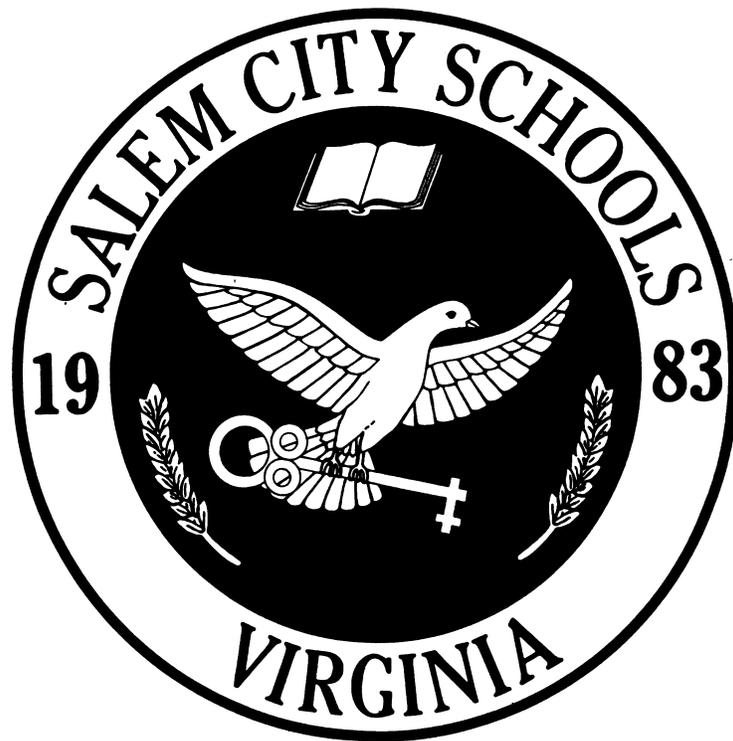


CITY OF SALEM SCHOOL DIVISION
(A Component Unit of the City of Salem)



ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2010

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

**CITY OF SALEM SCHOOL DIVISION
TABLE OF CONTENTS**

INTRODUCTORY SECTION		Page
Letter of Transmittal.....		3
Directory of Principal Officials.....		7
Organizational Chart.....		8
 FINANCIAL SECTION 		
Independent Auditor's Report.....		10
Basic Financial Statements		
Government-Wide Financial Statements		
Exhibit 1	Statement of Net Assets.....	14
Exhibit 2	Statement of Activities.....	15
Governmental Fund Financial Statements		
Exhibit 3	Balance Sheet.....	16
Exhibit 4	Statement of Revenues, Expenditures, and Changes in Fund Balances.....	17
Exhibit 5	Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual – Special Revenue Fund – Operating Fund.....	18
Exhibit 6	Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual – Special Revenue Fund – Cafeteria Fund.....	19
Fiduciary Fund Financial Statements		
Exhibit 7	Statement of Fiduciary Net Assets.....	20
Exhibit 8	Statement of Changes in Fiduciary Net Assets.....	21
Notes to Financial Statements.....		22
Required Supplementary Information		
Exhibit 9	Analysis of Funding Progress.....	36
Exhibit 10	Employer Contributions for Other Postemployment Benefits.....	36
 OTHER INFORMATION SECTION 		
Table 1	Net Assets by Component.....	38
Table 2	Changes in Net Assets.....	39
Table 3	Fund Balances – Governmental Funds.....	40
Table 4	Changes in Fund Balances – Governmental Funds.....	41
Table 5	Membership and Per Pupil Spending.....	43
Table 6	Teacher Base Salaries and Average Salaries.....	44
Table 7	School Building Information.....	44
Table 8	Accreditation Status Under <i>No Child Left Behind Act</i>	45
Table 9	Scholastic Aptitude Test (SAT) Scores.....	45
Table 10	Virginia Standards of Learning (SOL) Test Results.....	46
 COMPLIANCE SECTION 		
Schedule of Expenditures of Federal Awards.....		48
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		49
Summary of Compliance Matters.....		51

INTRODUCTORY SECTION

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November 23, 2010

**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, 2010. This report was prepared by the City of Salem Department of Finance in conjunction with generally accepted accounting principles (GAAP) as promulgated by the Government Accounting Standards Board (GASB).

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

The Reporting Entity and Services Provided

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

Profile of the School System

The School Division is a small city public education system for approximately 4,000 students. Salem's student population is represented by several ethnic categories. Approximately 81% of the students are Caucasian, 12% are African-American, 3% are Hispanic, 3% are Asian, and 1% are in other categories. Facilities include a high school, a middle school, four elementary schools, an alternative education school 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 also participates in a regional special education program in order to offer certain specialized special education services to students with disabilities.

Approximately 27.7% of Salem's students qualify for free and reduced lunches (June 2010) under the National School Lunch Program. Individual school percentages range from 20% to 43%.

The school system budget for fiscal year 2010 was based on a projected average daily student membership of 3,830. Actual average daily membership for the period through March 31 was 3,915. 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, with an estimated population of 25,462 (City of Salem Planning Department), encompasses a land area of approximately 14.4 square miles and is part of the Roanoke Metropolitan Statistical Area (MSA) that has a total population of 288,309 (2000 Census). Salem is located at the southern end of the Shenandoah Valley, approximately 190 miles southwest 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. The scenic beauty of the area makes Salem a pleasant place to live and work, in addition to being part of an economically diverse region.

Salem strives to provide an atmosphere and quality of life conducive to families and businesses. Over the years, Salem has been able to maintain a comparatively low unemployment rate of 7.2% (VEC June 2010) and stable property tax rates, while enjoying moderate growth. City Council is committed to creating jobs for its citizens and generating new sources of tax revenues and diversifying the local economy. A strong educational system providing a well-educated and skilled workforce along with generally lower operating costs is a key reason why employers have chosen to relocate in Salem and the rest of the Roanoke Valley.

Major Initiatives and Accomplishments

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

During fiscal year 2010, a number of notable activities occurred in the division:

- All six Salem schools were fully accredited by the Virginia Department of Education and the Southern Association of Colleges and Schools.
- All six Salem schools exceeded all Adequate Yearly Progress (AYP) benchmarks under the *No Child Left Behind Act* based on testing in the 2009-2010 school year.
- Andrew Lewis Middle School earned the 2010 Governor's Award for Educational Excellence, one of only 16 middle schools in Virginia to earn this prestigious honor.
- The Virginia Board of Education recognized South Salem Elementary, West Salem Elementary, G. W. Carver Elementary, Salem High School, and the Salem City School Division with its Board of Education Excellence Award.
- Salem was recognized by the Virginia Department of Education as a "Distinguished Title I School Division" by exceeding all achievement objectives in reading and mathematics under the *No Child Left Behind Act* for the fourth consecutive year.
- G. W. Carver and East Salem Elementary Schools were recognized as "Distinguished Title I Schools" for the sixth consecutive year.
- Salem teachers continue to achieve national recognition with 18 National Board Certified teachers on staff.
- Salem was the first school system in Virginia to add a Personal Finance graduation requirement. The Virginia Department of Education took note and added it as a graduation requirement for all Virginia students beginning with freshmen entering high school in 2012.
- The Salem Education Foundation and the City of Salem awarded scholarships for over \$147,000 to 78 graduating seniors of the Salem High Class of 2010.

- Salem City Schools maintained 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 continues to emphasize building improvements on an on-going basis as part of its \$60 million Capital Improvement Plan, including the following projects: classroom renovations at two elementary schools, new auto body paint booth at Salem High, renovated locker rooms at Salem High, renovation of the AIIMS alternative education center, regular roofing replacements, school bus replacements and technology enhancements emphasizing interactive learning.
- The City of Salem and Virginia Western Community College continued their partnership under the Salem City Community College Access Program to provide free tuition for qualifying graduates.
- G. W. Carver Elementary was awarded a Lowe's Toolbox for Education Grant of \$5,000 for school grounds improvement.
- Salem students continued to excel academically and in extracurricular areas:
 - 213 graduating seniors earned at least one dual enrolled course while in high school.
 - Salem High had seven IB diploma candidates, 102 IB certificate candidates, and 38 Distinguished Scholars in the Class of 2010.
 - Salem schools won state sports championships in selected areas of tennis, wrestling, swimming and track.
 - Salem High had seven individual State Forensic champions in 2010 and won the 2010 Virginia High School League AA State Championship for the fifth consecutive year.
 - A Salem High student won an individual VHSL state championship in Creative Writing.
 - Average SAT scores for Salem students in both the math and verbal sections exceeded state and national averages.
 - Salem High won the VHLS AA Wachovia Cup for Academic Competition.
- Salem teachers continue to receive recognition:
 - Salem High teacher Alisa Burns received the Virginia Lottery Super Teacher Award for Superintendents Region VI.
 - Salem High teacher Mark Ingerson was recognized as Region VI teacher of the year.
 - South Salem teacher Linda Rowe was named Virginia Reading Teacher of the Year by the Virginia State Reading Association.
 - Perry Manning, Andrew Lewis science teacher, was recognized by the Roanoke Chapter of the Air Force Association.
- Salem High School's literary magazine *The Delphi* was awarded the Charles Savedge Award for sustained excellence and also received trophy class distinction from the Virginia High School League.
- Salem High School's yearbook received the VHLS Trophy Class award, the CSPA Gold Medal, and Silver Crown and NSPA Pacemaker Nomination.

Cash Management

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

Risk Management

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

which includes School Division employees. Note 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



Michael R. Crew
Director of Business Services



Frank P. Turk
Director of Finance

**CITY OF SALEM SCHOOL DIVISION
DIRECTORY OF PRINCIPAL OFFICIALS
JUNE 30, 2010**

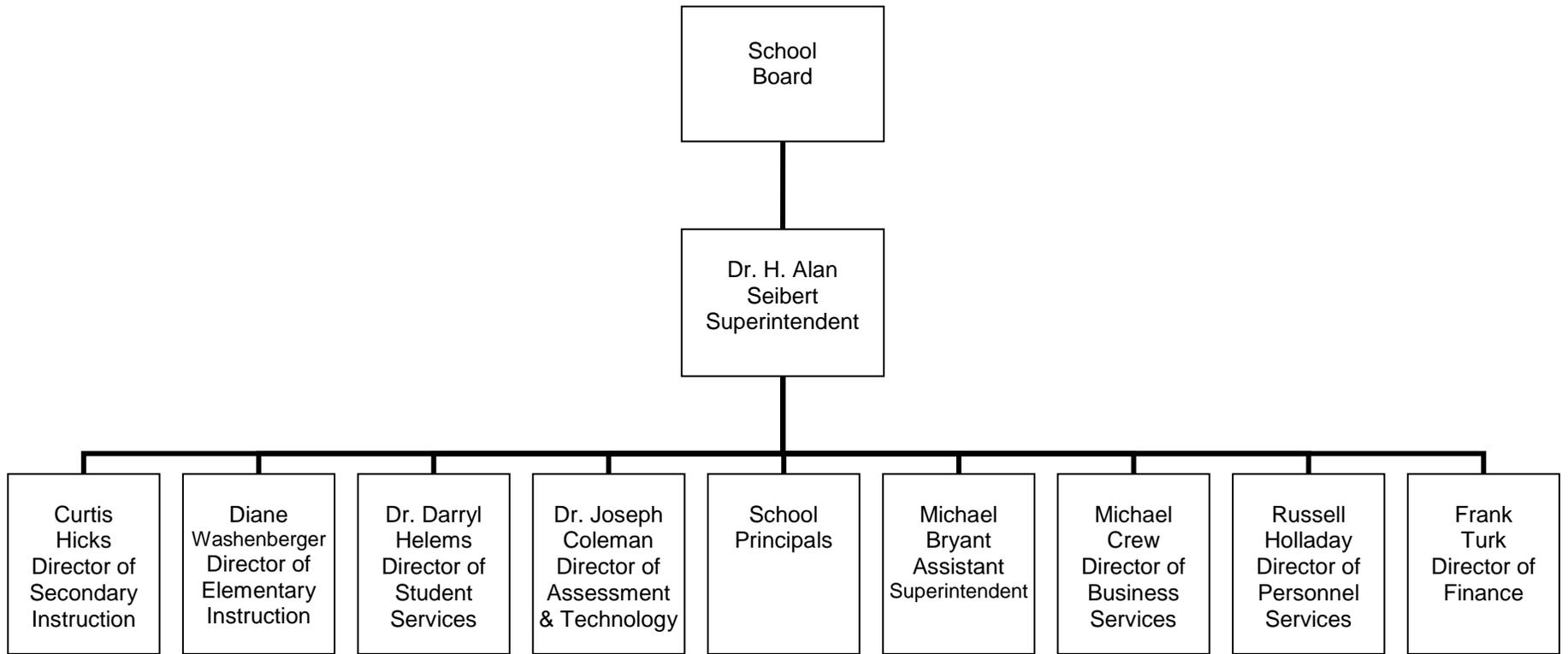
MEMBERS OF SCHOOL BOARD

Sarah W. Southard	Chairman
Dr. Michael A. Chiglinsky	Member
Cindy W. Neathawk	Member
David H. Preston	Member
William Sinkler	Member

SCHOOL ADMINISTRATION

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

CITY OF SALEM SCHOOL DIVISION
ORGANIZATIONAL CHART
JUNE 30, 2010



FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Salem School Division ("School Division"), a component unit of the City of Salem, Virginia, as of and for the year ended June 30, 2010, which collectively comprise the School Division's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Division's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Salem School Division, as of June 30, 2010, and the respective changes in financial position, and the budgetary comparisons for the operating and capital funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2010 on our consideration of the School Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Accounting principles generally accepted in the United States of America require that the Analysis of Funding Progress for the Defined Benefit Pension Plan and the Analysis of Funding Progress for Other Postemployment Benefits on page 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Division's basic financial statements. The introductory and other information sections are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory and other information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Brown, Edwards & Company, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 23, 2010

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BASIC FINANCIAL STATEMENTS

**CITY OF SALEM SCHOOL DIVISION
STATEMENT OF NET ASSETS
JUNE 30, 2010**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 8,450,964
Receivables	3,740
Due from other governmental units	1,247,232
Inventories	40,753
Prepaid items	14,083
<i>Capital assets:</i>	
Non-depreciable	1,664,354
Depreciable, net	36,750,145
Total assets	48,171,271
LIABILITIES	
Accounts payable and accrued liabilities	749,822
Accrued payroll and related liabilities	3,595,489
Self insurance claims liability	303,347
Unearned revenue	19,521
<i>Long-term liabilities due in less than one year:</i>	
Compensated absences	374,665
<i>Long-term liabilities due in more than one year:</i>	
Compensated absences	531,081
Total liabilities	5,573,925
NET ASSETS	
Invested in capital assets	38,414,499
Unrestricted	4,182,847
Total net assets	\$ 42,597,346

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

**CITY OF SALEM SCHOOL DIVISION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
<i>Governmental activities:</i>				
Central administration	\$ 1,514,899	\$ -	\$ -	\$ (1,514,899)
Centralized instruction costs	3,172,287	612,521	-	(2,559,766)
Instructional costs	29,386,590	129,218	4,007,418	(25,249,954)
Attendance and health services	853,611	-	-	(853,611)
Transportation	1,251,032	-	-	(1,251,032)
Food services	1,695,734	974,623	709,048	(12,063)
Federal grants programs	4,269,293	-	4,011,637	(257,656)
Non-departmental	250,000	-	-	(250,000)
Total governmental activities	<u>\$ 42,393,446</u>	<u>\$ 1,716,362</u>	<u>\$ 8,728,103</u>	<u>\$ (31,948,981)</u>
<i>General revenues:</i>				
				18,420,000
				13,691,655
				437,502
				<u>32,549,157</u>
				600,176
				<u>41,997,170</u>
				<u>\$ 42,597,346</u>

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

**CITY OF SALEM SCHOOL DIVISION
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	Special Revenue Funds		Capital Projects	Total
	Operating	Cafeteria		Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 6,557,760	\$ 520,450	\$ 1,372,754	\$ 8,450,964
Receivables	3,473	267	-	3,740
Due from other funds	64,514	-	-	64,514
Due from other governmental units	1,213,495	33,737	-	1,247,232
Inventories	-	40,753	-	40,753
Prepaid items	14,083	-	-	14,083
Total assets	<u>\$ 7,853,325</u>	<u>\$ 595,207</u>	<u>\$ 1,372,754</u>	<u>\$ 9,821,286</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 444,427	\$ 34,078	\$ 271,317	\$ 749,822
Accrued payroll and related liabilities	3,572,662	101,633	-	3,674,295
Self insurance claims liability	303,347	-	-	303,347
Due to other funds	-	64,514	-	64,514
Deferred revenue	-	19,521	-	19,521
Total liabilities	<u>4,320,436</u>	<u>219,746</u>	<u>271,317</u>	<u>4,811,499</u>
FUND BALANCES				
<i>Reserved for:</i>				
Inventories	-	40,753	-	40,753
Prepaid items	14,083	-	-	14,083
Encumbrances	137,159	15,856	570,935	723,950
<i>Unreserved:</i>				
Designated for future projects	300,000	-	-	300,000
Designated for revenue stabilization	500,000	-	-	500,000
Undesignated	2,581,647	318,852	530,502	3,431,001
Total fund balances	<u>3,532,889</u>	<u>375,461</u>	<u>1,101,437</u>	<u>5,009,787</u>
Total liabilities and fund balances	<u>\$ 7,853,325</u>	<u>\$ 595,207</u>	<u>\$ 1,372,754</u>	

RECONCILIATION TO THE STATEMENT OF NET ASSETS

Capital assets used in governmental activities are not considered current financial resources and, therefore, are not reported in the governmental funds.	38,414,499
Long-term liabilities (compensated absences) are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(826,940)
Net assets of governmental activities	<u>\$ 42,597,346</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, 2010**

REVENUES	Special Revenue Funds		Capital Projects	Total Governmental Funds
	Operating	Cafeteria		
<i>Intergovernmental:</i>				
City of Salem	\$ 18,420,000	\$ -	\$ -	\$ 18,420,000
Commonwealth of Virginia	17,699,073	26,132	-	17,725,205
Federal Government	4,011,637	682,916	-	4,694,553
<i>Other:</i>				
Charges for services	-	974,623	-	974,623
Other	1,162,811	16,497	-	1,179,308
Total revenues	<u>41,293,521</u>	<u>1,700,168</u>	<u>-</u>	<u>42,993,689</u>
EXPENDITURES				
Central administration	1,461,269	-	-	1,461,269
Centralized instruction costs	3,136,131	-	-	3,136,131
Instructional costs	27,801,985	-	-	27,801,985
Attendance and health services	853,611	-	-	853,611
Transportation	1,426,223	-	-	1,426,223
Food services	-	1,729,453	-	1,729,453
Federal grants programs	4,456,948	-	-	4,456,948
Non-departmental	250,000	-	-	250,000
Capital projects	-	-	1,154,343	1,154,343
Total expenditures	<u>39,386,167</u>	<u>1,729,453</u>	<u>1,154,343</u>	<u>42,269,963</u>
Excess (deficiency) of revenues over expenditures	<u>1,907,354</u>	<u>(29,285)</u>	<u>(1,154,343)</u>	<u>723,726</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	39,000	1,534,500	1,573,500
Transfers out	(1,573,500)	-	-	(1,573,500)
Total other financing sources (uses)	<u>(1,573,500)</u>	<u>39,000</u>	<u>1,534,500</u>	<u>-</u>
Net change in fund balances	<u>333,854</u>	<u>9,715</u>	<u>380,157</u>	<u>723,726</u>
Fund balances, beginning	<u>3,199,035</u>	<u>365,746</u>	<u>721,280</u>	
Fund balances, ending	<u>\$ 3,532,889</u>	<u>\$ 375,461</u>	<u>\$ 1,101,437</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	1,656,541
Capital outlay donated to City of Salem	43,086
Depreciation expense	(1,663,566)
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	(6,372)
Loss from sale of assets	(112,907)
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.	(40,332)
Change in net assets of governmental activities	<u>\$ 600,176</u>

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

CITY OF SALEM SCHOOL DIVISION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - SPECIAL REVENUE FUND - OPERATING FUND
YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
REVENUES				
<i>Intergovernmental:</i>				
City of Salem	\$ 18,420,000	\$ 18,420,000	\$ 18,420,000	\$ -
Commonwealth of Virginia	18,546,185	17,330,044	17,699,073	369,029
Federal Government	2,797,001	4,743,615	4,011,637	(731,978)
<i>Other:</i>				
Other	920,309	1,335,338	1,162,811	(172,527)
Total revenues	<u>40,683,495</u>	<u>41,828,997</u>	<u>41,293,521</u>	<u>(535,476)</u>
EXPENDITURES				
Central administration	1,534,912	1,549,964	1,461,269	88,695
Centralized instruction costs	3,290,078	3,369,929	3,136,131	233,798
Instructional costs:				
Salem High School	9,986,992	9,472,323	8,931,027	541,296
Andrew Lewis Middle School	6,637,687	6,227,046	5,966,676	260,370
G.W. Carver Elementary School	3,583,840	3,554,978	3,515,038	39,940
West Salem Elementary School	3,331,211	3,250,619	2,940,070	310,549
South Salem Elementary School	3,291,903	3,274,539	3,174,639	99,900
East Salem Elementary School	3,454,972	3,408,502	3,274,535	133,967
Attendance and health services	878,599	873,435	853,611	19,824
Transportation	1,222,363	1,558,820	1,426,223	132,597
Federal grants programs	3,175,185	5,193,089	4,456,948	736,141
Non-departmental	295,753	295,753	250,000	45,753
Total expenditures	<u>40,683,495</u>	<u>42,028,997</u>	<u>39,386,167</u>	<u>2,642,830</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>(200,000)</u>	<u>1,907,354</u>	<u>2,107,354</u>
OTHER FINANCING USES				
Transfers out	-	(1,573,500)	(1,573,500)	-
Total other financing uses	<u>-</u>	<u>(1,573,500)</u>	<u>(1,573,500)</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ (1,773,500)</u>	<u>\$ 333,854</u>	<u>\$ 2,107,354</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, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
<i>Intergovernmental:</i>				
Commonwealth of Virginia	\$ 27,700	\$ 27,700	\$ 26,132	\$ (1,568)
Federal Government	512,000	608,092	682,916	74,824
<i>Other:</i>				
Charges for services	1,094,000	1,094,000	974,623	(119,377)
Other	39,250	60,896	16,497	(44,399)
Total revenues	1,672,950	1,790,688	1,700,168	(90,520)
EXPENDITURES				
Food services:				
Salem High School	500,453	540,658	502,977	37,681
Andrew Lewis Middle School	424,576	469,390	447,196	22,194
G.W. Carver Elementary School	201,583	215,258	216,028	(770)
West Salem Elementary School	178,347	191,242	172,208	19,034
South Salem Elementary School	182,862	213,998	193,454	20,544
East Salem Elementary School	185,129	199,142	197,590	1,552
Total expenditures	1,672,950	1,829,688	1,729,453	100,235
Excess (deficiency) of revenues over expenditures	-	(39,000)	(29,285)	9,715
OTHER FINANCING SOURCES				
Transfers in	-	39,000	39,000	-
Total other financing sources	-	39,000	39,000	-
Net change in fund balances	\$ -	\$ -	\$ 9,715	\$ 9,715

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

**CITY OF SALEM SCHOOL DIVISION
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2010**

	<u>OPEB Trust Fund</u>
ASSETS	
Investments held by trustee, fair value	\$ 274,264
Total assets	<u>274,264</u>
NET ASSETS	
Held in trust for other postemployment benefits	<u>\$ 274,264</u>

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

**CITY OF SALEM SCHOOL DIVISION
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2010**

	<u>OPEB Trust Fund</u>
ADDITIONS	
Employer contributions	\$ 129,617
<i>Investment Income:</i>	
Increase in fair value of investments	15,567
Interest and dividends	4
Less investment expenses	<u>(541)</u>
Total additions	<u>144,647</u>
 Net increase in plan net assets	 <u>144,647</u>
 Net assets held in trust for other postemployment benefits, beginning	 <u>129,617</u>
Net assets held in trust for other postemployment benefits, ending	<u><u>\$ 274,264</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, 2010**

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 guidance through tax levies for operating activities and debt issuance for capital projects. The City reports the School Division as a discretely presented component unit.

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

Government-Wide Statements

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

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

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

Fund Financial Statements

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

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

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

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

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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

Budgets and Budgetary Accounting

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

1. Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (Continued)

- In February, the Superintendent submits to the School Board a proposed operating and capital budget for the fiscal year commencing the following July 1. This budget includes proposed expenditures and the means of financing them for the operating and cafeteria funds. The capital projects fund utilizes a project length budget in lieu of an annual budget; therefore no annual budgets for capital projects are presented.
- Public hearings are conducted to obtain citizen comments.
- Prior to March 31, the budget is adopted through passage of a resolution. The budget is then presented to the City Manager to be incorporated in the City budget. Prior to May 15, City Council approves the School Division budget.
- The School Board, with the concurrence of City Council, may amend the budget providing for additional expenditures and the means for financing them. The School Board approved additional appropriations of \$3,075,740 during the current year primarily for grants, new capital projects, reappropriation of fund balance for encumbrances, and unforeseen operating expenditures.
- The appropriations ordinance places legal restrictions on expenditures at the fund level. City Council has adopted the policy of appropriating the School Division budget in total rather than by categories. The School Board is authorized to transfer budget amounts within the fund at its discretion.
- The Superintendent is authorized to transfer budget amounts within and between the major categories subject to School Board approval.
- Formal budgetary integration is employed as a management control device for the operating and cafeteria funds.
- All appropriations lapse on June 30 except for the capital projects fund, which carry 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 reservations of fund balances since they do not constitute expenditures or liabilities.

Interfund Receivables and Payables

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

Inventory

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

Prepaid Items

Prepaid items include costs incurred as of year-end which are directly related to the subsequent fiscal year and consist primarily of software maintenance fees. Such costs are expensed in the subsequent fiscal year to obtain a proper matching of revenues and expenses/expenditures.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

1. Summary of Significant Accounting Policies (Continued)

Capital Assets

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

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

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

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

Capital Assets and Related Debt Reporting

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

Unearned and Deferred Revenue

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

Compensated Absences

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

Other Postemployment Benefits

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

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

1. Summary of Significant Accounting Policies (Continued)

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

All cash and cash equivalents of the School Division are maintained by the City in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 of the *Code of Virginia* or covered by federal depository insurance. In addition, the City's bank services contract with its lead bank requires the pledging of additional security held by a third party to collateralize 100% of the City's deposits.

3. Interfund Balances and Transfers

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

Receivable Fund	Payable Fund	Amount
Operating Fund	Cafeteria Fund	\$ 64,514

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

Transfers Out	Transfers In	Amount
Operating Fund	Cafeteria Fund	\$ 39,000
Operating Fund	Capital Projects Fund	1,534,500
		\$ 1,573,500

4. Due from Other Governmental Units

Amounts due from other governmental units are as follows:

	Operating Fund	Cafeteria Fund	Governmental Activities
Commonwealth of Virginia			
Sales tax	\$ 549,503	\$ -	\$ 549,503
Federal Government			
American Recovery and Reinvestment Act of 2009	443,164	-	443,164
Special Education – Grants to States	134,854	-	134,854
National School Breakfast and Lunch Programs	-	33,737	33,737
Title I: Grants to Local Educational Agencies	27,926	-	27,926
Title II: Part A, Improving Teacher Quality State Grants	25,923	-	25,923
Title II: Education for Economic Security	20,247	-	20,247
Other	11,878	-	11,878
	\$ 1,213,495	\$ 33,737	\$ 1,247,232

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

5. Capital Assets

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	\$ 1,123,637	\$ -	\$ -	\$ 1,123,637
Construction in progress	151,181	540,717	(151,181)	540,717
Capital assets, nondepreciable	<u>1,274,818</u>	<u>540,717</u>	<u>(151,181)</u>	<u>1,664,354</u>
Capital assets, depreciable				
Furniture and equipment	5,165,699	587,374	(278,445)	5,474,628
Buildings and improvements	52,080,280	722,717	(274,510)	52,528,487
Capital assets, depreciable	<u>57,245,979</u>	<u>1,310,091</u>	<u>(552,955)</u>	<u>58,003,115</u>
Accumulated depreciation				
Furniture and equipment	(3,066,141)	(348,317)	272,386	(3,142,072)
Buildings and improvements	(16,956,939)	(1,315,249)	161,290	(18,110,898)
Accumulated depreciation	<u>(20,023,080)</u>	<u>(1,663,566)</u>	<u>433,676</u>	<u>(21,252,970)</u>
Capital assets, depreciable, net	<u>37,222,899</u>	<u>(353,475)</u>	<u>(119,279)</u>	<u>36,750,145</u>
Capital assets, net	<u>\$ 38,497,717</u>	<u>\$ 187,242</u>	<u>\$ (270,460)</u>	<u>\$ 38,414,499</u>

Depreciation expense was charged to functions as follows:

Central administration	\$ 49,106
Instructional costs	1,455,949
Transportation	158,511
Total depreciation expense	<u>\$ 1,663,566</u>

6. Long-Term Liabilities

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated absences	\$ 834,928	\$ 143,192	\$ (72,374)	\$ 905,746	\$ 374,665
Other postemployment benefits	-	277,617	(277,617)	-	
	<u>\$ 834,928</u>	<u>\$ 420,809</u>	<u>\$ (349,991)</u>	<u>\$ 905,746</u>	<u>\$ 374,665</u>

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

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 the *Code of Virginia* §65.2-100. Premiums are based upon covered payroll, job rates and claims experience. Total premiums for the current year were \$111,836.

General Liability and Other

The School Division provides general liability and other insurance through the Virginia Municipal League (VML) Self Insurance Association. General liability and business automobile have a \$1,000,000 limit. Boiler and machinery coverage and property insurance are covered as per statement of values. The School Division maintains an additional \$5,000,000 umbrella policy over all forms of liability. Total premiums for the current fiscal year were \$118,750.

Healthcare

The City's professionally administered self-insurance program provides health coverage for employees of the City and School Division on a cost-reimbursement basis. All active employees with dependents, retired City employees with dependents and retired School employees pay a premium equivalent for participation. The City is obligated for claims payments under the program. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$125,000 per covered individual and approximately \$6,485,190 in the aggregate.

During the current year total claim expenses of \$5,417,326, which did not exceed the stop loss provisions, were incurred. This represents claims processed and an estimate for claims incurred but not reported (IBNR) as of June 30, 2010. The designated portion of fund balance for self-insurance equaled \$1,530,589 at year-end. The estimated liability for both the City and School Division was \$685,650 at year-end.

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

Year Ended June 30	Beginning Balance	Claim Expenses	Claim Payments	Ending Balance
2010	\$ 618,152	\$ 5,417,326	\$ 5,349,828	\$ 685,650
2009	\$ 342,503	\$ 4,977,225	\$ 4,701,576	\$ 618,152
2008	\$ 370,380	\$ 5,048,740	\$ 5,076,617	\$ 342,503

Other

There were no significant changes in insurance coverages 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

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

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

8. Pension Plan (Continued)

Plan Description (Continued)

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service or at age 50 with 30 years of service if elected by the employer payable monthly for life in an amount equal to 1.70% of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for an annual cost-of-living adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5% per year. AFC is defined as the highest consecutive 36 months of reported compensation. The VRS plan also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report is available on their website at <http://www.varetire.org/Pdf/Publications/2009-Annual-Report.pdf> or obtained by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. This 5% member contribution has been assumed by the School Division. In addition, the School Division is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The School Division's non-professional employee contribution rates for the fiscal year ended June 30, 2010 was 10.70% of the annual covered payroll (including the employee share of 5% paid by the employer).

For the three years ended June 30, 2010, 2009 and 2008, total employer and employee contributions made to the VRS statewide teacher cost-sharing pool for professional employees by the School Division were \$2,470,710, \$3,034,194 and \$3,199,428 representing 5% (last three months of the current fiscal year), 13.81% (first nine months of the current fiscal year), 13.81% and 15.30% of annual covered payroll, respectively (including the employee share of 5% paid by the employer). The current year contributions were reduced in the last three months of the year because of a VRS holiday.

Annual Pension Cost

For the fiscal year ended June 30, 2010, the School Division's annual pension cost of \$136,108 for VRS was equal to its required and actual contributions.

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

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2010	\$ 136,108	100%	\$ -
June 30, 2009	\$ 162,549	100%	\$ -
June 30, 2008	\$ 146,761	100%	\$ -

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

8. Pension Plan (Continued)

Annual Pension Cost (Continued)

The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%. The actuarial value of the School Division's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The School Division's unfunded actuarial accrued liabilities (UAAL) are being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period for the June 30, 2007 actuarial valuation was 20 years.

Funded Status and Funding Progress

As of June 30, 2009, the most recent actuarial valuation date for the School Division's non-professional employees, the plan was 97.68% funded. The actuarial accrued liability (AAL) for benefits was \$4,243,552 and the actuarial value of assets was \$4,144,935, resulting in an UAAL of \$98,617. The covered payroll (annual payroll of active employees covered by the plan) was \$1,538,657 and the ratio of the UAAL to the covered payroll was 6.41%.

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.

9. Other Postemployment Benefits

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

Plan Description

The School Division participates in a single-employer defined benefit healthcare plan (Retiree Health Plan) administered and sponsored by the City of Salem. Effective October 1, 2010, full-time employees retiring from the School Division with at least 15 years of service and receiving an early or regular retirement benefit from the VRS are eligible to participate in the Retiree Health Plan.

Eligible employees and eligible 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 to pay the entire premium rate.

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

9. Other Postemployment Benefits (Continued)

Plan Description (Continued)

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 July 1, 2008, the date of the latest actuarial valuation for the School Division, plan participation consisted of:

Active employees	553
Retired participants	43
Total participants	596

Funding Policy

The Retiree Health Plan is funded through member and employer contributions. Retirees receiving benefits contributed 100% of the health insurance premium rate. Retirees contributed \$286,860 of the total premiums through their required contributions of between \$75.60 and \$1,166, depending on the type of coverage.

Based on the July 1, 2008 actuarial valuation, the School Division contributed \$277,617 to the Retiree Health Plan. Included in this amount is a current year contribution of \$129,617 to the Virginia Pooled OPEB Trust. It is the School Division's intent to fully fund the annual required contribution (ARC) each year.

Annual OPEB Cost and Net OPEB Obligation

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

The following table presents the School Division's annual OPEB cost, amount contributed and changes in the net OPEB obligation for the fiscal year ended June 30, 2010.

Annual required contribution	\$ 277,617
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	277,617
Contributions made	(277,617)
Increase in net OPEB obligation	-
Net OPEB obligation, beginning	-
Net OPEB obligation, ending	\$ -

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

9. Other Postemployment Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$ 277,617	100.0%	\$ -
June 30, 2009	\$ 277,617	100.0%	\$ -

Funded Status and Funding Progress

As of July 1, 2008, the School Division's most recent actuarial valuation date, the AAL for benefits was \$2,594,210 and the UAAL for benefits was \$2,594,210, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$23,509,649 and the ratio of the UAAL to the covered payroll was 11%.

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 July 1, 2008 actuarial valuation are detailed in the following schedule. The investment rate of return shown was based on the projected returns of the Virginia Pooled OPEB Trust.

Actuarial methods

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

Actuarial assumptions

Investment rate of return	7.00%
Projected annual salaries increase	2.50%
Healthcare cost trend rate	10% for fiscal year 2008 grading to 5% for fiscal year 2016

**CITY OF SALEM SCHOOL DIVISION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

10. Commitments and Contingencies

Construction Commitments

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

	Spent to Date	Remaining Contract
East Salem and West Salem Classroom Renovations	\$ 19,626	\$ 301,956
Salem High Physical Education Lockers	20,467	226,933
	\$ 19,626	\$ 301,956

Operating Leases

The School Division entered several non-cancelable operating leases for equipment. Rent expenditures for the current year were \$55,464. At the end of the year the future minimum rentals for the next five years are as follows:

June 30, 2011	\$	58,762
June 30, 2012		51,802
June 30, 2013		20,456
June 30, 2014		17,202
June 30, 2015		1,535
	\$	149,757

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.

11. Jointly Governed Organizations

The Counties of Botetourt, Craig and Franklin, the City of Roanoke and the School Division jointly participate in a regional education program for severely disabled students operated by the Roanoke Valley Regional Board (Regional Board). The Regional Board is governed by a five-member board, one from each participating locality. The School Division has control over budget and financing only to the extent of representation by the one board member appointed. Each locality's financial obligation is based on their proportionate share of students attending the regional program. For the year ended June 30, 2010, the School Division remitted \$456,657 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.

12. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. This statement establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. Management has not completed the process of evaluating the impact that will result from adoption of the standard, and is therefore unable to disclose the impact of adoption.

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF SALEM SCHOOL DIVISION
REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS
JUNE 30, 2010**

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (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, 2009	\$ 4,144,935	\$ 4,243,552	\$ 98,617	97.68%	\$ 1,538,657	6.41%
June 30, 2008	\$ 4,082,565	\$ 3,973,551	\$ (109,014)	102.74%	\$ 1,440,433	-7.57%
June 30, 2007	\$ 3,709,263	\$ 3,723,947	\$ 14,684	99.61%	\$ 1,389,211	1.06%

**OTHER POSTEMPLOYMENT BENEFITS
All Staff**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as of Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
July 1, 2008	\$ -	\$ 2,594,210	\$ 2,594,210	0.0%	\$ 23,509,649	11.0%

**CITY OF SALEM SCHOOL DIVISION
REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYER CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2010**

Fiscal year	Annual Required Contribution	Percentage Contributed
June 30, 2010	\$ 277,617	100.0%
June 30, 2009	\$ 277,617	100.0%

OTHER INFORMATION SECTION

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

Page

Financial Trends

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

Table 1	Net Assets by Component.....	38
Table 2	Changes in Net Assets.....	39
Table 3	Fund Balances – Governmental Funds.....	40
Table 4	Changes in Fund Balances – Governmental Funds.....	41

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.

Table 5	Membership and Per Pupil Spending.....	43
Table 6	Teacher Base Salaries and Average Salaries.....	44
Table 7	School Building Information.....	44
Table 8	Accreditation Status Under <i>No Child Left Behind Act</i>	45
Table 9	Scholastic Aptitude Test (SAT) Scores.....	45
Table 10	Virginia Standards of Learning (SOL) Test Results.....	46

**TABLE 1
UNAUDITED**

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

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

Notes:

Source: City of Salem Finance Department

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

⁽¹⁾ As restated.

**TABLE 2
UNAUDITED**

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

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

Notes:

Source: City of Salem Finance Department

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

**TABLE 3
UNAUDITED**

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006 ⁽¹⁾</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002 ⁽²⁾</u>	<u>2001</u>
FUND BALANCES										
<u>Operating Fund</u>										
Reserved for prepaid items	\$ 14,083	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Reserved for encumbrances	137,159	335,759	95,531	19,946	65,328	238,626	126,228	25,470	43,666	381,159
Designated for future projects	300,000	200,000	100,000	-	-	-	-	-	-	-
Designated for revenue stabilization	500,000	-	-	-	-	-	-	-	-	-
Unreserved, undesignated	2,581,647	2,663,276	1,667,848	1,820,766	763,269	1,334,703	1,673,236	2,106,524	1,517,147	1,502,671
Total operating fund	<u>\$ 3,532,889</u>	<u>\$ 3,199,035</u>	<u>\$ 1,863,379</u>	<u>\$ 1,840,712</u>	<u>\$ 828,597</u>	<u>\$ 1,573,329</u>	<u>\$ 1,799,464</u>	<u>\$ 2,131,994</u>	<u>\$ 1,560,813</u>	<u>\$ 1,883,830</u>
<u>Cafeteria Fund</u>										
Reserved for inventories	\$ 40,753	\$ 60,389	\$ 68,195	\$ 44,963	\$ 40,378	\$ 27,618	\$ 35,117	\$ 41,470	\$ 46,652	\$ 29,355
Reserved for encumbrances	15,856	21,646	-	19,364	23,090	-	-	-	-	-
Unreserved, undesignated	318,852	283,711	306,211	365,182	304,039	268,255	237,847	184,227	160,124	126,629
Total operating fund	<u>\$ 375,461</u>	<u>\$ 365,746</u>	<u>\$ 374,406</u>	<u>\$ 429,509</u>	<u>\$ 367,507</u>	<u>\$ 295,873</u>	<u>\$ 272,964</u>	<u>\$ 225,697</u>	<u>\$ 206,776</u>	<u>\$ 155,984</u>
<u>Capital Projects Fund</u>										
Reserved for encumbrances	\$ 570,935	\$ 546,909	\$ 224,185	\$ 113,976	\$ 454,474	\$ 545,429	\$ 2,644,163	\$ 8,132,438	\$ 912,033	\$ -
Unreserved, undesignated	530,502	174,371	406,753	41,903	73,315	380,014	1,501,117	(10,401,797)	(67,813)	7,681
Total operating fund	<u>\$ 1,101,437</u>	<u>\$ 721,280</u>	<u>\$ 630,938</u>	<u>\$ 155,879</u>	<u>\$ 527,789</u>	<u>\$ 925,443</u>	<u>\$ 4,145,280</u>	<u>\$ (2,269,359)</u>	<u>\$ 844,220</u>	<u>\$ 7,681</u>
<u>Debt Service Fund</u>										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,737,447
Total operating fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,737,447</u>				
Total school division	<u>\$ 5,009,787</u>	<u>\$ 4,286,061</u>	<u>\$ 2,868,723</u>	<u>\$ 2,426,100</u>	<u>\$ 1,723,893</u>	<u>\$ 2,794,645</u>	<u>\$ 6,217,708</u>	<u>\$ 88,332</u>	<u>\$ 2,611,809</u>	<u>\$ 4,784,942</u>

Notes:

Source: City of Salem Finance Department

⁽¹⁾ As restated.

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

TABLE 4
UNAUDITED

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

	2010	2009	2008	2007	2006	2005	2004	2003	2002 ⁽¹⁾	2001
REVENUES										
<u>Operating Fund</u>										
<i>Intergovernmental:</i>										
City of Salem	\$ 18,420,000	\$ 18,420,000	\$ 17,995,000	\$ 17,095,000	\$ 16,266,005	\$ 15,618,081	\$ 15,340,564	\$ 14,747,635	\$ 14,869,925	\$ 14,110,000
Commonwealth of Virginia	17,699,073	20,616,013	19,088,988	18,692,569	16,027,190	15,466,814	13,338,787	13,110,214	12,963,390	12,823,520
Federal Government	4,011,637	1,373,482	1,203,850	1,608,121	1,649,423	1,330,801	1,276,366	1,086,974	1,094,449	821,520
<i>Other:</i>	1,162,811	917,538	917,978	898,481	793,134	444,824	483,860	392,732	350,377	296,043
Total operating fund	41,293,521	41,327,033	39,205,816	38,294,171	34,735,752	32,860,520	30,439,577	29,337,555	29,278,141	28,051,083
<u>Cafeteria Fund</u>										
<i>Intergovernmental:</i>										
Commonwealth of Virginia	26,132	25,861	26,735	23,974	23,403	23,995	23,611	23,074	22,545	22,791
Federal Government	682,916	635,652	596,438	553,362	513,243	485,458	463,616	421,359	403,160	332,770
<i>Other:</i>										
Charges for services	974,623	1,022,831	1,029,365	1,075,195	1,059,334	971,131	886,464	808,769	809,456	752,316
Other	16,497	35,303	42,287	50,807	36,732	21,310	6,635	14,616	9,128	44,498
Total cafeteria fund	1,700,168	1,719,647	1,694,825	1,703,338	1,632,712	1,501,894	1,380,326	1,267,818	1,244,289	1,152,375
<u>Capital Projects Fund</u>										
<i>Intergovernmental:</i>										
City of Salem	-	-	-	-	-	-	14,000,000	-	-	-
<i>Other:</i>										
Total capital projects fund	-	-	98,872	-	-	-	-	-	-	-
<u>Debt Service Fund</u>										
Revenue from the use of money and property	-	-	-	-	-	-	-	-	-	133,140
Total debt service fund	-	-	-	-	-	-	-	-	-	133,140
EXPENDITURES										
<u>Operating Fund</u>										
Central administration	1,461,269	1,505,723	1,467,700	1,530,878	1,379,411	1,243,400	1,165,163	1,135,702	1,089,895	1,069,519
Centralized instruction costs	3,136,131	3,231,442	2,922,251	3,034,138	2,832,043	2,645,018	2,259,623	2,207,533	2,141,778	1,993,482
<i>Instructional costs:</i>										
Salem High School	8,931,027	10,325,423	9,926,412	9,623,456	9,249,942	8,496,377	8,002,095	7,741,548	7,612,704	7,524,658
Andrew Lewis Middle School	5,966,676	6,859,192	6,742,401	6,457,778	6,168,605	5,762,444	5,389,410	5,048,266	5,012,621	4,766,327
G.W. Carver Elementary School	3,515,038	3,492,995	3,420,249	3,245,015	2,932,289	2,721,906	2,601,177	2,453,824	2,384,450	2,362,474
West Salem Elementary School	2,940,070	3,258,221	3,184,307	3,095,087	2,912,562	2,693,822	2,484,294	2,384,099	2,319,123	2,374,988
South Salem Elementary School	3,174,639	3,191,943	3,149,596	2,851,713	2,735,922	2,517,767	2,382,162	2,263,232	2,299,409	2,213,181
East Salem Elementary School	3,274,535	3,397,788	3,155,854	3,049,965	2,814,731	2,755,801	2,549,632	2,433,991	2,434,600	2,518,812
Attendance and health services	853,611	865,647	875,542	856,256	824,682	737,688	618,745	592,041	539,368	567,218
Transportation	1,426,223	1,209,606	1,324,034	1,072,352	1,071,437	1,007,797	860,523	884,174	832,204	680,829
Federal grants programs	4,456,948	1,746,188	1,688,454	1,949,581	1,655,441	1,323,474	1,282,019	1,075,705	1,016,591	752,448
Non-departmental	250,000	295,753	266,490	273,835	-	-	-	-	-	-
Capital outlay/lottery revenue	-	-	-	-	-	-	27,595	20,036	625,950	314,452
Total operating fund	\$ 39,386,167	\$ 39,379,921	\$ 38,123,290	\$ 37,040,054	\$ 34,577,065	\$ 31,905,494	\$ 29,622,438	\$ 28,240,151	\$ 28,308,693	\$ 27,138,388

**TABLE 4
(CONTINUED)**

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

EXPENDITURES	2010	2009	2008	2007	2006	2005	2004	2003	2002⁽¹⁾	2001
Cafeteria Fund										
Food services	\$ 1,729,453	\$ 1,753,307	\$ 1,749,928	\$ 1,641,336	\$ 1,596,278	\$ 1,513,985	\$ 1,416,059	\$ 1,309,897	\$ 1,193,497	\$ 1,103,068
Total cafeteria fund	1,729,453	1,753,307	1,749,928	1,641,336	1,596,278	1,513,985	1,416,059	1,309,897	1,193,497	1,103,068
Capital Projects Fund										
Capital projects	1,154,343	496,114	683,672	613,912	1,543,073	4,365,998	8,652,031	3,809,660	199,347	705,812
Total capital projects fund	1,154,343	496,114	683,672	613,912	1,543,073	4,365,998	8,652,031	3,809,660	199,347	705,812
Debt Service Fund										
Principal, interest and fiscal charges	-	-	-	-	-	-	-	-	-	1,852,480
Total debt service fund	-	-	-	-	-	-	-	-	-	1,852,480
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES										
Operating Fund	1,907,354	1,947,112	1,082,526	1,254,117	158,687	955,026	817,139	1,097,404	969,448	912,695
Cafeteria Fund	(29,285)	(33,660)	(55,103)	62,002	36,434	(12,091)	(35,733)	(42,079)	50,792	49,307
Capital Projects Fund	(1,154,343)	(496,114)	(584,800)	(613,912)	(1,543,073)	(4,365,998)	5,347,969	(3,809,660)	(199,347)	(705,812)
Debt Service Fund	-	-	-	-	-	-	-	-	-	(1,719,340)
	723,726	1,417,338	442,623	702,207	(1,347,952)	(3,423,063)	6,129,375	(2,754,335)	820,893	(1,463,150)
OTHER FINANCING SOURCES (USES)										
Operating Fund										
Transfers out	(1,573,500)	(611,456)	(1,059,859)	(242,002)	(1,180,419)	(1,043,955)	(1,149,669)	(757,081)	(1,292,465)	(601,186)
Total operating fund	(1,573,500)	(611,456)	(1,059,859)	(242,002)	(1,180,419)	(1,043,955)	(1,149,669)	(757,081)	(1,292,465)	(601,186)
Cafeteria Fund										
Transfers in	39,000	25,000	-	-	35,000	35,000	83,000	61,000	-	-
Total cafeteria fund	39,000	25,000	-	-	35,000	35,000	83,000	61,000	-	-
Capital Projects Fund										
Transfers in	1,534,500	586,456	1,059,859	242,002	1,145,419	1,008,955	1,066,669	696,081	1,035,886	356,186
Total capital projects fund	1,534,500	586,456	1,059,859	242,002	1,145,419	1,008,955	1,066,669	696,081	1,035,886	356,186
Debt Service Fund										
Transfers in	-	-	-	-	-	-	-	-	-	1,820,739
Total debt service fund	-	-	-	-	-	-	-	-	-	1,820,739
NET CHANGE IN FUND BALANCES										
Operating Fund	333,854	1,335,656	22,667	1,012,115	(1,021,732)	(88,929)	(332,530)	340,323	(323,017)	311,509
Cafeteria Fund	9,715	(8,660)	(55,103)	62,002	71,434	22,909	47,267	18,921	50,792	49,307
Capital Projects Fund	380,157	90,342	475,059	(371,910)	(397,654)	(3,357,043)	6,414,638	(3,113,579)	836,539	(349,626)
Debt Service Fund	-	-	-	-	-	-	-	-	-	101,399
	\$ 723,726	\$ 1,417,338	\$ 442,623	\$ 702,207	\$ (1,347,952)	\$ (3,423,063)	\$ 6,129,375	\$ (2,754,335)	\$ 564,314	\$ 112,589

Notes:

Source: City of Salem Finance Department

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

TABLE 5
UNAUDITED

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

Fiscal Year Ended June 30	Membership September 30 ⁽¹⁾	Average Daily Membership March 31 ⁽¹⁾	Membership June 30 ⁽¹⁾	Average Daily Membership June 30 ⁽²⁾	Average Daily Attendance March 31 ⁽³⁾	Special Education Child Count December 1 ⁽⁴⁾	Salem Per Pupil Expenditures ⁽²⁾	State Average Per Pupil Expenditures ⁽²⁾	Composite Index
2010	3,905	3,915	3,907	3,935	3,788	496	N/A	N/A	0.3518
2009	3,930	3,900	3,905	3,919	3,767	486	\$10,289	\$11,316	0.3518
2008	3,948	3,922	3,911	3,936	3,778	474	\$ 9,939	\$11,037	0.3768
2007	3,978	3,968	3,966	3,966	3,827	480	\$ 9,468	\$10,584	0.3768
2006	3,893	3,890	3,902	3,908	3,755	471	\$ 9,034	\$ 9,755	0.3905
2005	3,944	3,915	3,882	3,918	3,758	484	\$ 8,386	\$ 9,202	0.3905
2004	3,910	3,894	3,888	3,903	3,745	508	\$ 8,131	\$ 8,552	0.4166
2003	3,940	3,921	3,910	3,927	3,755	488	\$ 7,744	\$ 8,182	0.4166
2002	4,030	4,010	3,981	4,007	3,861	523	\$ 7,050	\$ 7,836	0.4370
2001	3,955	3,939	3,889	3,932	3,776	535	\$ 7,103	\$ 7,647	0.4370

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

2008	4,328
2005	4,218
2002	4,618
1999	4,590

Notes:

N/A Not available

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

⁽²⁾ Superintendent's Annual Report Table 15

⁽³⁾ Superintendent's Annual Report Table 8

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

⁽⁵⁾ Director of Assessment and Technology

**TABLE 6
UNAUDITED**

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

Fiscal Year Ended June 30	Minimum Salary ⁽¹⁾	Maximum Salary ⁽¹⁾	Salem Average Salary ⁽²⁾	Commonwealth Average Salary ⁽²⁾
2010	\$40,392	\$58,638	\$53,912	N/A
2009	\$40,392	\$60,104	\$53,912	\$52,307
2008	\$39,600	\$62,605	\$52,085	\$50,511
2007	\$38,600	\$60,780	\$51,211	\$49,164
2006	\$37,300	\$59,010	\$49,864	\$47,220
2005	\$35,325	\$56,740	\$47,848	\$45,377
2004	\$34,100	\$54,555	\$47,092	\$43,936
2003	\$33,200	\$52,915	\$44,492	\$42,677

Notes:

N/A Not available

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

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

**TABLE 7
UNAUDITED**

**CITY OF SALEM SCHOOL DIVISION
SCHOOL BUILDING INFORMATION
JUNE 30, 2010**

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

Note:

Source: Director of Business Services

**TABLE 8
UNAUDITED**

**CITY OF SALEM SCHOOL DIVISION
ACCREDITATION STATUS UNDER *NO CHILD LEFT BEHIND ACT*
2009-2010 SCHOOL YEAR**

School Name	Virginia Accreditation Status	Met Adequate Yearly Progress (AYP) Requirements?
Salem High School	Fully Accredited	Yes
Andrew Lewis Middle School	Fully Accredited	Yes
G.W. Carver Elementary School	Fully Accredited	Yes
West Salem Elementary School	Fully Accredited	Yes
South Salem Elementary School	Fully Accredited	Yes
East Salem Elementary School	Fully Accredited	Yes
Division		Yes

Notes:

Source: Director of Business Services

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

**TABLE 9
UNAUDITED**

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

Fiscal Year Ended June 30	Number of Students Who Took SATs	Combined Score for Verbal and Math		
		Salem	Virginia	National
2010	163	1,056	1,024	1,017
2009	145	1,037	1,043	1,037
2008	185	1,045	1,023	1,017
2007	188	1,034	1,022	1,017
2006	160	1,013	1,025	1,021
2005	197	1,035	1,030	1,028
2004	180	1,065	1,024	1,026
2003	183	1,059	1,024	1,026
2002	161	1,042	1,016	1,020
2001	163	1,031	1,009	1,020

Note:

Source: Director of Assessment and Technology

**TABLE 10
UNAUDITED**

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

	Grade	2010		2009		2008	
		Salem	Virginia	Salem	Virginia	Salem	Virginia
<i>Elementary and Middle School:</i>							
English: Reading	3	86	83	92	86	94	81
Mathematics	3	95	92	96	89	97	89
Science	3	97	91	97	89	91	88
History and Social Sciences	3	98	93	99	93	97	93
English: Reading	4	95	88	93	89	96	88
Mathematics	4	94	88	92	86	91	84
Virginia Studies	4	94	87	92	88	95	83
English: Reading	5	95	90	97	92	96	89
English: Writing	5	94	88	94	86	94	87
Mathematics	5	95	90	95	90	93	88
Science	5	93	88	96	88	96	88
US History to 1877	5	92	78	88	74	87	74
English: Reading	6	95	88	93	86	91	85
Mathematics	6	80	77	82	73	77	68
US History 1877 to Present	6	93	91	97	92	97	92
English: Reading	7	96	89	97	88	91	86
Mathematics	7	90	75	88	71	79	65
Civics and Economics	7	92	86	92	84	82	84
English: Reading	8	93	90	91	87	94	83
English: Writing	8	96	91	96	89	95	87
Mathematics	8	89	87	88	85	90	83
Science	8	95	92	94	90	94	90
<i>High School and End of Course:</i>							
English: Reading	9-12	96	94	96	95	97	94
English: Writing	9-12	95	92	96	92	95	92
Algebra I	9-12	98	94	95	94	97	93
Algebra II	9-12	95	91	95	91	96	90
Geometry	9-12	96	88	92	87	93	87
Biology	9-12	96	89	94	88	96	88
Chemistry	9-12	100	93	100	93	99	92
Earth Science	9-12	90	88	93	87	90	86
Virginia and US History	9-12	97	95	98	95	98	94
World History I	9-12	98	93	95	93	97	91
World History II	9-12	95	92	95	93	95	92
World Geography	9-12	92	86	94	86	91	84

Note:

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

COMPLIANCE SECTION

**CITY OF SALEM SCHOOL DIVISION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2010**

<u>Federal Grantor/Pass-through Grantor</u> <i>(Commonwealth of Virginia)/Program Title</i>	Federal CFDA Number	Federal Expenditures
<u>Department of Agriculture</u>		
<i>Department of Agriculture and Consumer Services</i>		
Food Distribution – Commodities	10.555	\$ 96,092
<i>Department of Education</i>		
School Breakfast Program	10.553	108,499
National School Lunch Program	10.555	478,325
<u>Department of Education</u>		
<i>Department of Education</i>		
Adult Education – Basic Grants to States	84.002	62,599
Title I Grants to Local Educational Agencies	84.010	350,053
Special Education – Grants to States	84.027	741,141
Career and Technical Education – Basic Grants to States	84.048	43,110
Special Education – Preschool Grants	84.173	17,274
Safe and Drug-Free Schools and Communities – State Grants	84.186	11,048
State Grants for Innovative Programs	84.298	40
Educational Technology State Grants	84.318	6,928
English Language Acquisition Grants	84.365	5,819
Improving Teacher Quality State Grants	84.367	127,729
ARRA: Education Technology State Grants	84.386	11,838
ARRA: Title I Grants to Local Educational Agencies	84.389	177,520
ARRA: Special Education – Grants to States	84.391	334,665
ARRA: Special Education – Preschool Grants	84.392	10,142
ARRA: State Fiscal Stabilization Fund – Education State Grants	84.394	2,111,732
Total Expenditures of Federal Awards		<u>\$ 4,694,554</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, 2010, the School Division had food commodities in inventory of \$20,577.

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Salem School Division (“School Division”), a component unit of the City of Salem, Virginia, as of and for the year ended June 30, 2010, which collectively comprise the School Division’s basic financial statements and have issued our report thereon dated November 23, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Division’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School Division’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School Division’s internal control over financial reporting.

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the School Division in a separate letter dated November 23, 2010.

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 23, 2010

CITY OF SALEM SCHOOL DIVISION
SUMMARY OF COMPLIANCE MATTERS
June 30, 2010

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

STATE COMPLIANCE MATTERS

Code of Virginia:

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

State Agency Requirements:

Education