was a change in proportionate share between June 30, 2013 and June 30, 2014, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2015, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

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

9. Pension Plan – Teacher Cost Sharing Pool (Continued)

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

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

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

Actuarial Assumptions

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

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

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

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

9. Pension Plan – Teacher Cost Sharing Pool (Continued)

Actuarial Assumptions (Continued)

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

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

Long-Term Expected Rate of Return

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

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

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

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

9. Pension Plan – Teacher Cost Sharing Pool (Continued)

Discount Rate

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

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

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

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

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

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

10. Other Postemployment Benefits

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

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

Plan Description

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

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

10. Other Postemployment Benefits (Continued)

Plan Description (Continued)

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

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

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

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

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

Active employees	524
Retired participants	51
Total participants	<u>575</u>

Funding Policy

The Retiree Health Plan is funded through member and employer contributions. School Division Retirees receiving benefits contribute 100% of the health insurance premium rate. During the current year, retired School Division members contributed \$407,308, of the total premiums through their required contributions of between \$113 and \$1,493, depending on the type of coverage and years of service.

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

Annual OPEB Cost and Net OPEB Obligation

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

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

Annual required contribution	\$ 174,964
Interest on net OPEB obligation	(4,630)
Adjustment to annual required contribution	<u>3,884</u>
Annual OPEB cost	174,218
Contributions made	<u>(295,048)</u>
Increase (decrease) in net OPEB obligation	(120,830)
Net OPEB obligation (asset), beginning	<u>(66,146)</u>
Net OPEB obligation (asset), ending	<u>\$ (186,976)</u>

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

10. Other Postemployment Benefits (Continued)

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

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
2015	\$ 174,218	169.4%	\$ (186,976)
2014	\$ 274,039	100.0%	\$ (66,146)
2013	\$ 294,471	97.6%	\$ (66,146)

Funded Status and Funding Progress

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

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

Methods and Assumptions

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

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

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

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

10. Other Postemployment Benefits (Continued)

Methods and Assumptions (Continued)

Actuarial methods

Actuarial cost method	Entry Age Normal
Amortization method	Level percent of payroll
Amortization period	Open over 30 years
Asset valuation method	Market value

Actuarial assumptions

Investment rate of return	7.00%
Payroll growth	3.00%
Healthcare cost trend rate	Getzen Trend Model - Pre-65: 6.40% graded to 4.50% over 61 years Post-65: Not Applicable

11. Commitments and Contingencies

Operating Leases

The School Division entered several non-cancelable operating leases for equipment. Rent expenditures for the current year were \$45,012. At the end of the year, the future minimum rentals for the next five years are as follows:

June 30, 2016	\$	42,771
June 30, 2017		37,313
June 30, 2018		15,547
June 30, 2019		2,538
June 30, 2020		552
	\$	<u>98,721</u>

Special Purpose Grants

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

Management of Food Services

In July 2014, the School Board engaged Aramark Educational Services, L.L.C. to provide management services for the school food programs pursuant to the federal school nutrition programs. The initial agreement was for a period of one year with options for four additional 1-year renewals by mutual written agreement. Aramark will receive a general and administrative expense fee of \$0.125 per meal served as well as a management fee of \$0.025 per meal served.

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

12. Jointly Governed Organizations

The Counties of Botetourt, Craig and Franklin, the City of Roanoke and the City of Salem School Division jointly participate in a regional education program for severely disabled students operated by the Roanoke Valley Regional Board (Regional Board). The Regional Board is governed by a five-member board, one from each participating locality. The School Division has control over budget and financing only to the extent of representation by the one board member appointed. Each locality's financial obligation is based on their proportionate share of students attending the regional program. For the year ended June 30, 2015, the School Division remitted \$741,682 to the Regional Board for services. Financial statements may be obtained from the Roanoke Valley Regional Board at 12 Barron Drive, Suite 1, Troutville, Virginia 24175.

The Counties of Bedford, Botetourt, Craig, Franklin, and Roanoke and the Cities of Roanoke and Salem jointly participate in a regional education program focusing on science, technology, engineering, and mathematics operated by Roanoke Valley Governor's School (RVGS). RVGS is governed by a seven member board, with one member from each participating locality. The School Division has control over budget and financing only to the extent of representation by the one board member appointed. Each locality's financial obligation is based on their proportionate share of students attending RVGS. For the year ended June 30, 2015, the School Division remitted \$41,850 for services. Financial statements may be obtained from RVGS at 2104 Grandin Road, Roanoke, VA 24015.

13. Adoption of New Standard and Prior Period Restatement

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

The following is a summary of the restatement to net position resulting from the adoption of GASB Statement No. 68:

Net position, July 1, 2014, as previous stated	\$ 53,413,684
Recognition of pension related liabilities and deferred outflows in accordance with GASB No. 68	<u>(39,944,426)</u>
Net position, July 1, 2014, as restated	<u>\$ 13,469,258</u>

14. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective.

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement will be effective for the year ending June 30, 2016.

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

14. New Accounting Standards (Continued)

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. The statement also establishes requirements for defined contribution pensions that are not within the scope of Statement 68 and amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2016, and the requirements of this statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, identifies—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement will be effective for the year ending June 30, 2016 and should be applied retroactively. Earlier application is permitted.

GASB Statement No. 77, *Tax Abatement Disclosures*, requires governments to disclose information about the nature and magnitude of tax abatements granted to a specific taxpayer, typically for the purpose of economic development. This does not cover programs that reduce the tax liabilities of broad classes of taxpayers, such as senior citizens or veterans, and which are not the product of individual agreements with each taxpayer. The Statement does not consider issues related to recognition. This Statement will be effective for the year ending June 20, 2017.

Management has not yet evaluated the effects, if any, of adopting these standards.

REQUIRED SUPPLEMENTARY INFORMATION

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability/(Asset) (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as of Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
June 30, 2015	\$ 855,224	\$ 2,275,141	\$ 1,419,917	37.6%	\$ 24,081,341	5.9%
June 30, 2013	\$ 699,672	\$ 2,951,722	\$ 2,252,050	23.7%	\$ 23,283,603	9.7%
June 30, 2011	\$ 460,426	\$ 3,041,121	\$ 2,580,695	15.1%	\$ 22,300,816	11.6%

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

Fiscal year	Annual Required Contribution	Percentage Contributed
June 30, 2015	\$ 174,218	168.6%
June 30, 2014	\$ 274,039	99.8%
June 30, 2013	\$ 295,200	97.3%

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

	Schools-- Nonprofessional Employees
Total Pension Liability	
Service cost	\$ 145,676
Interest on total pension liability	323,812
Benefit payments, including refunds of employee contributions	(264,987)
	<hr/>
Net change in total pension liability	204,501
Total pension liability - beginning	4,758,374
Total pension liability - ending	<hr/> 4,962,875
Plan Fiduciary Net Position	
Contributions - employer	97,271
Contributions - employee	61,480
Net investment income	697,591
Benefit payments, including refunds of employee contributions	(264,987)
Administrative expenses	(3,812)
Other	37
	<hr/>
Net change in plan fiduciary net position	587,580
Plan fiduciary net position - beginning	4,464,677
Plan fiduciary net position - ending	<hr/> 5,052,257
Net pension asset - ending	<hr/> \$ (89,382)
Plan fiduciary net position as a percentage of total pension liability	102%
Covered employee payroll	<hr/> \$ 1,229,675
Net pension asset as a percentage of covered employee payroll	<hr/> -7%

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

**CITY OF SALEM SCHOOL DIVISION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
JUNE 30, 2015**

Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
	(a)	(b)	(a-b)	(c)	(b/c)
Schools - Nonprofessional Employees					
2015	\$ 94,579	\$ 94,579	\$ -	\$ 1,204,829	7.85%

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

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

Year Ended June 30	Employer's Portion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Covered Employee Payroll	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
		(a)	(b)	(a/b)	
2015	0.29170%	\$ 35,251,000	\$ 19,575,450	180.08%	70.88%

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

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

CITY OF SALEM SCHOOL DIVISION
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PENSION CONTRIBUTIONS
 VRS TEACHER RETIREMENT PLAN
 JUNE 30, 2015

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

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

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

Note 1. Changes of Benefit Terms

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

Note 2. Changes of Assumptions

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

Largest 10 – Non-LEOS:

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

Largest 10 –LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) – LEOS:

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

Teacher cost-sharing pool

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

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OTHER INFORMATION SECTION

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

Page

Financial Trends

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

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Table 2	Changes in Net Position.....	69
Table 3	Fund Balances – Governmental Funds.....	70
Table 4	Changes in Fund Balances – Governmental Funds.....	71

Operating Information

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

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Table 10	Virginia Standards of Learning (SOL) Test Results.....	76

TABLE 1
UNAUDITED

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

	2015 (3)	2014 (2)	2013	2012	2011	2010	2009	2008	2007	2006 (1)
Governmental activities										
Net Investment in capital assets	\$ 48,121,333	\$ 49,441,566	\$ 49,201,420	\$ 37,836,389	\$ 37,885,656	\$ 38,414,499	\$ 38,497,717	\$ 39,836,700	\$ 40,661,691	\$ 41,809,002
Restricted for education grants	78,474	-	-	-	-	-	-	-	-	-
Unrestricted	(35,459,054)	3,972,118	758,035	2,749,702	4,046,004	4,182,847	3,499,453	2,117,375	1,778,144	1,193,675
Total school division net position	<u>\$ 12,740,753</u>	<u>\$ 53,413,684</u>	<u>\$ 49,959,455</u>	<u>\$ 40,586,091</u>	<u>\$ 41,931,660</u>	<u>\$ 42,597,346</u>	<u>\$ 41,997,170</u>	<u>\$ 41,954,075</u>	<u>\$ 42,439,835</u>	<u>\$ 43,002,677</u>

Notes:

Source: City of Salem Finance Department

⁽¹⁾ As restated.

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

⁽³⁾ GASB Statement No. 68 was adopted in fiscal year 2015.

**TABLE 2
UNAUDITED**

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

	2015	2014 (1)	2013	2012	2011	2010	2009	2008	2007	2006
EXPENSES										
Central administration	\$ 1,695,545	\$ 1,879,992	\$ 1,920,910	\$ 1,563,224	\$ 1,466,696	\$ 1,514,899	\$ 1,553,796	\$ 1,531,730	\$ 1,584,163	\$ 1,433,354
Centralized instruction costs	3,636,537	3,879,440	3,548,842	3,328,048	2,997,309	3,172,287	3,337,312	2,918,668	3,034,138	2,832,043
Instructional costs	32,699,399	33,968,213	32,389,924	30,692,441	29,758,175	29,386,590	32,198,604	31,246,512	30,009,920	28,633,385
Attendance and health services	981,451	879,534	893,663	872,551	838,160	853,611	865,647	875,542	856,256	824,682
Transportation	1,463,135	1,413,079	1,446,627	1,338,768	1,303,303	1,251,032	1,260,368	1,219,250	1,206,958	1,201,452
Food services	1,973,317	1,597,475	1,616,530	1,666,673	1,737,457	1,695,734	1,753,307	1,749,928	1,641,335	1,596,278
Federal and state grants programs	1,969,993	2,953,551	2,172,018	3,066,792	2,807,159	4,269,293	1,738,798	1,677,153	1,949,581	1,655,441
Non-departmental	-	-	548,520	550,000	250,000	250,000	295,753	266,490	273,835	-
Total governmental activities	44,419,377	46,571,284	44,537,034	43,078,497	41,158,259	42,393,446	43,003,585	41,485,273	40,556,186	38,176,635
PROGRAM REVENUES										
Charges for services	1,542,794	1,667,139	1,545,090	1,574,520	1,591,030	1,716,362	1,557,348	1,499,500	1,570,518	1,476,768
Operating grants and contributions	8,119,815	8,956,887	8,122,841	7,810,425	7,159,185	8,728,103	6,683,475	6,847,722	6,560,448	5,594,779
Capital grants and contributions	5,174	7,000	7,000	-	-	-	-	-	-	-
Total governmental activities	9,667,783	10,631,026	9,674,931	9,384,945	8,750,215	10,444,465	8,240,823	8,347,222	8,130,966	7,071,547
NET EXPENSE	(34,751,594)	(35,940,258)	(34,862,103)	(33,693,552)	(32,408,044)	(31,948,981)	(34,762,762)	(33,138,051)	(32,425,220)	(31,105,088)
GENERAL REVENUES AND OTHER CHANGES IN NET POSITION										
Payments from City of Salem	19,151,270	25,103,243	30,295,228	18,471,653	18,420,000	18,420,000	18,420,000	17,995,000	17,095,000	16,266,005
State aid	13,916,982	13,144,693	13,133,752	13,237,358	12,815,820	13,691,655	15,967,532	14,068,288	14,317,578	12,618,480
Other	954,837	778,599	806,487	638,972	506,538	437,502	418,325	589,003	449,800	412,632
Total governmental activities	34,023,089	39,026,535	44,235,467	32,347,983	31,742,358	32,549,157	34,805,857	32,652,291	31,862,378	29,297,117
CHANGE IN NET POSITION	\$ (728,505)	\$ 3,086,277	\$ 9,373,364	\$ (1,345,569)	\$ (665,686)	\$ 600,176	\$ 43,095	\$ (485,760)	\$ (562,842)	\$ (1,807,971)

Notes:

Source: City of Salem Finance Department

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

TABLE 3
UNAUDITED

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

	2015	2014 (3)	2013	2012	2011 (2)	2010	2009	2008	2007	2006 (1)
FUND BALANCES										
<u>Operating Fund</u>										
Nonspendable	\$ -	\$ 24,797	\$ 3,326	\$ 24,138	\$ 37,099	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	78,474	-	-	-	-	-	-	-	-	-
Committed	-	-	36,863	170,452	1,225,000	-	-	-	-	-
Assigned	2,761,526	1,992,070	2,439,014	1,166,693	2,532,508	-	-	-	-	-
Reserved for prepaid items	-	-	-	-	-	14,083	-	-	-	-
Reserved for encumbrances	-	-	-	-	-	137,159	335,759	95,531	19,946	65,328
Designated for future projects	-	-	-	-	-	300,000	200,000	100,000	-	-
Designated for revenue stabilization	-	-	-	-	-	500,000	-	-	-	-
Unreserved, undesignated	-	-	-	-	-	2,581,647	2,663,276	1,667,848	1,820,766	763,269
Total operating fund	<u>\$ 2,840,000</u>	<u>\$ 2,016,867</u>	<u>\$ 2,479,203</u>	<u>\$ 1,361,283</u>	<u>\$ 3,794,607</u>	<u>\$ 3,532,889</u>	<u>\$ 3,199,035</u>	<u>\$ 1,863,379</u>	<u>\$ 1,840,712</u>	<u>\$ 828,597</u>
<u>Cafeteria Fund</u>										
Nonspendable	\$ 34,125	\$ 55,511	\$ 56,826	\$ 51,525	\$ 66,139	\$ -	\$ -	\$ -	\$ -	\$ -
Committed	-	-	-	23,302	-	-	-	-	-	-
Assigned	324,603	451,968	410,328	357,906	308,386	-	-	-	-	-
Reserved for inventories	-	-	-	-	-	40,753	60,389	68,195	44,963	40,378
Reserved for encumbrances	-	-	-	-	-	15,856	21,646	-	19,364	23,090
Unreserved, undesignated	-	-	-	-	-	318,852	283,711	306,211	365,182	304,039
Total Cafeteria fund	<u>\$ 358,728</u>	<u>\$ 507,479</u>	<u>\$ 467,154</u>	<u>\$ 432,733</u>	<u>\$ 374,525</u>	<u>\$ 375,461</u>	<u>\$ 365,746</u>	<u>\$ 374,406</u>	<u>\$ 429,509</u>	<u>\$ 367,507</u>
<u>Capital Projects Fund</u>										
Committed	\$ 1,146,489	\$ 1,550,444	\$ 1,550,586	\$ 1,681,048	\$ 693,096	\$ -	\$ -	\$ -	\$ -	\$ -
Unassigned	-	-	(2,964,290)	-	-	-	-	-	-	-
Reserved for encumbrances	-	-	-	-	-	570,935	546,909	224,185	113,976	454,474
Unreserved, undesignated	-	-	-	-	-	530,502	174,371	406,753	41,903	73,315
Total Capital Projects fund	<u>\$ 1,146,489</u>	<u>\$ 1,550,444</u>	<u>\$ (1,413,704)</u>	<u>\$ 1,681,048</u>	<u>\$ 693,096</u>	<u>\$ 1,101,437</u>	<u>\$ 721,280</u>	<u>\$ 630,938</u>	<u>\$ 155,879</u>	<u>\$ 527,789</u>
 Total school division	 <u>\$ 4,345,217</u>	 <u>\$ 4,074,790</u>	 <u>\$ 1,532,653</u>	 <u>\$ 3,475,064</u>	 <u>\$ 4,862,228</u>	 <u>\$ 5,009,787</u>	 <u>\$ 4,286,061</u>	 <u>\$ 2,868,723</u>	 <u>\$ 2,426,100</u>	 <u>\$ 1,723,893</u>

Notes:

Source: City of Salem Finance Department

(1) As restated.

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

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

**TABLE 4
UNAUDITED**

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

REVENUES	2015	2014 (1)	2013	2012	2011	2010	2009	2008	2007	2006
<u>Operating Fund</u>										
<i>Intergovernmental:</i>										
City of Salem	\$ 19,151,270	\$ 19,622,043	\$ 20,776,428	\$ 18,471,653	\$ 18,420,000	\$ 18,420,000	\$ 18,420,000	\$ 17,995,000	\$ 17,095,000	\$ 16,266,005
Commonwealth of Virginia	19,455,460	19,452,863	18,505,940	17,791,888	16,870,527	17,699,073	20,616,013	19,088,988	18,692,569	16,027,190
Federal Government	1,761,396	1,838,411	1,978,488	2,454,719	2,329,130	4,011,637	1,373,482	1,203,850	1,608,121	1,649,423
<i>Other:</i>	1,594,590	1,600,220	1,472,793	1,293,847	1,154,600	1,162,811	917,538	917,978	898,481	793,134
Total operating fund	41,962,716	42,513,537	42,733,649	40,012,107	38,774,257	41,293,521	41,327,033	39,205,816	38,294,171	34,735,752
<u>Cafeteria Fund</u>										
<i>Intergovernmental:</i>										
Commonwealth of Virginia	24,581	25,893	28,076	27,570	26,917	26,132	25,861	26,735	23,974	23,403
Federal Government	795,360	784,413	744,089	773,605	748,431	682,916	635,652	596,438	553,362	513,243
<i>Other:</i>										
Charges for services	759,141	832,642	867,703	903,493	922,353	974,623	1,022,831	1,029,365	1,075,195	1,059,334
Other	143,900	12,876	11,083	27,251	23,145	16,497	35,303	42,287	50,807	36,732
Total cafeteria fund	1,722,982	1,655,824	1,650,951	1,731,919	1,720,846	1,700,168	1,719,647	1,694,825	1,703,338	1,632,712
<u>Capital Projects Fund</u>										
<i>Intergovernmental:</i>										
City of Salem	-	5,481,200	9,518,800	-	-	-	-	-	-	-
<i>Other:</i>	5,174	7,000	7,000	-	-	-	-	98,872	-	-
Total capital projects fund	5,174	5,488,200	9,525,800	-	-	-	-	98,872	-	-
EXPENDITURES										
<u>Operating Fund</u>										
Central administration	1,658,908	1,756,494	1,664,724	1,414,020	1,461,269	1,505,723	1,467,700	1,530,878	1,379,411	1,243,400
Centralized instruction costs	3,832,984	3,711,762	3,499,585	3,008,025	3,136,131	3,231,442	2,922,251	3,034,138	2,832,043	2,645,018
<i>Instructional costs:</i>										
Salem High School	9,976,964	9,965,723	10,119,284	9,380,598	8,931,027	10,325,423	9,926,412	9,623,456	9,249,942	8,496,377
Andrew Lewis Middle School	6,769,119	6,765,055	6,780,842	6,078,634	5,966,676	6,859,192	6,742,401	6,457,778	6,168,605	5,762,444
G.W. Carver Elementary School	3,590,403	3,634,528	3,497,209	3,342,917	3,515,038	3,492,995	3,420,249	3,245,015	2,932,289	2,721,906
West Salem Elementary School	3,013,001	3,167,012	3,142,102	2,951,348	2,940,070	3,258,221	3,184,307	3,095,087	2,912,562	2,693,822
South Salem Elementary School	2,985,015	3,006,075	2,990,425	2,984,114	3,174,639	3,191,943	3,149,596	2,851,713	2,735,922	2,517,767
East Salem Elementary School	3,472,215	3,185,659	3,281,198	3,153,029	3,274,535	3,397,788	3,155,854	3,049,965	2,814,731	2,755,801
Regional Program	698,011	616,896	743,384	-	-	-	-	-	-	-
Attendance and health services	988,485	889,226	893,663	838,160	853,611	865,647	875,542	856,256	824,682	737,688
Transportation	1,269,076	1,529,625	1,282,845	1,297,167	1,426,223	1,209,606	1,324,034	1,072,352	1,071,437	1,007,797
Federal and state grants programs	1,958,910	2,974,412	2,203,948	2,824,695	4,456,948	1,746,188	1,688,454	1,949,581	1,655,441	1,323,474
Non-departmental	-	-	548,520	250,000	250,000	295,753	266,490	273,835	-	-
Total operating fund	\$ 40,213,091	\$ 41,202,467	\$ 40,647,729	\$ 37,522,707	\$ 39,386,167	\$ 39,379,921	\$ 38,123,290	\$ 37,040,054	\$ 34,577,065	\$ 31,905,494

**TABLE 4
UNAUDITED
(CONTINUED)**

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

EXPENDITURES	2015	2014 (1)	2013	2012	2011	2010	2009	2008	2007	2006
<u>Cafeteria Fund</u>										
Food services	\$ 1,871,733	\$ 1,615,499	\$ 1,616,530	\$ 1,688,711	\$ 1,746,782	\$ 1,729,453	\$ 1,753,307	\$ 1,749,928	\$ 1,641,336	\$ 1,596,278
Total cafeteria fund	1,871,733	1,615,499	1,616,530	1,688,711	1,746,782	1,729,453	1,753,307	1,749,928	1,641,336	1,596,278
<u>Capital Projects Fund</u>										
Capital projects	1,335,621	4,297,458	13,588,552	1,717,361	1,373,173	1,154,343	496,114	683,672	613,912	1,543,073
Total capital projects fund	1,335,621	4,297,458	13,588,552	1,717,361	1,373,173	1,154,343	496,114	683,672	613,912	1,543,073
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES										
Operating Fund	1,749,625	1,311,070	2,085,920	286,989	1,251,550	1,907,354	1,947,112	1,082,526	1,254,117	158,687
Cafeteria Fund	(148,751)	40,325	34,421	43,208	(25,936)	(29,285)	(33,660)	(55,103)	62,002	36,434
Capital Projects Fund	(1,330,447)	1,190,742	(4,062,752)	(1,717,361)	(1,373,173)	(1,154,343)	(496,114)	(584,800)	(613,912)	(1,543,073)
	270,427	2,542,137	(1,942,411)	(1,387,164)	(147,559)	723,726	1,417,338	442,623	702,207	(1,347,952)
OTHER FINANCING SOURCES (USES)										
<u>Operating Fund</u>										
Transfers out	(926,492)	(1,773,406)	(968,000)	(2,720,313)	(989,832)	(1,573,500)	(611,456)	(1,059,859)	(242,002)	(1,180,419)
Total operating fund	(926,492)	(1,773,406)	(968,000)	(2,720,313)	(989,832)	(1,573,500)	(611,456)	(1,059,859)	(242,002)	(1,180,419)
<u>Cafeteria Fund</u>										
Transfers in	-	-	-	15,000	25,000	39,000	25,000	-	-	35,000
Total cafeteria fund	-	-	-	15,000	25,000	39,000	25,000	-	-	35,000
<u>Capital Projects Fund</u>										
Transfers in	926,492	1,773,406	968,000	2,705,313	964,832	1,534,500	586,456	1,059,859	242,002	1,145,419
Total capital projects fund	926,492	1,773,406	968,000	2,705,313	964,832	1,534,500	586,456	1,059,859	242,002	1,145,419
NET CHANGE IN FUND BALANCES										
Operating Fund	823,133	(462,336)	1,117,920	(2,433,324)	261,718	333,854	1,335,656	22,667	1,012,115	(1,021,732)
Cafeteria Fund	(148,751)	40,325	34,421	58,208	(936)	9,715	(8,660)	(55,103)	62,002	71,434
Capital Projects Fund	(403,955)	2,964,148	(3,094,752)	987,952	(408,341)	380,157	90,342	475,059	(371,910)	(397,654)
	\$ 270,427	\$ 2,542,137	\$ (1,942,411)	\$ (1,387,164)	\$ (147,559)	\$ 723,726	\$ 1,417,338	\$ 442,623	\$ 702,207	\$ (1,347,952)

Notes:

Source: City of Salem Finance Department

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

**TABLE 5
UNAUDITED**

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

Fiscal Year Ended June 30	Membership September 30 ⁽¹⁾	Average Daily Membership March 31 ⁽¹⁾	Membership June 30 ⁽¹⁾	Average Daily Membership June 30 ⁽²⁾⁽⁹⁾	Average Daily Attendance March 31 ⁽³⁾⁽¹⁰⁾	Special Education Child Count December 1 ⁽⁴⁾	Salem Per Pupil Expenditures ⁽²⁾	State Average Per Pupil Expenditures ⁽²⁾	Composite Index
2015	3,815	3,774	3,797	3,813	3,636	528	N/A	N/A	0.3695
2014 ⁽⁷⁾	3,765	3,761	3,735	3,796	3,632	505	\$11,057	\$11,242	0.3628
2013 ⁽⁸⁾	3,816	3,779	3,820	3,816	3,634	517	\$10,640	\$11,257	0.3628
2012	3,867	3,839	3,863	3,841	3,686	501	\$10,447	\$10,969	0.3516
2011	3,932	3,859	3,892	3,896	3,702	503	\$ 9,907	\$10,793	0.3516
2010	3,905	3,915	3,907	3,935	3,788	496	\$10,152	\$11,020	0.3518
2009	3,930	3,900	3,905	3,919	3,767	486	\$10,289	\$11,316	0.3518
2008	3,948	3,922	3,911	3,936	3,778	474	\$ 9,939	\$11,037	0.3768
2007	3,978	3,968	3,966	3,966	3,827	480	\$ 9,468	\$10,584	0.3768
2006	3,893	3,890	3,902	3,908	3,755	471	\$ 9,034	\$ 9,755	0.3905

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

2014 ⁽⁶⁾	4,361
2013 ⁽⁶⁾	4,446
2012 ⁽⁶⁾	4,411
2011 ⁽⁶⁾	4,436
2008	4,328
2005	4,218
2002	4,618
1999	4,590

Notes:

N/A Not available

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

⁽²⁾ Superintendent's Annual Report Table 15 (2006-2014)

⁽³⁾ Superintendent's Annual Report Table 8 (2006-2014)

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

⁽⁵⁾ Director of Assessment and Technology (1999-2008) and Weldon Cooper Center (2011)

⁽⁶⁾ Starting in 2011, the Weldon Cooper Center at UVA will estimate school age population in Virginia. This is the latest estimate as of July 1, 2014.

⁽⁷⁾ 2014 amounts are from Preliminary DOE reports, as the Superintendent's Annual Report was not final for FY 2014

⁽⁸⁾ 2013 Figures were adjusted to match the Superintendent's Annual Report, as those figures were preliminary when prior year audit was completed

⁽⁹⁾ End of year financial verification report

⁽¹⁰⁾ Spring student record collection

TABLE 6
UNAUDITED

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

Fiscal Year Ended June 30	Minimum Salary ⁽¹⁾	Maximum Salary ⁽¹⁾	Salem Average Salary ⁽²⁾	Commonwealth Average Salary ⁽²⁾
2015	\$42,000	\$60,179	\$55,352	N/A
2014	\$41,000	\$59,736	\$55,115	\$53,818
2013	\$41,000	\$60,482	\$56,206	\$52,942
2012	\$41,000	\$60,482	\$54,492	\$52,093
2011	\$40,392	\$57,914	\$53,186	\$51,478
2010	\$40,392	\$58,638	\$53,912	\$51,894
2009	\$40,392	\$60,104	\$53,912	\$52,309
2008	\$39,600	\$62,605	\$52,085	\$50,511
2007	\$38,600	\$60,780	\$51,211	\$49,164
2006	\$37,300	\$59,010	\$49,864	\$47,220

Notes:

N/A Not available

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

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

TABLE 7
UNAUDITED

CITY OF SALEM SCHOOL DIVISION
SCHOOL BUILDING INFORMATION
JUNE 30, 2015

School Name	Square Footage
Salem High School	220,812
Andrew Lewis Middle School	183,000
G.W. Carver Elementary School	83,000
West Salem Elementary School	73,000
South Salem Elementary School	88,000
East Salem Elementary School	56,308
AIIMS Alternative Education Center	3,500
Central Administration Office	16,000

Note:

Source: Supervisor of Business

**TABLE 8
UNAUDITED**

**CITY OF SALEM SCHOOL DIVISION
ACCREDITATION STATUS UNDER *NO CHILD LEFT BEHIND ACT*
2014-2015 SCHOOL YEAR**

School Name	Virginia Accreditation Status	Met Annual Measurable Objectives (AMO) Requirements?
Salem High School	Fully Accredited	Yes
Andrew Lewis Middle School	Fully Accredited	Yes
G.W. Carver Elementary School	Fully Accredited	Yes
West Salem Elementary School	Fully Accredited	Yes
South Salem Elementary School	Fully Accredited	Yes
East Salem Elementary School	Fully Accredited	Yes
Division		No

Notes:

Source: Supervisor of Instructional Technology and Accountability

**TABLE 9
UNAUDITED**

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

Fiscal Year Ended June 30	Number of Students Who Took SATs	Combined Score for Verbal and Math		
		Salem	Virginia	National
2015	148	1,046	1,028	987
2014	148	1,046	1,033	1,010
2013	159	1,036	1,030	1,010
2012	169	1,031	1,022	1,010
2011	162	1,028	1,021	1,011
2010	163	1,056	1,024	1,017
2009	145	1,037	1,043	1,037
2008	185	1,045	1,023	1,017
2007	188	1,034	1,022	1,017
2006	160	1,013	1,025	1,021

Note:

Source: Supervisor of Instructional Technology and Accountability

TABLE 10
UNAUDITED

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

		2015		2014		2013	
	<u>Grade</u>	<u>Salem</u>	<u>Virginia</u>	<u>Salem</u>	<u>Virginia</u>	<u>Salem</u>	<u>Virginia</u>
<u>Elementary and Middle School:</u>							
English: Reading	3	85	75	78	69	83	72
Mathematics	3	85	74	75	67	78	65
Science	3	N/A	N/A	88	83	92	84
History and Social Sciences	3	N/A	N/A	93	86	94	87
English: Reading	4	84	77	79	70	82	70
Mathematics	4	88	84	86	80	87	74
Virginia Studies	4	93	87	92	85	94	87
English: Reading	5	83	79	82	73	84	73
English: Writing	5	N/A	N/A	71	71	81	71
Mathematics	5	85	79	76	73	74	69
Science	5	86	79	81	73	75	75
US History to 1865	5	N/A	N/A	83	81	91	83
English: Reading	6	84	76	80	73	80	73
Mathematics	6	80	76	73	76	76	77
US History 1865 to Present	6	N/A	N/A	84	81	77	82
English: Reading	7	91	81	82	76	83	74
Mathematics	7	85	72	74	65	68	61
Civics and Economics	7	92	86	83	83	83	85
English: Reading	8	81	75	72	70	77	71
English: Writing	8	76	72	72	70	80	70
Mathematics	8	86	74	77	67	72	61
Science	8	87	78	85	74	82	76
<u>High School and End of Course:</u>							
English: Reading	9-12	91	89	93	90	92	89
English: Writing	9-12	88	83	90	84	89	87
Algebra I	9-12	90	82	81	79	81	76
Algebra II	9-12	98	87	93	82	90	76
Geometry	9-12	90	80	86	77	73	76
Biology	9-12	92	84	89	83	91	83
Chemistry	9-12	100	88	95	87	97	86
Earth Science	9-12	93	83	91	83	87	83
Virginia and US History	9-12	90	87	96	87	95	86
World History I	9-12	98	85	93	85	71	84
World History II	9-12	94	87	96	86	71	85
World Geography	9-12	88	86	88	86	90	86

Note:

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

N/A Not applicable

COMPLIANCE SECTION

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

<u>Federal Grantor/Pass-through Grantor</u> <u>(Commonwealth of Virginia)/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Agriculture</u>		
<i>Department of Agriculture and Consumer Services</i>		
Food Distribution – Commodities	10.555	\$ 105,453
<i>Department of Education</i>		
School Breakfast Program	10.553	140,079
National School Lunch Program	10.555	549,828
<u>Department of Education</u>		
<i>Department of Education</i>		
Adult Education – Basic Grants to States	84.002	312,680
Title I Grants to Local Educational Agencies	84.010	447,066
Special Education – Grants to States	84.027	706,572
Career and Technical Education – Basic Grants to States	84.048	44,587
Special Education – Preschool Grants	84.173	15,467
Carol White PEP Grant	84.215	111,299
English Language Acquisition State Grants	84.365	14,318
Improving Teacher Quality State Grants	84.367	110,906
Total Expenditures of Federal Awards		<u>\$ 2,558,255</u>

Note 1 - Basis of Accounting

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

Note 2 - Nonmonetary Assistance

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

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

To the Honorable Members of the
Board of the City of Salem School Division
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 *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Salem School Division (the "School Division"), a component unit of the City of Salem, Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School Division's basic financial statements, and have issued our report thereon dated November 17, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 17, 2015

CITY OF SALEM SCHOOL DIVISION
SUMMARY OF COMPLIANCE MATTERS
June 30, 2015

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

STATE COMPLIANCE MATTERS

Code of Virginia:

Budget and Appropriation Laws
Cash and Investment Laws
Conflicts of Interest Act
Local Retirement Systems
Procurement Laws
Uniform Disposition of Unclaimed Property Act

State Agency Requirements:

Education

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