

CITY OF SALEM, VIRGINIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT YEAR ENDED JUNE 30, 2016

DEPARTMENT OF FINANCE

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INTRODUCTORY SECTION



The introductory section of the City of Salem, Virginia's Comprehensive Annual Financial Report contains the Letter of Transmittal, which presents an overview of the profile of the City of Salem government, the local economic condition and outlook, major initiatives and accomplishments, and financial policies and financial planning. Also included in this section are an organizational chart and the Certificate of Achievement for Excellence in Financial Reporting awarded by the Government Finance Officers Association of the United States and Canada (GFOA) for the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015. It is the highest form of recognition in governmental financial reporting.

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November 17, 2016

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

In accordance with Section 8.9 of the Salem City Charter, we are pleased to present the City of Salem, Virginia (City) Comprehensive Annual Financial Report (CAFR) as of and for the fiscal year ended June 30, 2016. The charter requires the City to issue an annual report on its financial position and activities and that the report be audited by an independent firm of certified public accountants. This report was prepared by the Department of Finance in conformity with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB).

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

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

Management's discussion and analysis (MD&A) beginning on page 22 provides a narrative introduction, overview and analysis to assist users in interpreting the basic financial statements as required by GAAP. This letter is meant to complement the MD&A and should be read in conjunction with it.

Profile of the Government

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

Chartered by the Commonwealth of Virginia as a town in 1806 and as a city in 1968, Salem encompasses a land area of 14.4 square miles. The City's 2016 estimated population, 25,432, accounts for approximately 8.2% of the population in its metropolitan statistical area (MSA), which includes the neighboring City of Roanoke and Counties of Botetourt, Craig, Franklin and Roanoke.

The City of Salem operates under a Council-Manager form of government. Under this form of government, City Council is elected by the voters and is comprised of five members, who elect two of their members Mayor and Vice-Mayor for a two-year term. The City Council employs a City Manager who is responsible for the proper administration of the City government. The Primary Government provides a full range of services including general government administration, judicial administration, public safety, public works, health and welfare, parks and recreation, community development activities and support for education. The City also owns and operates an electric distribution system, water and sewage facilities and a civic center.

The financial reporting entity reflected in the CAFR, which is more fully described in Note 1 to the basic financial statements, conforms to the requirements of GAAP. The accounting and reporting principles of the GASB are based on the fundamental concept that publicly elected officials are accountable to their constituents, and the financial statements should emphasize the primary government and permit financial statement users to distinguish between the primary government and its component units. There are several commissions and authorities where the City's accountability is limited to appointments to, or seats on, the respective boards. The City does not exercise financial or administrative control over these entities, so they are excluded from this report.

The City's reporting entity includes one discretely presented component unit, the City of Salem School Division. A component unit is a legally separate entity which meets one of three conditions: the governing board is appointed by the primary government, the entity is fiscally dependent on the primary government, or excluding the entity could potentially result in misleading financial reporting. A five-member School Board appointed by City Council supervises operations of the School Division. The School Division receives significant financial support from the City. Given these conditions, the School Division is presented in a separate column in the government-wide financial statements to emphasize that it is legally separate

from the primary government and to differentiate its financial position and results of operations from that of the primary government.

Local Economic Condition and Outlook

Salem is proud to provide an atmosphere and quality of life conducive to families and businesses. Over the years, Salem has been able to maintain stable property tax rates. A strong educational system providing a well-educated and skilled workforce along with generally lower operating costs are reasons why employers have chosen to relocate in Salem and the rest of the Valley. The City's effort to retain existing business and industry is an integral part of its economic development efforts. The City also participates in regional efforts to promote economic development opportunities in the Roanoke Valley.

The City is a member of the Western Virginia Regional Industrial Facility Authority (WVRIFA), which was formed to jointly acquire tracts of land suitable for development. The first project of WVRIFA was recently announced with Salem, Roanoke City and Roanoke County participating. Members approved the issuance of bonds to purchase a 106-acre tract of land along Interstate 81 that will help fill the need for larger development sites. Salem's share of the borrowing is estimated to be \$1.2 million. Acquiring this site will make the region more competitive in attracting economic development opportunities. Members share in tax revenue generated by the eventual user.

The Roanoke Valley Broadband Authority (RVBA) was incorporated in January 2014 with four local government members including Salem, Roanoke City, Roanoke County and Botetourt County. The primary goal of the RVBA is to improve affordable broadband services in the Roanoke Valley by encouraging collaboration, competition and long term investments. RVBA created a 47-mile network in the Valley that serves business parks, large institutions, government facilities and businesses. The project broke ground in August of 2015 and the RVBA started providing service to its first customers in May of 2016. The new RVBA fiber infrastructure delivers open access multi-terabit capacity Internet at speeds up to 200 Gbps for local area businesses, government organizations and last mile providers. Having the network in place makes it easier to deliver competitive services throughout the Valley. An additional 80 miles of connectivity is anticipated by the end of 2018.

Salem is fortunate to have a diversified economy comprised of health care, manufacturing, higher education, retail trade and government. Based on 2015 4th quarter data from the Virginia Employment Commission, Salem experienced the largest number of new hires in administrative and support, accommodation and food services, retail trade and health care. Included in the manufacturing process are hi-tech electronics, medical equipment, tires, furniture, steel, tool and die and railroad equipment, just to name a few. Salem's unemployment rate of 4% dropped from the prior year rate of 5.2% and was lower than the national unemployment rate of 5.1%. Salem's unemployment rate remained level with the state unemployment rate of 4%.

Health care remains an important part of Salem's economy. The Salem VA Medical Center (Salem VAMC) was Salem's largest employer in fiscal year 2016, employing approximately 1,900 people. At Salem VAMC, services are available to more than 112,500 veterans living in a 26 county area of Southwestern Virginia. In the past ten years, employment has increased by 500. Lewis Gale Hospital and Lewis Gale Physicians remained major employers in Salem, with workforces of 1,450 and 665, respectively. Lewis Gale Oncology recently completed a small addition and multi-million dollar renovation project, bringing Genius 3D mammography to the Roanoke Valley.

Construction is underway on the new Mount Regis facility, a \$19.3 million project at the Salem Commerce Park. The facility will provide 48 beds and treat patients with substance abuse issues. The new building will provide a more up-to-date facility than Mount Regis' current location and is scheduled to open in March 2017.

Salem City Council agreed to sell 6.75 acres of land next to the Civic Center to Spartan Development LLC for construction of a Staybridge Suites. Staybridge Suites is an upscale hotel chain specializing in extended-stay suites. The hotel would be a 95 room, three story structure with an expected opening date in 2018. Construction of a restaurant is also planned next to the hotel. The restaurant will span at least 5,000 square feet and include at least 150 seats inside and 50 seats outside. Spartan Development LLC is expected to invest \$10 million in the project and employ more than 60 people.

Several new businesses have opened at Spartan Square Shopping Center. Pet Supplies Plus, a supermarket style pet food and supply store, and Anytime Fitness, a 24-hour health and fitness club, recently opened. Kroger completed a renovation and added two additional fuel pumps. This is the second store in the Roanoke area to provide Click List, a service which allows customers to order on-line and pick up their groceries.

Salem continues to benefit from the expansion of local businesses. Salem Specialties, a custom metal parts manufacturer, expanded to a new 7,500 square foot facility built on property adjacent to their old location. Berglund Ford Mazda is working on a renovation of the showroom and service lanes at their facility. Blue Ridge Truck & Auto, a full service auto repair shop, opened in Salem. Dunkin Donuts recently opened a new location on West Main Street after a complete renovation of a former convenience store. Macado's renovated their outdoor dining space, adding new tables, flat screen televisions and a fireplace lounge area. O'Brien Meats renovated and expanded their location adding a new entrance, café counter space and indoor and outdoor seating. Our Daily Bread Bakery & Bistro opened in the fall of 2015 after completing building and parking lot improvements.

Salem continues to be active in tourism initiatives as a means of economic development. The City served as the lead petitioner for the creation of the new Virginia Mountains region, as designated by the Virginia Tourism Corporation. This new region, the first of its type in many years, includes the Counties of

Alleghany, Bath, Bedford, Botetourt, Craig, Franklin, Highland and Roanoke and the independent cities of Covington, Roanoke and Salem. The new region is featured in all Virginia Tourism streams including print and electronic media and allows participants to reduce marketing costs by using cooperative advertising ventures. The City continues to participate with Visit Virginia's Blue Ridge to promote conventions and events in the region.

Salem has developed a nationwide reputation as a sports town, bringing to the community dozens of collegiate and amateur tournaments and championships. The City in conjunction with Roanoke College was recently selected to host the 2016 NCAA Division III Men's and Women's soccer championships that were relocated from venues in North Carolina. In addition, Central Intercollegiate Athletic Association (CIAA) recently announced that the CIAA Football Championship game will be moving from Durham, North Carolina to Salem. Attendance at this event is expected to be nearly 5,000 people. While these events must be planned in a short period of time, Salem is uniquely qualified to provide true championship experiences based on the City's previous and current involvement with hosting NCAA events. Salem and the Old Dominion Athletic Conference (ODAC) will serve as co-hosts for the Amos Alonzo Stagg Bowl (NCAA Division III Football) and the Men's Division III Basketball championship through 2017/2018. In addition to football and basketball, the City/ODAC was awarded Division III softball through 2015/2016. Division II softball co-hosted by the Mountain East Conference will return again in 2017 and 2018. In 2015/2016, nearly 15,000 people traveled to Salem to attend NCAA events held in the City, which included the NCAA Division III Football Championship, Stagg Bowl, Division III Men's Basketball Championship along with Division III Softball for an economic impact of nearly \$4 million.

Roanoke College recently completed construction of the new Cregger Center, which far surpasses any Division III facility in the nation. The Center boasts ten locker rooms, 2,200 square feet of training and rehab space, 92 pieces of fitness equipment featured inside a 10,000 square foot fitness center and has seating capacity of 2,500 in the arena. The state-of-the-art 155,000 square foot athletic, academic and recreation facility will host Virginia High School League and Old Dominion Athletic Conference indoor track meets beginning in 2017. The Cregger Center is estimated to have an economic annual impact of \$1.4 million on Salem and the surrounding Roanoke Valley.

The James I. Moyer Complex hosted over 1,900 softball and baseball teams this year in tournaments, filling over 18,000 hotel rooms in the Roanoke Valley. The biggest event that came to the valley this year was the 2016 ASA/USA Girls' 12U Class "A" Fast-Pitch national championship. Over 3,800 hotel rooms were filled for this event alone. Fifty-seven teams from nineteen states competed for this national championship. Other major events were the Chance Crawford Benefit Adult Slow-Pitch Softball Tournament, the ISF Senior World Cup, the NCAA Division III Women's Softball National Championship, Special Olympics North America Softball Championship and the ASA Men's Class D and E Slow-Pitch National Championship. Over 70,000 people attended events at the Moyer Sports Complex during the past year.

The annual Salem Fair held at the Salem Civic Center is the largest fair in the state. Attendance at the Fair held in July 2015 was down slightly compared to 2014. Considering the number of rainy days and nights compared to the prior year, attendance remained strong. An estimated 323,000 people toured the fairgrounds during its 12 days of operations. Opening night attendance was the highest in the Fair's 28-year history. The Fair benefitted from having several new rides, shows and food vendors to complement the traditional favorites.

The Salem Red Sox played their seventh season at Salem Memorial Stadium with over 200,000 fans in attendance. Attendance was down from the prior year due to weather. Six games were rained out versus two in the previous year. Salem was ranked number eight on the list of America's Best Minor League Baseball Towns by SmartAsset.com. The survey ranked 158 cities and towns based on quality of life and game day experience.

Financial results for the City reflect some positive trends over the past year. General Fund revenues reflected the largest growth in property taxes, other local taxes and charges for services categories. In the local taxes category, business license, cigarette, lodging and meals tax increased from the prior year. However, sales tax declined \$50,000 or .75% from the prior year. Real estate trends reflected slight growth in assessments from the prior year. Twenty-four new homes and townhouses with an assessed value of \$6 million were constructed during fiscal year 2016. The North Oaks subdivision represented the largest area of new construction. The increase in real estate tax revenue was primarily due to collection of delinquent taxes. In fiscal year 2016, the City began working with an attorney to collect delinquent real estate tax. These efforts also resulted in collection of a larger amount of penalties and interest than in the previous year. Charges for services were up due to higher waste disposal fees charged at the Transfer Station.

City departments continued to spend conservatively. Expenditures in most General Fund functional areas reflected only slight variances from the prior year. Public works expenditures reflected the largest increase from the prior year due to the massive paving project undertaken by the City. The paving project was paid for with highway maintenance funds, which are received from the state and restricted for certain uses. Education expenditures also increased from the prior year. Of the \$19.7 million in expenditures, \$19.3 million represented local operating support provided to the School Division and \$469,000 was the transfer of meals tax collected by the City and dedicated to school capital projects.

Major Initiatives and Accomplishments

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

Salem students demonstrated high levels of performance in academic, extracurricular and athletic activities. All six Salem schools were fully accredited by the Virginia Department of Education. The City of Salem School Division was named one of the top ten school districts in Virginia for 2016 by Niche. Andrew Lewis Middle School joined more than 400 exemplary middle grade schools across the nation as “Schools to Watch” as part of a recognition and school improvement program developed by the National Forum to Accelerate Middle-Grades Reform. South Salem Elementary, West Salem Elementary and Salem High School were among 278 schools and two school divisions that earned 2016 Virginia Index of Performance (VIP) awards for advanced learning and achievement. Salem Schools are very proud of the 2016 graduation rate of 94.9%. Approximately 87% of Salem High School graduates attend 2 or 4 year colleges or universities.

The Salem High School auditorium renovation project was completed in April 2016. The floors were painted and new carpet and tile were laid before new seating was installed. The front “pit” area for the band was enlarged and more handicapped accessible seating was made available. The sound system and lighting was upgraded as well. The total cost of the project was \$258,000.

In January 2016, City Council adopted the Downtown Plan, the culmination of over a year of work by city staff, stakeholders and citizens. The Downtown Plan is a comprehensive strategy to improve and revitalize downtown Salem and includes multiple improvements such as a distinctive new streetscape, a façade program, overhead lighting and brick sidewalks. New event programming for a younger and more cosmopolitan audience, outreach to businesses and the involvement of state programs such as the Tourism Development Program, the Department of Historic Resources and the Department of Housing and Community Development are also part of the planned improvements. Work on the downtown will continue over several years and will involve multiple phases. Most City departments will be involved and many of the activities the City sponsors will need to be reoriented to better support downtown.

Since the implementation of the Downtown Plan is such a large undertaking, it involves multiple funding sources. The reason for this is twofold. First, the City wants to bring as many resources to bear on the effort as possible. Secondly, the City wants to bring the project to fruition as quickly as possible. In addition to local funding for the Façade Program and for event programming, portions of the Downtown Plan are funded by Community Development Block Grants, Revenue Sharing, Transportation Alternatives Program funding, House Bill 2, Smartscale and donations from partners such as Roanoke College and the Rotary Club of Salem.

Engineering work on the new streetscape will begin in the fall of 2016, with the first phase of construction slated to begin in 2017. Additional phases are planned and will proceed as grant awards and other funding is available. In addition, the City's Façade Grant program has been very popular and has applications that exceed available funding.

On June 13, 2016, after two years of analysis, City Council voted to join the Roanoke Valley Resource Authority (RVRA) with Roanoke City, Roanoke County and Vinton. This regional effort is not only advantageous for the City, but for the greater Roanoke Valley. For decades, Salem has operated and maintained its own transfer station and shipped trash across the state to Amelia County. In the new agreement, trash will still come to the same facility but will be taken to the Smith Gap Regional Landfill in nearby Roanoke County. RVRA will assume ownership of the facility and will pay approximately \$150,000 per year as a host fee to the City of Salem. RVRA will assume all equipment or maintenance needs at the facility. The City's Sanitation Department will continue to pick up trash and bulk for all citizens.

Salem continued work on infrastructure improvements. Approximately \$3.7 million was spent on paving in various parts of the City during fiscal year 2016. Major paving work was done on Main Street which covered 2,800 feet of road. A new paving technique known as full-depth reclamation was used on Main Street and Red Lane which incorporated digging down 12 inches and creating a stronger base for the fresh asphalt. Geogrid technology was also used for the first time in Salem. Geogrid is a strong and pliable synthetic material that serves as a buffer between the concrete and asphalt to prevent cracks and divots on the road's surface, providing a smooth ride for years. Twenty-nine different City streets were repaired and repaved.

The turf at Salem Stadium was replaced in August 2015. A portion of the original turf had worn out much faster than other areas as did numbers and sideline striping. FieldTurf determined that the wear on the field was caused by a defect whereby areas were not properly treated with UV protection. The company and the City negotiated and agreed upon a discounted, prorated price of \$251,294 for the new field, which was less than half of what a new surface would normally cost.

The Electric Department completed the underground electric rebuild in the Karen Hills subdivision at a cost \$258,000. The subdivision has always had all underground utilities. The original electrical installation consisted of direct buried cables and transformers located in easements along the back property lines. Because this infrastructure had reached the end of its useful life, numerous failures occurred in recent years. Access to the transformers was also a problem as fences, gardens, outbuildings and other miscellaneous items had been built on the property lines. Because of these issues, the Electric Department replaced the high voltage cables and the old live-front transformers with the newer dead-front type. The transformers were also moved to the road for better access. The project extended over several fiscal years due to the size of the project and the desire to pay for it from the regular operating budget.

Rehabilitation of the Beverly Heights pump station was completed in fiscal year 2016 at a total cost of \$102,089. The Beverly Heights pump station was in desperate need of repair. The pumps were beyond their useful life and controls were outdated. Maintaining the old pump station was becoming costly and reliability was an issue. New pumps and controls were installed and will provide more reliable water delivery

to the Beverly Heights subdivision for years to come. To save on costs, the City Water Department provided most of the labor and materials to complete the project.

The sewer pump station on Russell Drive was replaced at a cost of \$59,612. The old pump station relied on pumps that were in service beyond their useful life and were costly to maintain. The new pump station was designed and constructed to improve reliability and safety. Replacement of this station also conformed to the Department of Environmental Quality's consent order for the City to reduce sewage overflows within its system. The pump station's electrical system was upgraded to provide more reliable and efficient use of electric power. The new pump station will provide dependable wastewater handling for the area it serves for years to come.

The City issued \$10,245,561 in general obligation bonds in June 2016. Proceeds will be used for a variety of projects including \$5 million for automated meter reading infrastructure for Water and Electric, \$1 million for Red Sox field improvements, \$500,000 for a new Library roof, \$650,000 to remodel the front entrance of the Courthouse, and various other equipment purchases.

The Salem Fire and EMS Department purchased its first new fire truck in nearly a decade. The state-of-the-art ladder truck cost \$862,000 and replaced a ladder truck that had been in service for 20 years. The cost of the new ladder truck was partially funded by collection of delinquent taxes with the remaining cost covered by bond proceeds.

Financial Policies and Financial Planning

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

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

The City prepares a five-year capital improvement plan, which identifies and prioritizes major City projects and includes cost estimates and potential funding sources. The City closely monitors available funding and proceeds with capital purchases only as funds become available.

Independent Audit

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

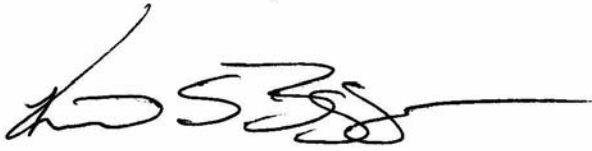
Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) has awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City for its Comprehensive Annual Financial Report for 2015. This represents the twenty-eighth year Salem has earned this distinction. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. We believe this report conforms to the Certificate of Achievement Program requirements and standards and are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'KS Boggess', followed by a long horizontal flourish line.

Kevin S. Boggess
City Manager

A handwritten signature in black ink that reads 'Rosemarie B. Jordan' in a cursive script.

Rosemarie B. Jordan
Director of Finance

**CITY OF SALEM, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
JUNE 30, 2016**

MEMBERS OF CITY COUNCIL

Byron R. Foley	Mayor
John C. Givens.....	Vice-Mayor
James L. Chisom	Member
Jane W. Johnson	Member
William D. Jones	Member

ELECTED OFFICERS

Bonnie C. McCormack	Treasurer
Linda M. Carroll	Commissioner of the Revenue
Thomas E. Bowers	Commonwealth's Attorney
Gary Chance Crawford	Clerk of Circuit Court
Eric A. Atkins	City Sheriff

GENERAL CITY GOVERNMENT

Kevin S. Boggess	City Manager
James E. Taliaferro, II	Assistant City Manager and Clerk of Council
Rosemarie B. Jordan, CPA	Director of Finance
Stephen M. Yost	City Attorney
Beth A. Rodgers	Director of Human Resources
Kari J. Walls	Chief Information Officer
Michael D. Crawley	Police Chief
John W. Prillaman	Fire Chief
Charles E. Van Allman, Jr.	City Engineer
Norman M. Tyler, Jr.	Director of Streets and General Maintenance
John P. Shaner	Director of Parks and Recreation
Ann G. Tripp	Library Director
Dana M. Oliver	Registrar
A. K. Briele, III	Director of Electric Department
Larado M. Robinson	Director of Water and Sewer Department
Justin W. Kuzmich	Real Estate Assessor
Todd W. Sutphin	Building Official and Zoning Administrator
Melinda J. Payne	Director of Economic Development
John E. Saunders	Director of Civic Facilities
R. Carey Harveycutter, Jr.	Director of Tourism
Mike Stevens	Director of Communications
Angela A. Sellers	Special Projects Director

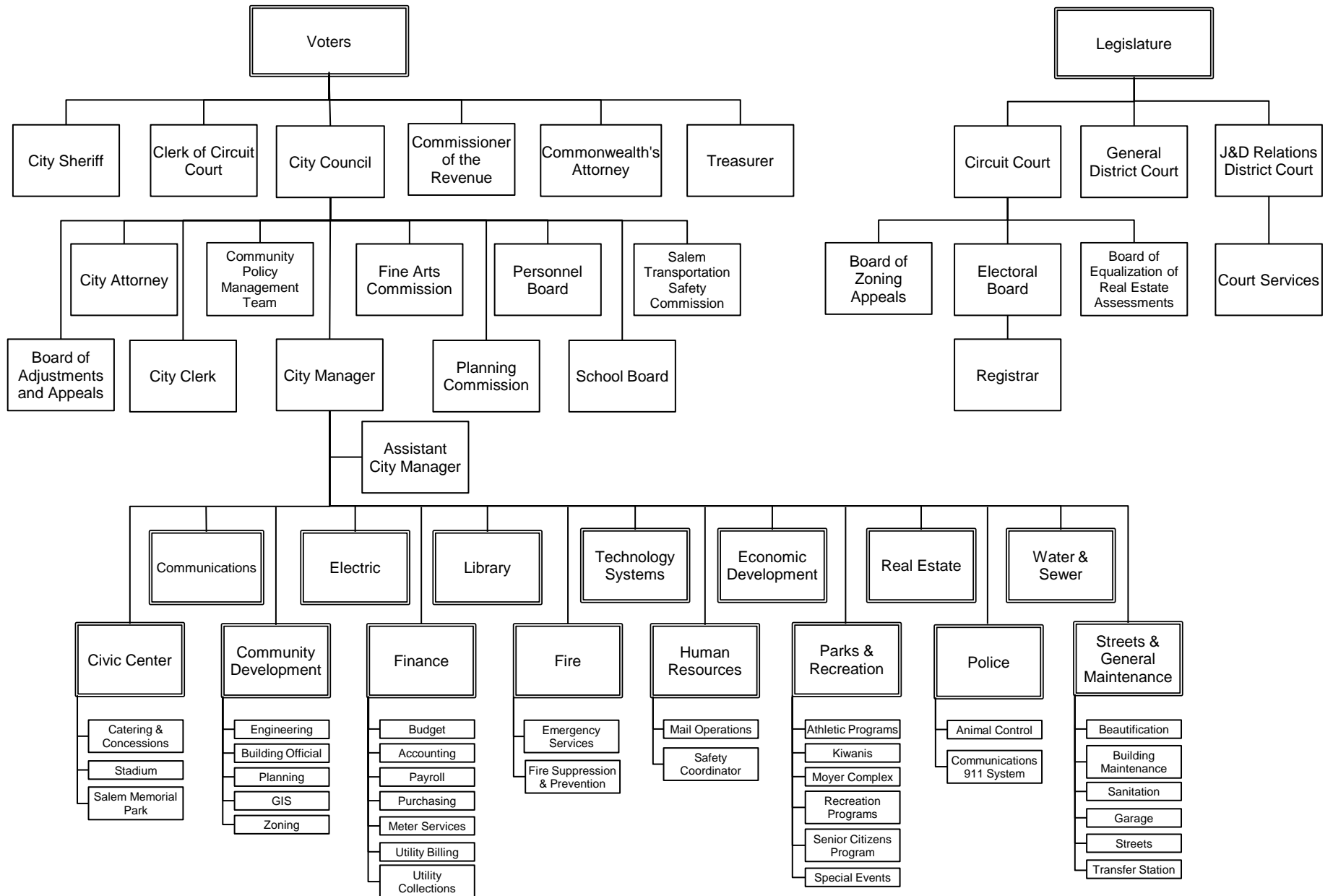
MEMBERS OF SCHOOL BOARD

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

SCHOOL ADMINISTRATION

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

**CITY OF SALEM, VIRGINIA
ORGANIZATIONAL CHART
JUNE 30, 2016**





Government Finance Officers Association

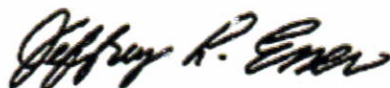
**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Salem
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015



Executive Director/CEO

FINANCIAL SECTION



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

Report of Independent Auditor

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Salem, Virginia (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and pension and other postemployment benefits information and notes on pages 22 through 34 and 93 through 98, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Roanoke, Virginia
November 17, 2016

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

The following discussion and analysis of the City of Salem, Virginia's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2016. It should be read in conjunction with the transmittal letter and the City's basic financial statements.

FINANCIAL HIGHLIGHTS

- As of June 30, 2016, the Primary Government had \$121.8 million in total net position, an increase of \$13.8 million from prior year. Unrestricted net position available to fund future expenses was (\$4.2) million or (3.4%) of total net position.
- As of June 30, 2016, the governmental activities had \$48.3 million in total net position, which increased \$6.9 million from prior year. Unrestricted net position available to fund future expenses was \$(33.8) million or (69.9%) of total net position.
- As of June 30, 2016, the business-type activities had \$73.5 million in total net position, an increase of \$6.9 million from prior year. Unrestricted net position available to fund future expenses was \$29.6 million or 40.3% of total net position.
- As of June 30, 2016, the General Fund had \$19.0 million in total fund balance, which increased by \$4.05 million from prior year. Unassigned fund balance was \$15.7 million or 82.4% of total fund balance.
- The City's outstanding debt increased by \$5.5 million. This is the net result of new debt totaling \$10.3 million issued in June 2016 and scheduled debt payments made during the year which reduced principal balances.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The government-wide financial statements begin on page 37 and include the Statement of Net Position and the Statement of Activities. These statements provide information about the City as a whole using the accrual basis of accounting, which is the method used by most private-sector enterprises. All current year revenues and expenses are reported in the Statement of Activities regardless of when cash is received or paid. These statements allow readers to answer the question "Is the City's financial position, as a whole, better or worse as a result of the year's activities?"

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

MANAGEMENT'S DISCUSSION AND ANALYSIS **(Continued)**

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

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

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

Component unit – The City includes a discretely presented component unit in this report, the City of Salem School Division (School Division) for which the City is financially accountable although it is a legally separate entity.

Fund Financial Statements

The fund financial statements begin on page 39 and provide detailed information about the most significant funds, rather than the City as a whole. The City has three types of funds.

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

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

Summary of Position

The following table presents a condensed summary of net position.

Summary of Net Position (In Millions)								
	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2016	2015	2016	2015	2016	2015	2016	2015
Current and other assets	\$31.9	\$20.7	\$ 47.3	\$ 38.2	\$ 79.2	\$ 58.9	\$ 13.2	\$ 11.1
Capital assets, net	89.9	91.2	88.3	89.6	178.2	180.8	46.8	48.1
Total assets	121.8	111.9	135.6	127.8	257.4	239.7	60.0	59.2
Deferred outflows of resources	3.0	3.2	0.8	1.4	3.8	4.6	3.1	3.1
Current and other liabilities	6.1	3.9	4.3	5.3	10.4	9.2	6.0	6.3
Long-term liabilities	66.2	62.8	57.5	55.4	123.7	118.2	37.1	36.1
Total liabilities	72.3	66.7	61.8	60.7	134.1	127.4	43.1	42.4
Deferred inflows of revenues	4.2	7.0	1.1	1.9	5.3	8.9	4.9	7.2
Net investment in capital assets	80.1	82.0	43.9	42.2	124.0	124.2	46.8	48.1
Restricted	2.0	4.2	-	-	2.0	4.2	0.1	-
Unrestricted	(33.8)	(44.8)	29.6	24.4	(4.2)	(20.4)	(31.8)	(35.4)
Total net position	\$48.3	\$41.4	\$ 73.5	\$ 66.6	\$121.8	\$108.0	\$ 15.1	\$ 12.7

The Primary Government net position increased from \$108.0 million to \$121.8 million. Net position of governmental activities increased \$6.9 million and net position of business-type activities increased \$6.9 million. A detailed description of the changes in revenues and expenses that create the differences in net position is discussed in the next section.

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

The Primary Government's unrestricted net position, the portion of net position that can be used to finance the daily operations of the City was (\$4.2) million, an increase of \$16.2 million from prior year. Debt totaling \$3.5 million issued for Civic Center improvements is being repaid by governmental activities while the related asset is recorded in business-type activities. The City also assumed \$19.2 million of debt issued for school improvements while the School Division recorded the related asset. As such, \$22.7 million is included in governmental activities long-term liabilities, which directly reduced unrestricted net position.

Net position is reported as restricted when constraints on asset use are externally imposed by creditors, grantors, contributors, regulators, or are imposed by law through constitutional provisions or enabling legislation. The City had restricted net position totaling \$2.0 million as of June 30, 2016 for governmental activities. Approximately \$1.4 million in state funding was received, but not yet spent, for highway maintenance. Federal and state judicial administration and public safety grant funding totaling \$539,000 was received, but not yet spent, for fire programs, asset forfeiture and hazardous materials grants.

As of June 30, 2016, the component unit had \$15.1 million in total net position, which increased \$2.4 million from prior year. Unrestricted net position (deficit) available to fund future expenses was (\$31.8) million or

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

(210.6%) of total net position and increased by \$3.6 million from prior year. Net investment in capital assets was \$46.8 million and decreased \$1.3 million from prior year.

Summary of Changes in Net Position

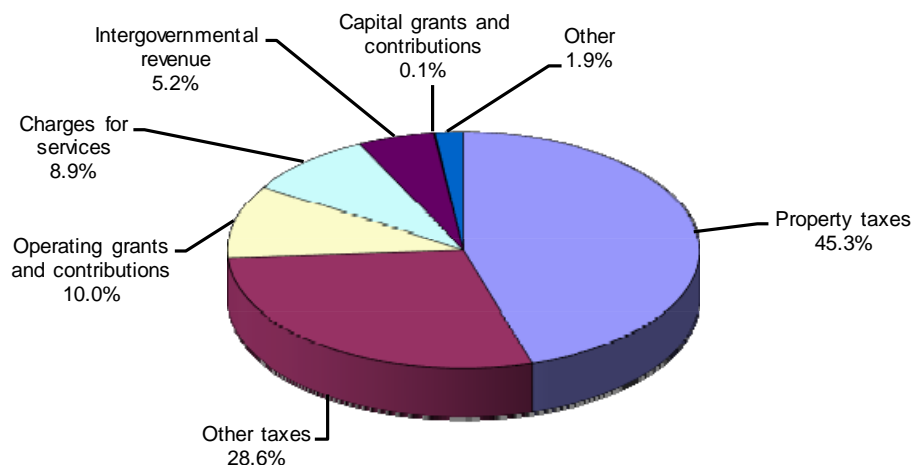
The following table presents a condensed summary of changes in net position.

Summary of Changes in Net Position								
(In Millions)								
	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2016	2015	2016	2015	2016	2015	2016	2015
Revenues								
<i>Program Revenues:</i>								
Charges for services	\$ 6.8	\$ 6.4	\$ 54.9	\$ 55.0	\$ 61.7	\$ 61.4	\$ 1.5	\$ 1.5
Operating grants and contributions	7.6	7.6	-	-	7.6	7.6	8.2	8.1
Capital grants and contributions	0.1	0.2	-	-	0.1	0.2	0.1	-
<i>General Revenues:</i>								
Property taxes	34.6	33.4	-	-	34.6	33.4	-	-
Local sales and use tax	6.6	6.7	-	-	6.6	6.7	-	-
Business license tax	5.4	5.1	-	-	5.4	5.1	-	-
Meals tax	4.7	4.4	-	-	4.7	4.4	-	-
Utility taxes	1.2	1.2	-	-	1.2	1.2	-	-
Other taxes	3.9	3.5	-	-	3.9	3.5	-	-
Intergovernmental revenue	4.0	3.9	-	-	4.0	3.9	-	-
Investment earnings	0.3	0.2	-	-	0.3	0.2	-	-
Gain on sale of capital assets	0.1	0.4	-	-	0.1	0.4	-	-
Payments from City of Salem	-	-	-	-	-	-	19.7	19.1
State aid	-	-	-	-	-	-	13.8	13.9
Other	1.0	0.6	-	-	1.0	0.6	0.9	1.0
Total revenues	76.3	73.6	54.9	55.0	131.2	128.6	44.2	43.6
Expenses								
General government	\$ 6.0	\$ 6.3	\$ -	\$ -	\$ 6.0	\$ 6.3	\$ -	\$ -
Judicial administration	1.9	1.9	-	-	1.9	1.9	-	-
Public safety	15.8	16.2	-	-	15.8	16.2	-	-
Public works	16.7	12.8	-	-	16.7	12.8	-	-
Health and welfare	3.0	3.1	-	-	3.0	3.1	-	-
Education	19.7	19.2	-	-	19.7	19.2	41.8	44.4
Parks, recreation and cultural	5.3	5.1	-	-	5.3	5.1	-	-
Community development	2.1	2.0	-	-	2.1	2.0	-	-
Interest and other fiscal charges	1.0	1.0	-	-	1.0	1.0	-	-
Electric	-	-	30.8	33.9	30.8	33.9	-	-
Water and sewage	-	-	10.0	10.6	10.0	10.6	-	-
Civic center	-	-	4.1	2.9	4.1	2.9	-	-
Catering and concessions	-	-	1.0	0.8	1.0	0.8	-	-
Total expenses	71.5	67.6	45.9	48.2	117.4	115.8	41.8	44.4
Excess (deficiency) before transfers	4.8	6.0	9.0	6.8	13.8	12.8	2.4	(0.8)
Transfers	2.1	2.3	(2.1)	(2.3)	-	-	-	-
Increase (decrease) in net position	6.9	8.3	6.9	4.5	13.8	12.8	2.4	(0.8)
Net position, beginning	41.4	33.1	66.6	62.1	108.0	95.2	12.7	13.5
Net position, ending	\$48.3	\$41.4	\$ 73.5	\$ 66.6	\$121.8	\$108.0	\$ 15.1	\$ 12.7

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Governmental Activities – Revenues

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



Property taxes, which were 45.3% of total governmental activities revenue, include real estate tax, the local portion of personal property tax, machinery and tools tax and public service corporation taxes. Property taxes increased \$1.2 million or 3.7% from the previous year. Delinquent real estate tax collections in fiscal year 2016 exceeded the amount budgeted and were higher than the previous year. As a result of the increased collection of delinquent tax, the required allowance was lower than the prior year. Both contributed to the \$818,000 increase in real estate tax revenue. Real estate assessments showed only slight growth. Personal property tax revenue was up \$424,000 due to increased assessment values for regular vehicles. Machinery and tools tax revenue declined slightly from the prior year.

Collection of business license tax was up \$302,000 or 5.9% from the prior year. Meals tax revenue increased \$250,000 or 5.6% from the prior year. Pursuant to City Council action, 2% of meals tax revenue is committed to school capital needs. Sales and use tax decreased \$50,061 or 0.8%. Utility taxes were also \$47,405 or 3.9% lower than the previous year.

Other taxes, which included bank stock tax, motor vehicle tax, recordation tax, admissions tax, lodging tax, cigarette tax and other miscellaneous taxes, increased \$372,000 or 10.6%. Lodging tax was up \$155,000 or 15.3% from the prior year. Cigarette tax revenue increased \$107,000 or 14%. Admissions, recordation and rental taxes were also higher in fiscal year 2016.

Other general revenues increased \$400,000. Penalty and interest revenue was \$271,000 higher than the previous year due to the efforts to collect delinquent real estate taxes. Because the City has a replacement value insurance policy, insurance proceeds exceeded the loss on disposal of assets by \$78,000, increasing other revenue.

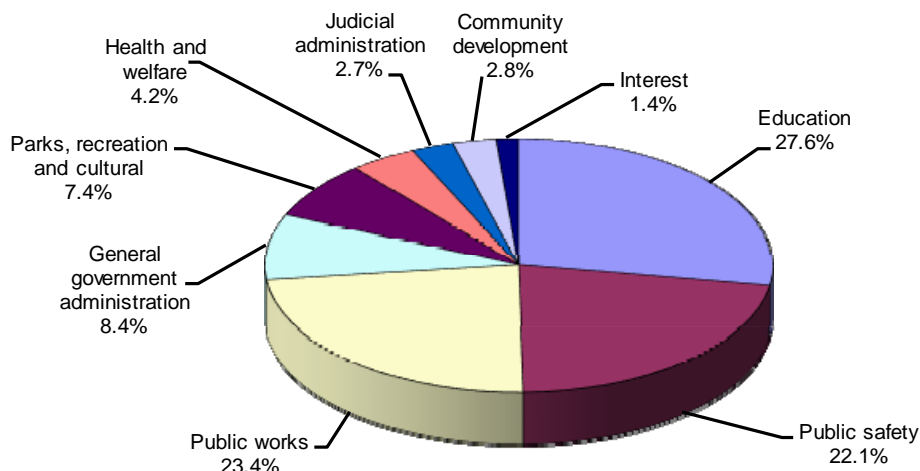
Charges for services, which were 8.9% of total governmental activities revenues, include fines, court fees, inspection fees, garbage collection fees, recreation fees and other program-based fees. These revenues increased \$328,000 or 5.1% from prior year largely due to an increase in waste disposal revenue generated by the Transfer Station that is included the public works category. There is a corresponding increase in waste disposal costs.

Capital grants and contributions included grants received from federal and state agencies to fund capital purchases. These revenues decreased \$112,000. In fiscal year 2015, more work was being done on greenway projects, resulting in a higher amount of grant revenue. In addition, the value of donated assets was higher in fiscal year 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Governmental Activities – Expenses

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



In fiscal year 2015, the City and Schools adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Pension expense is now recognized based on actuarial calculations and includes various components in an effort to better reflect the value of actual pension benefits earned and incorporate differences between expected/projected and actual results. Pension expense as calculated in fiscal year 2015 did not include the recognition of beginning deferred inflows of resources or differences in expected versus actual experience related to the pension liability as the information was not available. In fiscal year 2016, pension expense included these components, which reduced pension expense in all functions.

Education expenses totaling \$19.7 million, or 27.6% of governmental activities, represented the largest allocation of resources. Expenses increased \$588,000 from the previous year. Funding of \$19.3 million was allocated to the School Division to cover operating costs, which was higher than the amount provided in the previous year due to a one-time mutually agreed upon reduction in funding of \$500,000 in fiscal year 2015. This reduction was a testament to the collaboration between the governing bodies for the Schools and City. Meals tax revenue is shared with the School Division and \$469,000 was transferred in fiscal year 2016.

Public works expenses were 23.4% of total governmental activities expenses and included engineering, solid waste management, building maintenance, street paving, traffic engineering and street maintenance. Expenses were up \$3.9 million or 30.5% due to increased highway maintenance spending on paving and bridge repairs.

Parks, recreation and cultural expenses were \$209,000 or 4.1% higher than the previous year. Costs to operate Salem Memorial Park were higher due to new contract requirements. In addition, a loss of \$150,000 was recognized when the turf was replaced at Salem Stadium in fiscal year 2016.

Public safety expenses, which were 22.1% of total governmental activities expenses, decreased \$438,000 or 2.7%. This category includes operations of the labor-intensive police and fire departments, along with expense of emergency medical services, communications (E-911 call center) and the cost of juvenile justice programs. Pension expense was \$312,000 lower than the previous year. Depreciation expense was also \$92,000 lower than the prior year.

General government expenses were 8.4% of total governmental activities and includes administrative departments such as the City Manager's Office, City Garage, Technology Systems and Finance. Technology Systems expenses decreased as equipment and software maintenance costs were allocated more comprehensively to other departments and funds as technology credits. Pension expense was also \$151,000 lower than the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS **(Continued)**

Business-type Activities

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

Component Unit – School Division Activities

General revenues of the School Division increased \$364,000 or 1.1%. Payments from the City totaled \$19.7 million. Operating support totaled \$19.3 million and was higher than the prior year due to a one-time mutually agreed upon reduction in funding of \$500,000 in fiscal year 2015. Meals tax revenue dedicated to school capital projects totaled \$469,000, which was up \$123,000 from the prior year. State aid decreased \$160,000 or 1.1% from the prior year. A 2.7% decrease in basic aid was partially offset by a 3.4% increase in sales tax revenue.

The School Division incurred expenses of \$41.8 million for the year ended June 30, 2016, a decrease of \$2.6 million or 5.9% from prior year. Pension expense was lower in all functional areas in fiscal year 2016. The decrease of \$1.8 million in Instructional costs was largely due to lower pension expense. Food service expense was down \$298,000 or 15.11% due to reduced salary and benefit costs as well as food costs. Food costs were reduced based on participation levels and a reduction in food purchased. Cafeterias are managed by a third party vendor, Aramark. When they assumed management, School Division employees remained in their positions and through attrition have been replaced with Aramark employees, contributing to the decrease in salary and benefit costs.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

As of June 30, 2016, the governmental funds had \$23.4 million in total fund balance, an increase of \$8.2 million from prior year. Unassigned fund balances available to fund future expenditures were \$15.7 million or 67.1% of total fund balance. Unassigned fund balance, which contains all amounts not included in other classifications, is available to pay for future years' capital expenditures and provide for unforeseen circumstances. Restricted fund balance totaled \$6.2 million and included \$4.2 million of unspent bond proceeds and \$2 million that can be spent only for specific purposes stipulated by grantors. Assigned fund balance totaled \$807,575 and represents amounts set aside to liquidate encumbrances. Committed fund balance totaled \$157,973 and represents funds appropriated for the E-summons program, storm water management and CAMA software and ERP projects.

General Fund

The General Fund is the chief operating fund of the City. As of June 30, 2016, the General Fund had \$19.0 million in total fund balance, which increased \$4.05 million from the prior year. Unassigned fund balance available to fund future expenditures was \$15.7 million or 82.4% of total fund balance and increased \$5.9 million from the previous year. As a measure of the General Fund's liquidity, it may be useful to compare both total fund balance and unassigned fund balance to total fund expenditures. Total fund balance to total fund expenditures increased from 23% to 27.3%. Unassigned fund balance to total fund expenditures increased from 15% to 22.5%.

City Council has stated its intent to increase the unassigned General Fund balance to 15% of the fund's current year budgeted appropriations, a level more reflective of the best practices recommended by the Government Finance Officers Association of the United States and Canada (GFOA). As of June 30, 2016, unassigned fund balance levels were 22.9% of the original expenditure budget, meeting the desired goal for the first time since the recession began. Various measures have contributed to the growth in reserves. The cigarette tax rate was increased from \$0.15 to \$0.45 per pack effective July 1, 2013 with additional funds earmarked to replenish General Fund reserves. City Council also raised several taxes and fees effective July 1, 2014. City departments have worked very hard to spend conservatively and General Fund expenditures did not show large increases from the prior year in most areas.

MANAGEMENT'S DISCUSSION AND ANALYSIS **(Continued)**

Property taxes, which were 46.4% of total General Fund revenue, increased \$1.6 million or 4.7% from the prior year. Due to increased collection efforts, delinquent real estate tax revenue was higher than budgeted and increased \$514,000 from the previous year. These efforts also resulted in an increase of \$271,000 in penalties and interest. Current year real estate assessments showed a slight increase from the previous year. Personal property revenue increased by \$549,000 or 8.7%. As business equipment aged without additional investment, machinery and tools tax revenue decreased slightly from the prior year.

Other local taxes, which comprised 28.6% of total General Fund revenue, increased \$827,000 or 3.9% from the prior year. Cigarette, admissions and lodging tax revenue reflected increases close to 15% compared the prior year. Collection of business license taxes as of June 30, 2016 was up from the prior year and increased 5.9%. Meals tax showed growth of \$250,000 or 5.6%. These increases were partially offset by a decrease of \$50,000 or 0.75% in sales tax revenue.

Charges for services, which were 8% of total General Fund revenue, increased \$443,000 or 7.9%. Waste collection and disposal fees were \$295,000 or 9.5% higher than the previous year. Disposal costs reflected a similar trend. Charges for ambulance services were up \$57,000 or 7% due to a higher volume of calls, improved quality control within the Fire Department and improved account management by the City's third party vendor.

Public works expenditures, which were 21% of total General Fund expenditures, increased \$4 million or 37% from the prior year. The City spent approximately \$3.7 million on a massive paving project during fiscal year 2016, utilizing unspent highway maintenance funds restricted from prior years. Approximately \$524,000 was spent on bridge rehabilitation work on four different bridges. Transfer Station costs were up \$201,000 in fiscal year 2016 due to higher disposal costs. These increases were partially offset by a decrease of \$303,000 in traffic signal costs. In addition, approximately \$245,000 was spent on the Salem Woods storm drain project in fiscal year 2015. No additional expenditures for this project were incurred in fiscal year 2016.

Education expenditures increased \$588,000 from prior year and represented 28.3% of General Fund expenditures. Of the \$19.7 million in expenditures, \$19.3 million represented local operating support provided to the School Division and \$469,000 was the transfer of meals tax collected by the City and dedicated to school capital projects. Local operating support was higher in fiscal year 2016 due to a one-time mutually agreed upon reduction in funding of \$500,000 in fiscal year 2015. This reduction was a testament to the collaboration between the governing bodies for the Schools and City. The \$500,000 was used to purchase much needed equipment for various General Fund departments in fiscal year 2016. Meals tax revenue increased in fiscal year 2016, resulting in a higher share for the Schools.

General government expenditures were 8.5% of total General Fund expenditures and decreased \$145,000 or 2.4% from the previous year. Costs for the Technology Systems Department were lower than the previous year due to a more comprehensive allocation of software and equipment maintenance costs to other City departments and funds. This decrease was partially offset by higher expenditures in the Registrar's Office due to the purchase of new voting machines with a total cost of \$130,508. City Garage expenditures were higher in fiscal year 2016 due to the purchase of a tractor. City Treasurer expenditures were up due to higher bank fees and higher collection fees paid for DMV stops.

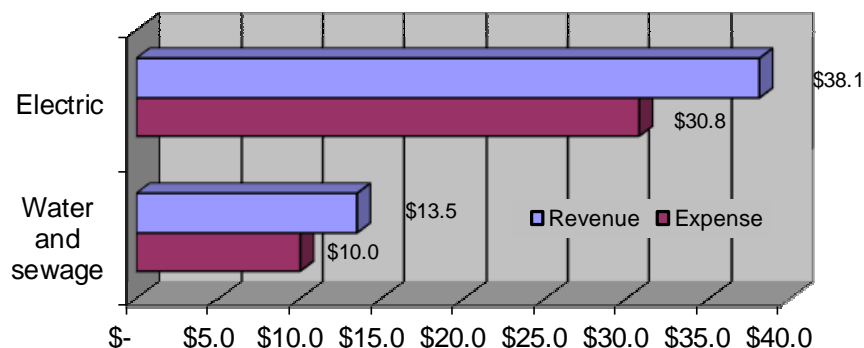
Capital Projects Fund

During fiscal year 2016, the fund balance in the Capital Projects fund increased by \$4.2 million due to the issuance of bonds in June 2016. Bonds totaling \$5,281,400 were issued to fund improvements and purchase equipment budgeted in the Capital Projects Fund. Bond proceeds were used to pay for several projects in fiscal year 2016 including \$585,055 for Salem Memorial Park Renovations, \$251,294 for Salem Stadium Turf Replacement and \$286,267 to pay for a portion of a new ladder truck. The remaining cost of \$576,657 for the ladder truck was provided by local funding generated from the collection of delinquent real estate tax and transferred from the General Fund.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Proprietary Funds

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



Electric Fund

As of June 30, 2016, the Electric fund had \$41.9 million in total net position, which increased by \$4.1 million from prior year. Net investment in capital assets was \$13.8 million or 33% of total net position and increased \$487,000 from prior year. Unrestricted net position available to fund future expenses was \$28.1 million or 67% of total net position.

For fiscal year 2016, operating revenue was \$38.1 million and decreased \$1.6 million from the prior year primarily due to lower consumption. Operating expenses were \$29.7 million and were approximately \$3.4 million lower than prior year due to a decrease in purchased power costs. Decreased consumption contributed to lower purchased power costs. The City purchases power for resale through American Electric Power (AEP). Purchased power costs consist of several components. Rates are recalculated annually based on the supplier's cost. In accordance with the contract, AEP is allowed to charge back to the City environmental and other costs as approved by the Federal Energy Regulatory Commission (FERC). These costs relate to AEP's overall transmission and power production costs and are allocated to the City. They are not a direct result of activities in Salem. The true up of charges is done annually and the settle up in fiscal year 2016 was a larger credit than the fiscal year 2015 true up. Several larger infrastructure assets reached the end of their useful lives in fiscal year 2015, resulting in lower depreciation expense in fiscal year 2016. Transmission costs were 8.4% higher in fiscal year 2016, partially offsetting the decreases.

Water and Sewage Fund

As of June 30, 2016, the Water and Sewage fund had \$30.8 million in total net position, an increase of \$3.4 million from prior year. Net investment in capital assets was \$26.0 million or 84.4% of total net position and increased \$1.7 million from prior year. Unrestricted net position available to fund future expenses was \$4.8 million or 15.6% of total net position.

For fiscal year 2016, operating revenue was \$13.5 million, which was a slight decline from the previous year due to lower consumption. Operating expenses were \$9 million, approximately \$505,000 lower than prior year. Several larger infrastructure assets reached the end of their useful lives in fiscal year 2015, resulting in lower depreciation expense in fiscal year 2016. Treatment of sewage costs were \$550,000 or 28.9% higher than the previous year, partially offsetting this decrease. Rainfall totals were higher in fiscal year 2016 resulting in an additional 827 million gallons of sewage being treated by Western Virginia Water Authority, an increase of 25%.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

GENERAL FUND BUDGETARY HIGHLIGHTS

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

Budgetary Highlights for 2016 (In Millions)

	Original Budget	Budget As Amended	Actual
Revenues	\$ 70.9	\$ 72.4	\$ 76.4
Expenditures	(68.7)	(73.7)	(69.8)
Transfers in	3.3	3.3	3.3
Transfers out	(5.5)	(5.8)	(5.8)
Use of fund balance	<u>\$ -</u>	<u>\$ (3.8)</u>	<u>\$ 4.1</u>

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

- To re-appropriate monies for encumbrances established prior to June 30, 2015.
- To re-appropriate grants, donations and other revenues authorized in fiscal year 2015 or earlier, but not expended or encumbered as of June 30, 2015.
- To appropriate grants, donations and other revenues accepted or adjusted in fiscal year 2016 when official notice of approval was received.
- To appropriate the unassigned General Fund balance to capital projects.

The Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual – General Fund is shown on page 43. Property taxes exceeded budget for several reasons. The City worked with an attorney to collect delinquent real estate tax bills, which resulted in a large collection of delinquent tax revenue as well as penalty and interest revenue. A mid-year budget adjustment was done to appropriate funds to purchase a fire truck. However, additional collections were made at the end of the fiscal year, which contributed to real estate tax revenue and penalties and interest exceeding budgeted amounts by \$713,000. Because the City assesses and bills personal property in late spring, no current assessment data is available at the time revenue estimates are developed for the subsequent fiscal year. The Finance Department works with other City departments to determine a reasonable revenue estimate based on the information that is available. In fiscal year 2016, personal property tax revenue exceeded the budgeted amount.

Public Works expenditures were under budget by \$1.1 million. Funds totaling \$582,000 were encumbered as of June 30, 2016 for various highway maintenance projects and the purchase of a new garbage truck. In addition, several areas in the Street Department expended less than the amount budgeted. In the Non-departmental category, \$554,000 was budgeted for contingency and \$310,000 was budgeted as a reserve for fund balance replenishment.

CAPITAL ASSETS

The City's total Primary Government capital assets, net of accumulated depreciation, decreased 1.4% from \$180.8 million to \$178.2 million. This investment includes land, construction in progress, machinery and equipment, buildings and improvements, leasehold improvements, public domain infrastructure, distribution and transmission, utility plant and sewage treatment contract. The following table presents a summary of capital asset balances at the end of the year. The changes in each category of capital assets, along with other important information regarding capital assets, are presented in Note 6 of the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Capital Assets, Net of Depreciation
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2016	2015	2016	2015	2016	2015	2016	2015
Land	\$ 5.8	\$ 5.8	\$ 1.5	\$ 1.5	\$ 7.3	\$ 7.3	\$ 1.1	\$ 1.1
Construction in progress	1.1	0.5	4.8	3.9	5.9	4.4	-	0.1
Machinery and equipment	4.8	4.3	1.7	1.3	6.5	5.6	3.0	2.8
Buildings and improvements	23.7	24.3	17.6	18.4	41.3	42.7	42.7	44.1
Public domain infrastructure	54.5	56.3	-	-	54.5	56.3	-	-
Distribution and transmission	-	-	15.2	15.3	15.2	15.3	-	-
Utility plant	-	-	27.6	28.5	27.6	28.5	-	-
Sewage treatment contract	-	-	19.9	20.7	19.9	20.7	-	-
Total	<u>\$ 89.9</u>	<u>\$ 91.2</u>	<u>\$ 88.3</u>	<u>\$ 89.6</u>	<u>\$178.2</u>	<u>\$180.8</u>	<u>\$ 46.8</u>	<u>\$ 48.1</u>

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

- The turf field at the Salem Football Stadium was replaced in August 2015 at a capitalized cost value of \$426,174. The old turf field had worn out much faster than its expected useful life due to not being properly treated with UV protection. The City and the manufacturer agreed upon a discounted prorated price of \$251,294 on the replacement. The difference between the cost value and the actual price of the new turf field was used to offset the loss on the disposal of the old turf field.
- The City implemented a new software module to its existing New World Systems software package in fiscal year 2016. The community development module went live in April 2016 with a total capitalized cost of \$132,729. This new module increases efficiency and tracking of permit and other fees, inspections, zoning, project management, code enforcement, and parcel management.
- In November 2015, the City entered into a capital lease for the land and building located at 21 S. Bruffey Street in Salem with a total asset value of \$375,000. The City expended \$42,806 in leasehold improvements to renovate the building, which will be used by the community development department.
- Four bridges within the City underwent major repairs/rehabilitations during fiscal year 2016, including deck repair, abutment repair, and concrete repairs/overlay. Capitalized costs totaled \$523,984 with \$475,869 expended in fiscal year 2016.
- The fire and EMS department purchased a new 2016 Smeal 105' Rear Mount Aerial Ladder Fire Truck in June 2016 at a cost of \$862,924. The cost of the new fire truck was funded with \$286,267 from general obligation bonds issued in June 2016 and \$576,657 from the general fund.
- The street department purchased a new John Deere Cab Tractor with a Diamond Mower in July 2015 at a cost of \$139,904.

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

- The Electric Department purchased a new 2016 Freightliner Bucket Truck in fiscal year 2016 at a cost of \$223,263.
- The Electric Department implemented a new OASyS SCADA Master Station software package in fiscal year 2016 at a total capitalized cost of \$175,000. The new SCADA system upgraded an older OASyS system that was running on an outdated server and operating system.
- The Water Department completed construction of a new water pump station in fiscal year 2016 to service the Beverly Heights subdivision at a total capitalized cost of \$102,089 with \$22,403 expended in fiscal year 2016. The new pump station replaces an older outdated pump station.
- \$646,900 was spent on improvements to Electric distribution and transmission infrastructure, including \$258,044 to replace underground lines in the Karen Hills subdivision.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

LONG-TERM DEBT

At June 30, 2016, the City's long-term liabilities, excluding compensated absences, net pension liabilities, other postemployment benefit liabilities, bond premiums, and bond discounts, totaled \$86 million. This amount was comprised of \$36.9 million related to governmental activities (including \$19.2 million for debt held on behalf of the School Division) and \$49.1 million related to business-type activities. The City made \$6.5 million in principal payments and amortized \$54,901 in discounts and premiums.

Total debt increased \$4.3 million during the fiscal year. On June 21, 2016, the City issued \$3,922,176 in tax-exempt general obligation public improvement bonds series 2016A and \$6,393,385 in taxable general obligation public improvement bonds series 2016B to finance the costs of various capital improvement projects, including but not limited to (i) Salem Stadium improvements, (ii) public building improvements, (iii) downtown improvements, (iv) acquisition of equipment and vehicles, (v) acquisition, equipping and installation of automated meter reading infrastructure and (vi) Salem Memorial Park improvements. Detailed information regarding these changes in long-term debt is disclosed in Note 8 to the financial statements.

With its most recent rating, the City maintained a rating of Aa3 from Moody's Investor Service.

The City Charter and the *Code of Virginia* limits the City's net debt to 10% of the assessed valuation of real estate within the City limits. This limit applies to governmental fund tax supported debt and certain long-term liabilities of proprietary funds. The City considers long-term debt of its electric, water and sewage funds to be self-supporting. The City's tax-supported debt of \$36.9 million is below the legal debt limit of \$206.4 million. Table 10 of the statistical section provides additional information related to the legal debt margin.

The School Division relies upon the City to provide full faith and credit for any debt obligations incurred. Therefore, the City reports School Division long-term liabilities, other than compensated absences and other postemployment benefits liabilities, as its own. In addition to bonded debt, the City's long-term obligations include compensated absences, net pension liabilities, and other postemployment liabilities. Additional information concerning the City's long-term liabilities is presented in Note 8 of the financial statements and Table 9 of the statistical section.

Interest and other fiscal charges for fiscal year 2016 were \$1 million or 1.4% of total governmental activities expenses.

FACTORS INFLUENCING FUTURE BUDGETS

Current economic conditions reflect slight improvement over the previous year, but recovery continues to be slow. The City has seen moderate growth in local taxes, with the exception of sales tax, which decreased slightly compared to the prior year. General Fund revenues budgeted for fiscal year 2017 reflect an increase of 2%, due to moderate growth in the property and local taxes categories. A salary increase of 2.5% was included in the fiscal year 2017 budget. The General Fund budget also included \$500,000 for capital purchases.

The City is in the eleventh year of a twenty-year contract to purchase electricity. The rate the City pays for wholesale electricity varies based on the supplier's actual costs, which are affected by fuel and environmental costs. Moderate increases are expected over the next several years. No rate increases for customers are included in the fiscal year 2017 budget. Consumption is projected to decrease slightly in fiscal year 2017.

The fiscal year 2017 budget includes a 3% increase in water rates which will be effective January 1, 2017 and no increase in sewer rates. A slight decrease in consumption is anticipated.

The City is in the process of addressing inflow and infiltration in the downtown portion of the City's sanitary sewer system. Sources of inflow and infiltration were identified in the Sewer System Evaluation Survey

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

completed in early 2012. To address these issues, the City applied for \$4.9 million in Virginia Department of Environmental Quality (VDEQ) Virginia Clean Water Revolving Loan funding. VDEQ approved the loan and allowed the City to borrow \$5.4 million at 0% interest. Because VDEQ offered the additional \$500,000 interest free, the City opted to increase the scope of work and have all suspect sewer lines in the Downtown watershed inspected via CCTV prior to final design and construction. This project is part of the City's long-term sanitary sewer system corrective action plan that was submitted to the VDEQ as part of the City's special order by consent. Design for this project is scheduled to be completed in the summer of 2017 with construction of the improvements to follow.

In June 2015, the Governmental Accounting Standards Board approved GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which revises and establishes new financial reporting requirements for governments that provide their employees with postemployment benefits. Beginning in fiscal year 2018, governments providing postemployment benefits such as health insurance will be required to recognize their long-term obligation for these benefits and to comparably measure the annual costs for the first time. The City and School Division will be affected by this new pronouncement.

The City and School Division continue to be affected by issues at the federal and state level such as:

- Provisions of the Affordable Care Act
- Projected shortfall in State revenues and potential State budget reductions
- Projected increases in retirement contribution rates assessed by the Virginia Retirement System

REQUESTS FOR INFORMATION

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

Additional information on the Component Unit can be obtained from the Director of Business, Salem Public Schools, 510 South College Avenue, Salem, Virginia 24153, or visit the School's website at www.salemcityschools.org.

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BASIC FINANCIAL STATEMENTS



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

CITY OF SALEM, VIRGINIA
STATEMENT OF NET POSITION
JUNE 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 18,695,772	\$ 34,566,924	\$ 53,262,696	\$ 11,345,794
Receivables, net	3,645,848	5,904,416	9,550,264	34,052
Due from other governmental units	4,574,459	-	4,574,459	1,540,913
Other postemployment benefits asset	50,000	-	50,000	217,763
Inventories	567,605	1,730,861	2,298,466	33,187
Prepaid items	129,833	86,989	216,822	24,693
<i>Restricted assets:</i>				
Cash and cash equivalents	4,263,213	5,000,000	9,263,213	-
<i>Capital assets:</i>				
Nondepreciable	6,904,763	6,280,456	13,185,219	1,170,667
Depreciable, net	83,010,390	82,016,599	165,026,989	45,628,122
Total assets	<u>121,841,883</u>	<u>135,586,245</u>	<u>257,428,128</u>	<u>59,995,191</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>3,085,904</u>	<u>851,111</u>	<u>3,937,015</u>	<u>3,081,704</u>
LIABILITIES				
Accounts payable and accrued liabilities	4,113,981	2,163,693	6,277,674	337,841
Accrued payroll and related liabilities	1,157,772	348,343	1,506,115	5,197,664
Accrued interest	338,134	598,419	936,553	-
Self-insurance claims liability	452,286	-	452,286	411,664
Unearned revenues	79,423	330,007	409,430	72,380
Customer security deposits	-	893,598	893,598	-
<i>Long-term liabilities due in less than one year:</i>				
Bonds payable	3,013,027	3,794,042	6,807,069	-
Capital lease obligation	69,972	-	69,972	131,405
Compensated absences	1,241,762	478,298	1,720,060	300,551
<i>Long-term liabilities due in more than one year:</i>				
Bonds payable	33,958,348	45,871,908	79,830,256	-
Capital lease obligation	271,203	-	271,203	137,071
Compensated absences	737,969	166,643	904,612	620,883
Net pension liability	26,938,900	7,171,486	34,110,386	35,898,755
Total liabilities	<u>72,372,777</u>	<u>61,816,437</u>	<u>134,189,214</u>	<u>43,108,214</u>
DEFERRED INFLOWS OF RESOURCES	<u>4,236,008</u>	<u>1,138,574</u>	<u>5,374,582</u>	<u>4,870,378</u>
NET POSITION				
Net investment in capital assets	80,107,395	43,907,614	124,015,009	46,530,313
Restricted for:				
Grant programs	538,673	-	538,673	78,138
Highway maintenance	1,420,965	-	1,420,965	-
Capital projects	2,379	-	2,379	-
Unrestricted (deficit)	(33,750,410)	29,574,731	(4,175,679)	(31,510,148)
Total net position	<u>\$ 48,319,002</u>	<u>\$ 73,482,345</u>	<u>\$ 121,801,347</u>	<u>\$ 15,098,303</u>

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

**CITY OF SALEM, VIRGINIA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-type Activities	Total	
Primary Government								
<i>Governmental activities:</i>								
General government	\$ 5,943,899	\$ 265,431	\$ 264,953	\$ -	\$ (5,413,515)		\$ (5,413,515)	
Judicial administration	1,934,263	213,334	1,066,986	-	(653,943)		(653,943)	
Public safety	15,753,795	1,281,509	1,092,632	20,450	(13,359,204)		(13,359,204)	
Public works	16,652,913	4,706,219	3,970,100	34,307	(7,942,287)		(7,942,287)	
Health and welfare	2,974,663	-	1,046,735	-	(1,927,928)		(1,927,928)	
Education	19,739,512	-	-	-	(19,739,512)		(19,739,512)	
Parks, recreation and cultural	5,335,902	300,619	181,967	25,649	(4,827,667)		(4,827,667)	
Community development	2,107,808	-	-	-	(2,107,808)		(2,107,808)	
Interest and other fiscal charges	1,016,739	-	-	-	(1,016,739)		(1,016,739)	
Total governmental activities	<u>71,459,494</u>	<u>6,767,112</u>	<u>7,623,373</u>	<u>80,406</u>	<u>(56,988,603)</u>		<u>(56,988,603)</u>	
<i>Business-type activities:</i>								
Electric	30,780,810	38,080,149	-	-		\$ 7,299,339	7,299,339	
Water and sewage	10,000,056	13,537,310	-	-		3,537,254	3,537,254	
Civic Center	4,103,577	2,313,348	-	-		(1,790,229)	(1,790,229)	
Catering and concessions	980,147	935,973	-	-		(44,174)	(44,174)	
Total business-type activities	<u>45,864,590</u>	<u>54,866,780</u>	<u>-</u>	<u>-</u>		<u>9,002,190</u>	<u>9,002,190</u>	
Total primary government	<u>\$ 117,324,084</u>	<u>\$ 61,633,892</u>	<u>\$ 7,623,373</u>	<u>\$ 80,406</u>	<u>\$ (56,988,603)</u>	<u>\$ 9,002,190</u>	<u>\$ (47,986,413)</u>	
Component Unit	<u>\$ 41,816,129</u>	<u>\$ 1,539,659</u>	<u>\$ 8,197,005</u>	<u>\$ 49,773</u>				<u>\$ (32,029,692)</u>
<i>General revenues:</i>								
Property taxes					34,610,154	-	34,610,154	-
Local sales and use taxes					6,638,448	-	6,638,448	-
Business license tax					5,391,215	-	5,391,215	-
Meals tax					4,715,137	-	4,715,137	-
Utility taxes					1,169,894	-	1,169,894	-
Other taxes					3,869,411	-	3,869,411	-
Intergovernmental revenue not restricted					3,989,413	-	3,989,413	-
Unrestricted investment earnings					269,350	93	269,443	-
Gain on sale of capital assets					100,081	1,435	101,516	-
Payments from City of Salem					-	-	-	19,739,512
State aid					-	-	-	13,757,083
Other					986,182	-	986,182	890,647
Transfers					2,133,023	(2,133,023)	-	-
Total general revenues and transfers					<u>63,872,308</u>	<u>(2,131,495)</u>	<u>61,740,813</u>	<u>34,387,242</u>
Change in net position					6,883,705	6,870,695	13,754,400	2,357,550
Net position, beginning					<u>41,435,297</u>	<u>66,611,650</u>	<u>108,046,947</u>	<u>12,740,753</u>
Net position, ending					<u>\$ 48,319,002</u>	<u>\$ 73,482,345</u>	<u>\$ 121,801,347</u>	<u>\$ 15,098,303</u>

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

**CITY OF SALEM, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 16,999,990	\$ -	\$ 134,611	\$ 17,134,601
Cash and cash equivalents, restricted	2,500	-	4,260,713	4,263,213
Receivables, net	3,616,092	-	-	3,616,092
Due from other governmental units	4,540,383	-	34,076	4,574,459
Inventories	567,605	-	-	567,605
Total assets	<u>\$ 25,726,570</u>	<u>\$ -</u>	<u>\$ 4,429,400</u>	<u>\$ 30,155,970</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 4,000,167	\$ -	\$ 90,629	\$ 4,090,796
Accrued payroll and related liabilities	1,149,570	-	-	1,149,570
Unearned revenues	49,137	-	-	49,137
Total liabilities	<u>5,198,874</u>	<u>-</u>	<u>90,629</u>	<u>5,289,503</u>
DEFERRED INFLOWS OF RESOURCES	<u>1,479,383</u>	<u>-</u>	<u>-</u>	<u>1,479,383</u>
FUND BALANCES				
Nonspendable	567,605	-	-	567,605
Restricted	1,959,638	-	4,193,169	6,152,807
Committed	76,219	-	81,754	157,973
Assigned	743,727	-	63,848	807,575
Unassigned	15,701,124	-	-	15,701,124
Total fund balances	<u>19,048,313</u>	<u>-</u>	<u>4,338,771</u>	<u>23,387,084</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 25,726,570</u>	<u>\$ -</u>	<u>\$ 4,429,400</u>	<u>\$ 30,155,970</u>

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

CITY OF SALEM, VIRGINIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS' BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Total fund balance of governmental funds	\$ 23,387,084
Capital assets used in governmental activities are not considered current financial resources and, therefore, are not reported in the governmental funds.	89,915,153
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds:	
Deferred inflows of resources for unavailable revenues	1,405,399
Other postemployment benefits asset	50,000
Long-term liabilities related to governmental fund activities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable	(36,909,148)
Bond premiums	(111,216)
Bond discounts	48,989
Accrued interest	(338,134)
Capital lease obligation	(341,175)
Compensated absences	(1,977,076)
Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds:	
Deferred outflows of resources for current year employer contributions	3,060,264
Deferred inflows of resources for differences between expected and actual experience	(3,019,075)
Deferred inflows of resources for the net difference between projected and actual investment earnings on pension plan investments	(1,109,706)
Net pension liability	(26,724,892)
The internal service fund is used by management to charge the costs of health insurance to individual funds. The assets, liabilities and net position of the internal service fund are included with governmental activities in the Statement of Net Position.	982,535
Net position of governmental activities	<u><u>\$ 48,319,002</u></u>

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

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	General	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Property taxes	\$ 35,332,053	\$ -	\$ -	\$ 35,332,053
Other local taxes	21,784,105	-	-	21,784,105
Permits, fees and licenses	394,968	-	-	394,968
Fines and forfeitures	116,417	-	-	116,417
Revenue from use of money and property	529,694	-	1,685	531,379
Charges for services	6,075,639	-	-	6,075,639
Other	357,115	-	-	357,115
Intergovernmental	11,543,460	-	59,956	11,603,416
Total revenues	<u>76,133,451</u>	<u>-</u>	<u>61,641</u>	<u>76,195,092</u>
EXPENDITURES				
<i>Current:</i>				
General government	5,918,110	-	-	5,918,110
Judicial administration	2,026,255	-	-	2,026,255
Public safety	15,824,899	-	-	15,824,899
Public works	14,672,498	-	-	14,672,498
Health and welfare	2,827,459	-	-	2,827,459
Education	19,739,512	-	-	19,739,512
Parks, recreation and cultural	4,482,414	-	-	4,482,414
Community development	1,087,606	-	-	1,087,606
Non-departmental	3,240,075	-	-	3,240,075
Capital projects	-	-	2,187,595	2,187,595
<i>Debt service:</i>				
Principal retirement	-	2,988,314	-	2,988,314
Interest	-	941,386	-	941,386
Bond issuance costs	-	-	32,987	32,987
Total expenditures	<u>69,818,828</u>	<u>3,929,700</u>	<u>2,220,582</u>	<u>75,969,110</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,314,623</u>	<u>(3,929,700)</u>	<u>(2,158,941)</u>	<u>225,982</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt	-	-	5,281,400	5,281,400
Proceeds from sale of capital assets	211,254	-	-	211,254
Issuance of capital leases	-	-	375,000	375,000
Transfers in	3,321,657	3,929,700	678,884	7,930,241
Transfers out	<u>(5,797,218)</u>	<u>-</u>	<u>-</u>	<u>(5,797,218)</u>
Total other financing sources (uses), net	<u>(2,264,307)</u>	<u>3,929,700</u>	<u>6,335,284</u>	<u>8,000,677</u>
Net change in fund balances	<u>4,050,316</u>	<u>-</u>	<u>4,176,343</u>	<u>8,226,659</u>
Fund balances, beginning	<u>14,997,997</u>	<u>-</u>	<u>162,428</u>	<u>15,160,425</u>
Fund balances, ending	<u>\$ 19,048,313</u>	<u>\$ -</u>	<u>\$ 4,338,771</u>	<u>\$ 23,387,084</u>

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

CITY OF SALEM, VIRGINIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS' STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Net changes in fund balances of governmental funds \$ 8,226,659

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	3,785,461
Capital donated	20,450
Depreciation expense	(4,558,339)

Governmental funds report proceeds from the sale of a capital asset 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	(218,254)
Net loss from sale of assets	(291,109)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as fund revenues. 65,140

Issuance of debt and other obligations provides current financial resources to governmental funds, but increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Position. Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Bond Proceeds, net of payment to refunded bond escrow agent	(5,281,400)
Issuance of capital leases	(375,000)
Principal payments	2,988,314
Amortization of current year bond premiums	38,483
Amortization of current year bond discounts	(1,784)
Amortization of current year deferred amounts on refunding	(78,561)

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

Change in accrued interest payable	14,512
Change in compensated absences	(162,332)
Change in other postemployment benefits	106,892

Governmental funds report employer pension contributions as expenditures. However, in the Statement of Activities the cost of pension benefits earned net of employee contributions is reported as pension expense.

Employer pension contributions	3,049,879
Pension expense	(1,013,388)

The internal service fund is used by management to charge the costs of health insurance to individual funds. The change in net position of the internal service fund is reported with governmental activities. 568,082

Change in net position of governmental activities	\$ 6,883,705
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The Notes to Financial Statements are an integral part of this statement.

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 33,226,300	\$ 33,802,957	\$ 35,332,053	\$ 1,529,096
Other local taxes	20,560,500	20,638,879	21,784,105	1,145,226
Permits, fees and licenses	240,160	240,160	394,968	154,808
Fines and forfeitures	110,000	110,000	116,417	6,417
Revenue from use of money and property	433,028	470,005	529,694	59,689
Charges for services	5,575,014	5,621,544	6,075,639	454,095
Other	45,000	300,672	357,115	56,443
Intergovernmental	10,713,042	11,243,986	11,543,460	299,474
Total revenues	<u>70,903,044</u>	<u>72,428,203</u>	<u>76,133,451</u>	<u>3,705,248</u>
EXPENDITURES				
General government	6,106,425	6,544,184	5,918,110	626,074
Judicial administration	1,982,482	2,092,942	2,026,255	66,687
Public safety	15,943,717	16,525,462	15,824,899	700,563
Public works	12,665,589	15,739,769	14,672,498	1,067,271
Health and welfare	2,274,631	2,907,571	2,827,459	80,112
Education	19,270,796	19,739,512	19,739,512	-
Parks, recreation and cultural	4,600,294	4,778,817	4,482,414	296,403
Community development	1,127,333	1,249,278	1,087,606	161,672
Non-departmental	4,705,020	4,142,580	3,240,075	902,505
Total expenditures	<u>68,676,287</u>	<u>73,720,115</u>	<u>69,818,828</u>	<u>3,901,287</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,226,757</u>	<u>(1,291,912)</u>	<u>6,314,623</u>	<u>7,606,535</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	211,254	211,254
Transfers in	3,290,000	3,290,000	3,321,657	31,657
Transfers out	(5,516,757)	(5,797,406)	(5,797,218)	188
Total other financing uses, net	<u>(2,226,757)</u>	<u>(2,507,406)</u>	<u>(2,264,307)</u>	<u>243,099</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ (3,799,318)</u>	<u>\$ 4,050,316</u>	<u>\$ 7,849,634</u>

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

**CITY OF SALEM, VIRGINIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016**

	Enterprise Funds				Internal Service Fund
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total	
ASSETS					
<i>Current assets:</i>					
Cash and cash equivalents	\$ 26,755,658	\$ 7,760,520	\$ 50,746	\$ 34,566,924	\$ 1,561,171
Cash and cash equivalents, restricted	2,500,000	2,500,000	-	5,000,000	-
Receivables, net	4,268,980	1,545,673	89,763	5,904,416	29,756
Due from other funds	1,380,000	-	-	1,380,000	-
Inventories	1,410,638	286,139	34,084	1,730,861	-
Prepaid items	-	1,788	85,201	86,989	129,833
Total current assets	36,315,276	12,094,120	259,794	48,669,190	1,720,760
<i>Capital assets:</i>					
Nondepreciable	1,198,109	4,905,694	176,653	6,280,456	-
Depreciable, net	29,359,479	48,739,356	3,917,764	82,016,599	-
Total capital assets	30,557,588	53,645,050	4,094,417	88,297,055	-
Total noncurrent assets	30,557,588	53,645,050	4,094,417	88,297,055	-
Total assets	66,872,864	65,739,170	4,354,211	136,966,245	1,720,760
DEFERRED OUTFLOWS OF RESOURCES	332,413	349,143	169,555	851,111	25,640
LIABILITIES AND DEFERRED INFLOWS					
<i>Current liabilities:</i>					
Accounts payable and accrued liabilities	1,470,655	578,247	114,791	2,163,693	23,185
Accrued payroll and related liabilities	116,317	122,547	109,479	348,343	8,202
Accrued interest	113,174	485,245	-	598,419	-
Self-insurance claims liability	-	-	-	-	452,286
Due to other funds	-	-	1,380,000	1,380,000	-
Unearned revenues	-	47,390	282,617	330,007	30,286
Customer security deposits	893,598	-	-	893,598	-
Bonds payable	1,178,364	2,615,678	-	3,794,042	-
Compensated absences	233,593	180,477	64,228	478,298	2,655
Total current liabilities	4,005,701	4,029,584	1,951,115	9,986,400	516,614
<i>Noncurrent liabilities:</i>					
Bonds payable	18,048,235	27,823,673	-	45,871,908	-
Compensated absences	71,887	7,992	86,764	166,643	-
Net pension liability	2,741,026	2,966,903	1,463,557	7,171,486	214,008
Total noncurrent liabilities	20,861,148	30,798,568	1,550,321	53,210,037	214,008
Total liabilities	24,866,849	34,828,152	3,501,436	63,196,437	730,622
DEFERRED INFLOWS OF RESOURCES	444,903	473,160	220,511	1,138,574	33,243
NET POSITION					
Net investment in capital assets	13,830,989	25,982,208	4,094,417	43,907,614	-
Unrestricted (deficit)	28,062,536	4,804,793	(3,292,598)	29,574,731	982,535
Total net position	\$ 41,893,525	\$ 30,787,001	\$ 801,819	\$ 73,482,345	\$ 982,535

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

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016

	Enterprise Funds				Internal Service Fund
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total	
OPERATING REVENUES					
Charges for services	\$ 37,637,070	\$ 13,061,900	\$ 3,208,846	\$ 53,907,816	\$ 6,138,616
Connections and transfers	66,151	113,202	-	179,353	-
Penalties	172,948	169,889	-	342,837	-
Pole rentals	178,427	-	-	178,427	-
Commissions	-	-	10,306	10,306	-
Other	25,553	192,319	30,169	248,041	186,558
Total operating revenues	<u>38,080,149</u>	<u>13,537,310</u>	<u>3,249,321</u>	<u>54,866,780</u>	<u>6,325,174</u>
OPERATING EXPENSES					
Salaries	-	1,705,196	1,420,758	3,125,954	142,395
Fringe benefits	-	674,157	410,527	1,084,684	38,166
Show expenses	-	-	1,602,785	1,602,785	-
Maintenance	178	652,566	161,470	814,214	2,490
Billing and collection	485,639	468,469	-	954,108	-
Professional services	17,923	81,827	25,261	125,011	206,206
Insurance	33,302	41,098	15,673	90,073	-
Purchased power	24,251,151	-	-	24,251,151	-
Distribution - operations	811,078	-	-	811,078	-
Distribution - maintenance	1,641,700	-	-	1,641,700	-
Administration	616,312	319,529	111,382	1,047,223	5,351
Travel and training	14,628	14,336	20,914	49,878	-
Materials and supplies	-	328,202	324,586	652,788	8,735
Expendable equipment and small tools	243,314	38,250	8,465	290,029	-
Utilities	-	387,483	270,115	657,598	4,359
Miscellaneous	169,004	3,219	186	172,409	45,531
Depreciation	1,422,772	1,860,436	492,611	3,775,819	-
Treatment of sewage	-	2,458,042	-	2,458,042	-
Commissions	-	-	218,991	218,991	-
Claims	-	-	-	-	5,310,084
Total operating expenses	<u>29,707,001</u>	<u>9,032,810</u>	<u>5,083,724</u>	<u>43,823,535</u>	<u>5,763,317</u>
Operating income (loss)	<u>8,373,148</u>	<u>4,504,500</u>	<u>(1,834,403)</u>	<u>11,043,245</u>	<u>561,857</u>
NONOPERATING REVENUES (EXPENSES)					
Interest income	-	-	93	93	6,225
Interest expense	(1,053,563)	(941,575)	-	(1,995,138)	-
Bond issuance costs	(17,200)	(25,422)	-	(42,622)	-
Gain (loss) on sale of capital assets	(3,046)	(249)	1,435	(1,860)	-
Net nonoperating revenues (expenses)	<u>(1,073,809)</u>	<u>(967,246)</u>	<u>1,528</u>	<u>(2,039,527)</u>	<u>6,225</u>
Income (loss) before contributions and transfers	<u>7,299,339</u>	<u>3,537,254</u>	<u>(1,832,875)</u>	<u>9,003,718</u>	<u>568,082</u>
Transfers in	-	-	1,188,634	1,188,634	-
Transfers out	<u>(3,160,000)</u>	<u>(161,657)</u>	<u>-</u>	<u>(3,321,657)</u>	<u>-</u>
Change in net position	<u>4,139,339</u>	<u>3,375,597</u>	<u>(644,241)</u>	<u>6,870,695</u>	<u>568,082</u>
Net position, beginning	<u>37,754,186</u>	<u>27,411,404</u>	<u>1,446,060</u>	<u>66,611,650</u>	<u>414,453</u>
Net position, ending	<u>\$ 41,893,525</u>	<u>\$ 30,787,001</u>	<u>\$ 801,819</u>	<u>\$ 73,482,345</u>	<u>\$ 982,535</u>

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

**CITY OF SALEM, VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016**

	Enterprise Funds				Internal Service Fund
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total	
OPERATING ACTIVITIES					
Receipts from customers	\$ 38,667,377	\$ 13,454,150	\$ 3,420,221	\$ 55,541,748	\$ 6,135,402
Payments to suppliers	(27,006,842)	(4,711,925)	(2,830,822)	(34,549,589)	(454,789)
Payments to employees	(2,656,942)	(2,638,924)	(1,927,057)	(7,222,923)	(196,039)
Payments for claims	-	-	-	-	(5,386,812)
Other receipts	25,553	192,319	30,169	248,041	186,558
Net cash provided by (used in) operating activities	9,029,146	6,295,620	(1,307,489)	14,017,277	284,320
NONCAPITAL FINANCING ACTIVITIES					
Interfund loan	(155,000)	-	155,000	-	-
Transfers in	-	-	1,188,634	1,188,634	-
Transfers out	(3,160,000)	(161,657)	-	(3,321,657)	-
Net cash provided by (used in) noncapital financing activities	(3,315,000)	(161,657)	1,343,634	(2,133,023)	-
CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of capital assets	-	1,966	1,435	3,401	-
Purchases of capital assets	(1,004,433)	(1,604,802)	-	(2,609,235)	-
Proceeds from capital debt	2,517,080	3,139,467	-	5,656,547	-
Principal paid on capital debt	(925,106)	(2,635,045)	-	(3,560,151)	-
Interest paid on capital debt	(431,323)	(1,129,028)	-	(1,560,351)	-
Funds paid for bond issuance costs	(17,200)	(25,422)	-	(42,622)	-
Net cash provided by (used in) capital and related financing activities	139,018	(2,252,864)	1,435	(2,112,411)	-
INVESTING ACTIVITIES					
Interest received	-	-	93	93	6,225
Net cash provided by investing activities	-	-	93	93	6,225
Net increase in cash and cash equivalents	5,853,164	3,881,099	37,673	9,771,936	290,545
Cash and cash equivalents, beginning	23,402,494	6,379,421	13,073	29,794,988	1,270,626
Cash and cash equivalents, ending	\$ 29,255,658	\$ 10,260,520	\$ 50,746	\$ 39,566,924	\$ 1,561,171
CASH AND CASH EQUIVALENTS AT END OF YEAR IS COMPRISED OF THE FOLLOWING:					
Cash and cash equivalents	\$ 26,755,658	\$ 7,760,520	\$ 50,746	\$ 34,566,924	\$ 1,561,171
Cash and cash equivalents, restricted	2,500,000	2,500,000	-	5,000,000	-
Total	\$ 29,255,658	\$ 10,260,520	\$ 50,746	\$ 39,566,924	\$ 1,561,171
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Operating income (loss)	\$ 8,373,148	\$ 4,504,500	\$ (1,834,403)	\$ 11,043,245	\$ 561,857
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i>					
Depreciation	1,422,772	1,860,436	492,611	3,775,819	-
Pension expense, net of employer contributions	(226,535)	(237,806)	(111,178)	(575,519)	(16,764)
<i>Decrease (increase) in assets:</i>					
Receivables, net	545,932	126,319	47,377	719,628	(8,943)
Inventories	(52,096)	(111)	(955)	(53,162)	-
Prepaid items	-	(292)	(16,897)	(17,189)	(126,833)
<i>Increase (decrease) in liabilities:</i>					
Accounts payable and accrued liabilities	(1,053,547)	81,499	(53,142)	(1,025,190)	(132,548)
Accrued payroll and related liabilities	5,890	10,192	20,513	36,595	1,057
Self-insurance claims liability	-	-	-	-	536
Unearned revenues	(5,473)	(17,160)	153,692	131,059	5,729
Customer security deposits payable	72,322	-	-	72,322	-
Compensated absences	(40,422)	(6,660)	17,275	(29,807)	229
Other postemployment benefits	(12,845)	(25,297)	(22,382)	(60,524)	-
Net cash provided by (used in) operating activities	\$ 9,029,146	\$ 6,295,620	\$ (1,307,489)	\$ 14,017,277	\$ 284,320
<i>Noncash investing, capital, and financing activities</i>					
Capital assets financed with accounts payable	\$ -	\$ 104,551	\$ -	\$ 104,551	\$ -

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

**CITY OF SALEM, VIRGINIA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016**

	Agency Funds	OPEB Trust Fund
ASSETS		
Cash and cash equivalents	\$ 1,630,669	\$ -
Investments held by trustee, fair value of pooled funds	-	4,908,849
Due from Commonwealth of Virginia	62,327	-
Total assets	<u>1,692,996</u>	<u>4,908,849</u>
LIABILITIES		
Accounts payable	73,511	-
Liability to agency	<u>1,619,485</u>	<u>-</u>
Total liabilities	<u>1,692,996</u>	<u>-</u>
NET POSITION		
Held in trust for other postemployment benefits	<u>\$ -</u>	<u>\$ 4,908,849</u>

**CITY OF SALEM, VIRGINIA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2016**

	OPEB Trust Fund
ADDITIONS	
Employer contributions	\$ 273,603
<i>Investment Loss</i>	
Decrease in fair value of investments	(19,983)
Less investment expenses	(5,883)
Total additions	<u>247,737</u>
Net increase in plan net position	<u>247,737</u>
Net position held in trust for other postemployment benefits, beginning	4,661,112
Net position held in trust for other postemployment benefits, ending	<u>\$ 4,908,849</u>

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

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1. Summary of Significant Accounting Policies

The Financial Reporting Entity

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

The City provides a full range of municipal services including police and fire, courts, sanitation, health and social services, public improvements, planning and zoning, general administration, education, parks and recreation, library, electric, civic center, water and sewage services.

Discretely Presented Component Unit

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

During the current year, the City provided \$19,270,796 of operating support and \$468,716 of capital support to the School Division and made debt service payments of \$2,458,824 on behalf of the School Division.

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

1. Summary of Significant Accounting Policies (Continued)

Fund Financial Statements (Continued)

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

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

- The *General Fund* is the government's primary operating fund and accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Debt Service Fund* accounts for the accumulation of resources and payments made for principal and interest on long-term general obligation debt not being financed by the proprietary funds.
- The *Capital Projects Fund* accounts for resources to be used for the acquisition or construction of major capital facilities not being financed by the proprietary funds.

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

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

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

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

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

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

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

Measurement Focus and Basis of Accounting

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

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

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

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

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

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

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

Budgets and Budgetary Accounting

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

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

Projects – The Capital Projects Fund utilizes a project length budget, which is not legally enacted on an annual basis; therefore, a budgetary comparison statement is not presented.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

1. Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (Continued)

Amendment – The City Manager is authorized to transfer amounts within and between departments and categories within the same fund. City Council must approve budget amendments between funds and any budget amendments increasing or decreasing appropriations. During the year, City Council approved \$5,324,477 of additional appropriations primarily for grants, capital outlay, unforeseen operating expenditures and the reappropriation of fund balances for encumbrances.

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

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded in order to reserve the applicable appropriation, is employed as an extension of formal budgetary integration in the general and capital project funds. Encumbrances outstanding at year-end are reported as part of the restricted, committed, or assigned fund balances since they do not constitute expenditures or liabilities. These encumbrances are subject to reappropriation by City Council in the subsequent fiscal year. Significant encumbrances as of June 30, 2016 total \$1,079,932 in the General Fund and \$786,488 in the Capital Projects Fund.

Deposits and Investments

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

Allowance for Uncollectible Accounts

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

Property Taxes

The City levies real estate taxes on all real estate within its boundaries, except that exempted by statute, each year as of July 1 based on 100% of estimated fair market value of the property. The City reassesses all property annually. Real estate taxes are due in equal semiannual payments on December 5 and June 5 and are considered delinquent after each due date. Real estate taxes become a lien on real property the first day of the levy year. The tax rate for 2016 was \$1.18 per \$100 of assessed value.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

1. Summary of Significant Accounting Policies (Continued)

Property Taxes (Continued)

The City levies personal property taxes on motor vehicles and business and other tangible personal property each year as of January 1. Personal property taxes are due the following May 31 and are considered delinquent after the due date. Personal property taxes do not create a lien on property; however, a penalty of 10% of delinquent personal property tax or \$10, whichever is greater, is due for late payment. Interest on delinquent taxes is accrued monthly at a rate of 0.83%, or 10% annually. Personal property transactions during the year are taxed on a prorated basis. The tax rate for personal property for 2016 was \$3.25 per \$100 of assessed value. The tax rate for machinery and tools for 2016 was \$3.20 per \$100 of assessed value.

Interfund Balances

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

Inventory

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

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

Prepaid Items

Governmental fund prepaid items consist primarily of lease agreement payments incurred for lease periods in a subsequent fiscal year. Prepaid items are amortized using the consumption method. The payments are recorded as an expenditure in the fiscal year related to the lease agreement period.

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

Capital Assets

Capital assets, which include property, plant and equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Proprietary fund capital assets are reported in the applicable fund financial statements. Capital assets are defined by the City as assets with an initial individual cost in excess of \$0 for land, \$5,000 for machinery and equipment or \$10,000 for buildings, plant and infrastructure 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 acquisition value on the date of donation. The City includes the cost of certain intangible assets with a definite life in the appropriate asset class.

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

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1. Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

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

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

Depreciation expense for capital assets is identified with a function, whenever possible, and is included as a direct expense. Upon the sale or retirement of a capital asset, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations. The City capitalizes net interest costs on funds borrowed to finance the construction of proprietary capital assets. Capital asset additions included \$31,694 of net capitalized interest for the current year.

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statements which represent financial position sometimes report a separate section for deferred outflows of resources, which represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify for reporting in this category in the government-wide and proprietary Statements of Net Position: deferred loss on refunding of debt and pension contributions subsequent to the measurement date. A deferred loss on refunding of debt results from the difference in the carrying amount of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Pension contributions made subsequent to the measurement date will be applied to the net pension liability in the next fiscal year.

In addition to liabilities, the statements which represent financial position sometimes report a separate section for deferred inflows of resources, which represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The City has four types of items that qualify for reporting in this category: unavailable revenue, property taxes collected in advance, differences between expected and actual experience of the pension plan, and the net difference between projected and actual earnings on pension plan investments.

The governmental funds report unavailable revenue from two sources: property taxes and charges for services and fees. These amounts only arise under a modified accrual basis of accounting and are deferred and recognized as an inflow of resources in the period that the amounts become available.

The governmental funds and government-wide Statement of Net Position report revenues collected in advance from one source: property taxes. These amounts are deferred and recognized as an inflow of resources when the taxes are levied.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1. Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources (Continued)

The proprietary funds and government-wide Statement of Net Position defer differences between expected and actual experience of the pension plan and the net difference between projected and actual earnings on pension plan investments. Experience differences will be recognized in pension expense over the average remaining service life of the active and inactive members of the plan at the beginning of the fiscal year. Earnings differences will be recognized in pension expense over a fixed five year period.

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

Surety Bond Payable

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

Unearned Revenues

Unearned revenues arise when assets are recognized before revenue recognition criteria can be satisfied and also when assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period. Grants and entitlements received before the eligibility requirements are met have been recorded as unearned revenue. Unearned revenues primarily consist of retiree health insurance premiums billed in advance, advertising, event deposits, and rentals.

Long-Term Obligations

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

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

Compensated Absences

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

1. Summary of Significant Accounting Policies (Continued)

Pensions

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

Other Postemployment Benefits

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

Net Position

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

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

Net investment in capital assets for governmental activities excludes \$19,259,609 of School Division debt and \$3,530,874 of Civic Center debt reported by the City because the related assets are reported by the School Division and Civic Center, respectively. Noncapital debt of \$523,490 and \$276,509 are also excluded from the net investment in capital assets for governmental activities and the Water and Sewage Fund, respectively.

Fund Balances

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

- **Nonspendable** – Amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.
- **Restricted** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** – Amounts constrained to specific purposes by the City, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purposes unless the same highest level of action is taken to remove or change the constraint.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

1. Summary of Significant Accounting Policies (Continued)

Fund Balances (Continued)

- **Assigned** – Amounts the City intends to use for a specified purpose; intent can be expressed by the governing body (City Council) or by an official or body to which the governing body designates the authority.
- **Unassigned** – Amounts that are available for any purpose; positive amounts are reported only in the General Fund.

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

Restricted Amounts

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

Minimum Fund Balance

The General Fund reserve target is 15% of the Fund's current year budgeted appropriations. For the purpose of determining if the target has been met, the unassigned fund balance of the General Fund is compared with the annual appropriations budget.

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

Estimates

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

2. Deposits and Investments

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

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

	Primary Government	Component Unit
Cash and cash equivalents	\$ 53,262,696	\$ 11,345,794
Cash and cash equivalents, restricted	9,263,213	-
	<u>\$ 62,525,909</u>	<u>\$ 11,345,794</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

2. Deposits and Investments (Continued)

Restricted cash and cash equivalents consist of a General Fund surety bond payable and unspent bond proceeds in the City Capital Projects Fund, Electric Fund, and Water and Sewage Fund.

Deposits

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

Investments

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

As of June 30, 2016, the City had no investments.

Credit Risk

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

Interest Rate Risk

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

3. Receivables

Receivables are as follows:

	Governmental Activities	Business-type Activities			Component Unit
		Electric	Water and Sewage	Nonmajor Proprietary	
Tax receivables	\$ 2,557,686	\$ -	\$ -	\$ -	\$ -
Account receivables	29,756	4,442,796	1,607,127	95,981	-
Other receivables	2,183,060	-	-	-	34,052
Gross receivables	4,770,502	4,442,796	1,607,127	95,981	34,052
Allowance for uncollectibles	(1,124,654)	(173,816)	(61,454)	(6,218)	-
Receivables, net	<u>\$ 3,645,848</u>	<u>\$4,268,980</u>	<u>\$1,545,673</u>	<u>\$ 89,763</u>	<u>\$ 34,052</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

4. Interfund Balances and Transfers

The composition of the interfund balances is as follows:

		Due from (fund)	
		Nonmajor enterprise	Total
Due to (fund)	Electric	\$ 1,380,000	\$ 1,380,000
	Total	\$ 1,380,000	\$ 1,380,000

The amount due to the Electric Fund from the nonmajor enterprise funds is short-term loan to fund operations.

The composition of the interfund transfers is as follows:

		Transfer out (fund)			
		General	Electric	Water	Total
Transfer in (fund)	General	\$ -	\$ 3,160,000	\$ 161,657	\$ 3,321,657
	Debt service	3,929,700	-	-	3,929,700
	Capital projects	678,884	-	-	678,884
	Nonmajor enterprise	1,188,634	-	-	1,188,634
	Total	\$ 5,797,218	\$ 3,160,000	\$ 161,657	\$ 9,118,875

Transfers to the General Fund include a payment in lieu of taxes. Transfers to the Debt Service Fund include principal and interest payments for general government and school debt. Transfers to the Capital Projects Fund include funding for current projects. Transfers to nonmajor enterprise funds include funding assistance for operating expenses.

5. Due from Other Governmental Units

Amounts due from other governmental units are as follows:

	Governmental Activities	Component Unit
Commonwealth of Virginia		
Personal property tax	\$ 2,588,707	\$ -
Local sales tax	1,146,060	-
Sales tax	-	937,981
Comprehensive Services Act	313,626	-
Communications tax	168,902	-
Other	342,414	
Federal government		
School funds	-	602,932
Lease payment from General Services Administration	10,726	-
Other	4,024	
	<u>\$ 4,574,459</u>	<u>\$ 1,540,913</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

6. Capital Assets

Capital asset activity for the year is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets, nondepreciable				
Land	\$ 5,839,365	\$ 99,465	\$ (110,831)	\$ 5,827,999
Construction in progress	533,508	720,033	(176,777)	1,076,764
Capital assets, nondepreciable	6,372,873	819,498	(287,608)	6,904,763
Capital assets, depreciable				
Machinery and equipment	21,509,689	2,171,651	(923,667)	22,757,673
Buildings and improvements	40,745,804	755,824	(415,679)	41,085,949
Leasehold improvements	-	42,806	-	42,806
Public domain infrastructure	99,555,465	583,840	(10,058)	100,129,247
Capital assets, depreciable	161,810,958	3,554,121	(1,349,404)	164,015,675
Accumulated depreciation				
Machinery and equipment	(17,249,402)	(1,382,885)	674,440	(17,957,847)
Buildings and improvements	(16,488,442)	(999,158)	96,992	(17,390,608)
Leasehold improvements	-	(476)	-	(476)
Public domain infrastructure	(43,269,043)	(2,391,872)	4,561	(45,656,354)
Accumulated depreciation	(77,006,887)	(4,774,391)	775,993	(81,005,285)
Capital assets, depreciable, net	84,804,071	(1,220,270)	(573,411)	83,010,390
Capital assets, net	\$ 91,176,944	\$ (400,772)	\$ (861,019)	\$ 89,915,153
Business-type Activities				
Capital assets, nondepreciable				
Land	\$ 1,523,798	\$ -	\$ -	\$ 1,523,798
Construction in progress	3,875,721	1,154,348	(273,411)	4,756,658
Capital assets, nondepreciable	5,399,519	1,154,348	(273,411)	6,280,456
Capital assets, depreciable				
Machinery and equipment	7,495,513	859,407	(284,953)	8,069,967
Buildings and improvements	27,070,503	51,101	-	27,121,604
Distribution and transmission	35,696,231	646,901	(176,128)	36,167,004
Utility plant	77,427,501	182,676	(8,175)	77,602,002
Sewage treatment contract	28,843,397	-	-	28,843,397
Capital assets, depreciable	176,533,145	1,740,085	(469,256)	177,803,974
Accumulated depreciation				
Machinery and equipment	(6,193,976)	(454,274)	284,953	(6,363,297)
Buildings and improvements	(8,643,707)	(931,614)	-	(9,575,321)
Distribution and transmission	(20,406,110)	(735,854)	173,082	(20,968,882)
Utility plant	(48,974,745)	(1,004,871)	4,924	(49,974,692)
Sewage treatment contract	(8,138,329)	(766,854)	-	(8,905,183)
Accumulated depreciation	(92,356,867)	(3,893,467)	462,959	(95,787,375)
Capital assets, depreciable, net	84,176,278	(2,153,382)	(6,297)	82,016,599
Capital assets, net	\$ 89,575,797	\$ (999,034)	\$ (279,708)	\$ 88,297,055

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

6. Capital Assets (Continued)

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

Governmental Activities		Business-type Activities	
General government	\$ 637,891	Electric	\$ 1,422,772
Judicial administration	39,432	Water and sewage	1,860,436
Public safety	547,721	Civic Center	488,681
Public works	2,586,464	Catering	3,930
Parks, recreation and cultural	746,831	Total depreciation expense	<u>\$ 3,775,819</u>
Total depreciation expense	<u>\$ 4,558,339</u>		

Current year increases to accumulated depreciation shown in the capital asset table for governmental activities exceeds depreciation expense by \$216,052 because the table includes accumulated depreciation for machinery and equipment transferred to the city garage, street department, and parks and recreation from the civic center, electric department, and school system. Current year increases to accumulated depreciation shown in the capital asset table for business-type activities exceeds depreciation expense by \$117,648 because the table includes accumulated depreciation for machinery and equipment transferred to meter readers, the civic center, catering, and the electric department from the street department, engineering, and parks and recreation.

Component Unit	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	\$ 1,123,637	\$ -	\$ -	\$ 1,123,637
Construction in progress	70,568	47,029	(70,567)	47,030
Capital assets, nondepreciable	<u>1,194,205</u>	<u>47,029</u>	<u>(70,567)</u>	<u>1,170,667</u>
Capital assets, depreciable				
Furniture and equipment	7,340,449	722,291	(156,211)	7,906,529
Buildings and improvements	68,820,604	484,385	(115,184)	69,189,805
Capital assets, depreciable	<u>76,161,053</u>	<u>1,206,676</u>	<u>(271,395)</u>	<u>77,096,334</u>
Accumulated depreciation				
Furniture and equipment	(4,525,198)	(577,995)	155,034	(4,948,159)
Buildings and improvements	(24,708,727)	(1,882,654)	71,328	(26,520,053)
Accumulated depreciation	<u>(29,233,925)</u>	<u>(2,460,649)</u>	<u>226,362</u>	<u>(31,468,212)</u>
Capital assets, depreciable, net	<u>46,927,128</u>	<u>(1,253,973)</u>	<u>(45,033)</u>	<u>45,628,122</u>
Capital assets, net	<u>\$ 48,121,333</u>	<u>\$ (1,206,944)</u>	<u>\$ (115,600)</u>	<u>\$ 46,798,789</u>

7. Deferred Outflows/Inflows of Resources

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

	Governmental Activities	Business-type Activities	Component Unit
Deferred outflows of resources			
Pension contributions subsequent to measurement date	\$ 3,085,904	\$ 851,111	\$ 3,081,704
Total deferred outflows of resources	<u>\$ 3,085,904</u>	<u>\$ 851,111</u>	<u>\$ 3,081,704</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

7. Deferred Outflows/Inflows of Resources (Continued)

	Governmental Activities	Business-type Activities	Component Unit
Deferred inflows of resources			
Property taxes collected in advance	\$ 73,984	\$ -	\$ -
Differences between expected and actual experience	1,118,641	306,018	524,468
Net difference between projected and actual investment earnings on pension plan investments	3,043,383	832,556	2,337,910
Changes in proportion - teacher cost sharing pool	-	-	2,008,000
Total deferred inflows of resources	<u>\$ 4,236,008</u>	<u>\$ 1,138,574</u>	<u>\$ 4,870,378</u>

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

	General Fund
Deferred inflows of resources	
Unavailable revenue - property taxes	\$ 1,173,648
Property taxes collected in advance	73,984
Unavailable revenue - charges for services and fees	231,751
Total deferred inflows of resources	<u>\$ 1,479,383</u>

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

	Electric	Water and Sewage	Nonmajor Proprietary Funds	Internal Service Fund
Deferred outflows of resources				
Pension contributions subsequent to measurement date	\$ 332,413	\$ 349,143	\$ 169,555	\$ 25,640
Total deferred outflows of resources	<u>\$ 332,413</u>	<u>\$ 349,143</u>	<u>\$ 169,555</u>	<u>\$ 25,640</u>
Deferred inflows of resources				
Differences between expected and actual experience	\$ 119,578	\$ 127,173	\$ 59,267	\$ 8,935
Net difference between projected and actual investment earnings on pension plan investments	325,325	345,987	161,244	24,308
Total deferred inflows of resources	<u>\$ 444,903</u>	<u>\$ 473,160</u>	<u>\$ 220,511</u>	<u>\$ 33,243</u>

8. Long-Term Liabilities

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

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

8. Long-Term Liabilities (Continued)

Current Year Debt Issuance

On June 21, 2016, the City issued \$3,922,176 in tax-exempt general obligation public improvement bonds series 2016A and \$6,393,385 in taxable general obligation public improvement bonds series 2016B with a true interest cost of 2.50%. The net proceeds of \$10,248,663 (after payment of \$66,898 in issuance costs) were issued to finance the costs of various capital improvement projects, including but not limited to (i) Salem Stadium improvements, (ii) public building improvements, (iii) downtown improvements, (iv) acquisition of equipment and vehicles, (v) acquisition, equipping and installation of automated meter reading infrastructure and (vi) Salem Memorial Park improvements.

Line of Credit

On March 22, 2016, the City entered into a variable rate revolving line of credit loan agreement with Union Bank & Trust. The agreement provides for borrowings of up to \$5,000,000 to provide for general working capital needs. The outstanding principal balance will be payable in full on demand or at maturity, whichever occurs first. Interest will accrue on the outstanding principal balance at the Wall Street Journal Prime Rate, with changes becoming effective on the day such rate changes. Payments of interest will be due and payable monthly. This commitment will expire on April 2, 2017. As of June 30, 2016, no principal balance was outstanding.

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds	\$34,582,237	\$ 5,281,400	\$ (2,954,489)	\$36,909,148	\$3,013,027
Bond premiums	149,699	-	(38,483)	111,216	-
Bond discounts	(50,773)	-	1,784	(48,989)	-
Bonds payable	34,681,163	5,281,400	(2,991,188)	36,971,375	3,013,027
Capital lease obligation	-	375,000	(33,825)	341,175	69,972
Compensated absences	1,817,170	1,410,621	(1,248,060)	1,979,731	1,241,762
Net pension liability	26,225,822	7,970,475	(7,257,397)	26,938,900	-
Other postemployment benefits	56,892	1,321,211	(1,428,103)	(50,000)	-
	<u>\$62,781,047</u>	<u>\$16,358,707</u>	<u>\$(12,958,573)</u>	<u>\$66,181,181</u>	<u>\$4,324,761</u>
Business-type Activities					
General obligation bonds	\$46,967,503	\$ 5,656,547	\$ (3,560,151)	\$49,063,899	\$3,794,042
Bond premiums	695,891	-	(93,840)	602,051	-
Bonds payable	47,663,394	5,656,547	(3,653,991)	49,665,950	3,794,042
Compensated absences	674,748	415,290	(445,097)	644,941	478,298
Net pension liability	7,017,885	2,138,953	(1,985,352)	7,171,486	-
Other postemployment benefits	60,524	388,827	(449,351)	-	-
	<u>\$55,416,551</u>	<u>\$ 8,599,617</u>	<u>\$ (6,533,791)</u>	<u>\$57,482,377</u>	<u>\$4,272,340</u>
Component Unit					
Capital lease obligation	\$ -	\$ 411,457	\$ (142,981)	\$ 268,476	\$ 131,405
Compensated absences	955,979	266,006	(300,551)	921,434	300,551
Net pension liability	35,161,618	7,225,131	(6,487,994)	35,898,755	-
Other postemployment benefits	(186,976)	177,095	(207,882)	(217,763)	-
	<u>\$35,930,621</u>	<u>\$ 8,079,689</u>	<u>\$ (7,139,408)</u>	<u>\$36,870,902</u>	<u>\$ 431,956</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

8. Long-Term Liabilities (Continued)

The Debt Service Fund is used to liquidate most long-term liabilities of governmental activities as shown above. However, a portion of compensated absences and other postemployment benefits are liquidated by the Internal Service Fund. The remaining portion of compensated absences and other postemployment benefits is liquidated by the General Fund.

Details of long-term indebtedness are as follows:

	Interest Rates	Issue Date	Maturity Date	Issue Amount	Governmental Activities	Business-type Activities
General Obligation Bonds						
2004 Public Improvement	3.00%	04/04	07/26	11,052,222	\$ -	\$ 6,737,241
2007 Refunding	4.00-5.00%	02/07	01/27	17,045,000	-	13,295,000
2010 Taxable Build America	4.57-6.56%	12/10	02/31	2,700,000	2,700,000	-
2010 Public Improvement	3.00-4.25%	12/10	02/28	2,830,000	2,615,000	-
2010 Public Improvement	3.15%	09/10	03/30	3,648,124	-	2,930,848
2010 Refunding	2.50-5.25%	12/10	02/19	7,410,000	697,017	1,672,983
2011 Refunding	2.14%	12/11	10/23	9,485,000	9,045,000	-
2012 Public Improvement	2.35%	12/12	08/32	9,545,000	8,113,250	-
2013 Public Improvement	1.25%	03/13	04/35	2,137,324	-	2,684,147
2013 Public Improvement	3.03%	12/13	08/33	7,275,000	6,545,000	-
2015 Refunding	2.50%	04/15	04/31	18,813,000	1,912,481	16,709,519
2016A Public Improvement	2.50%	06/16	04/36	3,922,176	3,922,176	-
2016B Public Improvement	2.50%	06/16	04/26	6,393,385	1,359,224	5,034,161
					36,909,148	49,063,899
			Bond premiums		111,216	602,051
			Bond discounts		(48,989)	-
					<u>\$ 36,971,375</u>	<u>\$ 49,665,950</u>

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

Fiscal Year	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2017	\$ 3,013,027	\$ 942,721	\$ 3,794,042	\$ 1,514,935
2018	2,982,132	892,487	3,856,549	1,414,285
2019	2,979,962	813,513	3,951,382	1,283,140
2020	2,756,851	734,412	3,511,327	1,148,544
2021	2,758,760	666,321	3,626,454	1,031,888
2022-2026	11,731,557	2,346,579	19,894,512	3,298,840
2027-2031	7,958,518	1,043,296	9,801,764	667,716
2032-2036	2,728,341	124,411	627,869	17,808
	<u>\$ 36,909,148</u>	<u>\$ 7,563,740</u>	<u>\$ 49,063,899</u>	<u>\$ 10,377,156</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

9. Operating Leases

Rental Costs

The City and School Division entered several non-cancelable operating leases for office space and equipment. Rent expenditures for the current year were \$77,046 and \$47,610 for the City and School Division, respectively. Scheduled minimum rental payments for the next five years are as follows:

Fiscal Year Ending	City of Salem	School Division
June 30, 2017	\$ 16,772	\$ 51,689
June 30, 2018	11,902	29,833
June 30, 2019	6,820	16,806
June 30, 2020	2,364	14,820
June 30, 2021	1,134	2,378
	\$ 38,992	\$ 115,526

Rental Revenues

On July 1, 2011, the City entered into a fifteen year lease agreement with the General Services Administration (GSA) providing for the use of office area on the third floor of the City Police Department. The lease includes a five year renewal option under the same terms and conditions. The net book value of leased assets of \$1,543,793 (cost of \$1,843,486 less accumulated depreciation of \$299,693) is included in capital assets in the government-wide financial statements. Rent is determined as \$48.75 per ABOA (American National Standards Institute/Building Owners and Managers Association Office Area) plus a component for operating costs adjusted annually based on the Cost of Living Index. Rent revenues for the current year were \$128,707. Scheduled minimum rental revenues over the remaining lease period are \$1,289,646. Minimum rental revenues are determined using the current year change in the monthly rent payment of (0.05)% projected for each future year of the lease.

On May 1, 2014, the City entered into a five year lease agreement with Cardinal Criminal Justice Academy providing for the use of real property located at 912 Central Avenue in Salem. Upon completion of the five year term, the lease shall continue on a month-to-month basis. Upon completion of a ten year lease term, the Academy will purchase the property for the sum of \$1. The net book value of leased assets of \$123,419 (cost of \$127,891 less accumulated depreciation of \$4,472) is included in capital assets in the government-wide financial statements. Rent of \$14,500 is paid annually in advance and due on the same date each year.

On January 1, 2015, The City entered into a ten year lease agreement with Salem Professional Baseball Club, Inc. providing for the use of the Salem Memorial Baseball Stadium and the adjoining office building located at 1004 Texas Street in Salem. The net book value of leased assets of \$6,903,809 (cost of \$11,550,775 less accumulated depreciation of \$4,646,966) is included in capital assets in the government-wide financial statements. Rent of \$1 is paid annually and due on May 15 of each year during the term. In addition, two percent of gross ticket revenue in excess of \$1,000,000 in each calendar year during the term is due December 31 of each such year.

Scheduled minimum rental revenues for the next five years are as follows:

Fiscal Year Ending	Amount
June 30, 2017	\$ 143,155
June 30, 2018	143,094
June 30, 2019	143,033
June 30, 2020	128,472
June 30, 2021	128,411
	\$ 686,165

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

10. Capital Leases

On November 1, 2015, the City entered into a 62 month lease agreement with C. R. Whitley, Jr. and Sandra S. Whitley, Trustees under the Whitley Living Trust, to lease the property located at 21 S. Bruffey Street, Salem, VA 24153. Under the lease agreement, the City pays \$6,991.13 monthly to the lessor, representing principal and interest payments with interest at 4.5%. Capital lease accounting is required due to transfer of ownership at the end of the lease, bargain purchase price, and net present value of payments through the term of the lease. The lease assets and obligation are accounted for as Governmental Activities. At June 30, 2016, the original cost of the land and building under the capital lease totaled \$96,700 and \$278,300, respectively, and accumulated depreciation on the building totaled \$3,247.

Scheduled minimum lease payments under the capital lease are as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
June 30, 2017	\$ 83,894
June 30, 2018	83,894
June 30, 2019	83,894
June 30, 2020	83,894
June 30, 2021	41,945
Total minimum lease payments	377,521
Less: Amount representing interest	(36,346)
Present value of minimum lease payments	<u>\$ 341,175</u>

On August 1, 2015, the School Division entered into a 36 month lease agreement with Dell Financial Services LLC to lease 1,240 Dell Chromebooks. Under the lease agreement, the School Division pays \$142,981.24 annually to the lessor, representing principal and interest payments with an implicit interest rate of 4.31%. Capital lease accounting is required due to a bargain purchase option and the net present value of payments through the term of the lease. The lease assets and obligation are accounted for in the Statement of Net Position under the Component Unit. At June 30, 2016, the original cost of the Chromebooks was \$411,457 and accumulated depreciation was \$68,576.

Scheduled minimum lease payments under the capital lease are as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
June 30, 2017	\$ 142,981
June 30, 2018	142,981
Total minimum lease payments	285,962
Less: Amount representing interest	(17,486)
Present value of minimum lease payments	<u>\$ 268,476</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

11. Fund Balance

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

	General	Capital Projects	Total Governmental Funds
Fund Balances:			
Nonspendable:			
Inventories	\$ 567,605	\$ -	\$ 567,605
	<u>567,605</u>	<u>-</u>	<u>567,605</u>
Restricted for:			
Technology systems	-	63,545	63,545
Law enforcement	170,424	-	170,424
Fire and rescue	368,249	550,000	918,249
Street equipment	-	483,000	483,000
Building maintenance and improvements	-	1,202,377	1,202,377
Highway maintenance	1,420,965	-	1,420,965
Social services	-	625,000	625,000
Parks and recreation	-	769,247	769,247
Community development	-	500,000	500,000
	<u>1,959,638</u>	<u>4,193,169</u>	<u>6,152,807</u>
Committed to:			
Technology systems	-	81,754	81,754
Law enforcement	43,190	-	43,190
Stormwater management	33,029	-	33,029
	<u>76,219</u>	<u>81,754</u>	<u>157,973</u>
Assigned to:			
Technology systems	235,254	-	235,254
Law enforcement	17,769	-	17,769
Fire and rescue	6,961	-	6,961
Street equipment	266,825	-	266,825
Building maintenance and improvements	83,600	-	83,600
Engineering	66,643	-	66,643
Public works	-	28,227	28,227
Parks and recreation	25,932	35,621	61,553
Library	9,989	-	9,989
Other purposes	30,754	-	30,754
	<u>743,727</u>	<u>63,848</u>	<u>807,575</u>
Unassigned:	<u>15,701,124</u>	<u>-</u>	<u>15,701,124</u>
Total fund balances	<u>\$ 19,048,313</u>	<u>\$ 4,338,771</u>	<u>\$ 23,387,084</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

12. Risk Management

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

Worker's Compensation

Workers' Compensation Insurance is provided through the Virginia Municipal Self Insurance Association for the City and through School Systems of Virginia for the School Division. Benefits are those afforded through the Commonwealth of Virginia as outlined in *Code of Virginia* §65.2-100. Premiums are based on covered payroll, job rates and claims experience. Total premiums for the current year were \$482,601 and \$66,716 for the City and School Division, respectively.

General Liability and Other

The City provides general liability and other insurance through Virginia Municipal League Insurance Programs (VMLIP). General liability and automotive liability have a \$1,000,000 limit per occurrence. Boiler and machinery coverage and property coverage are covered as per statement of values. The City maintains an additional \$10,000,000 umbrella policy over all forms of liability. The City has flood insurance coverage through Nationwide Mutual Insurance Company for properties in designated flood zones or that are part of the water plant. Total premiums for the current fiscal year were \$344,625.

The School Division provides general liability and other insurance through the VMLIP. General liability and automobile liability have a \$1,000,000 limit per occurrence. Boiler and machinery coverage and property coverage are covered as per statement of values. The School Division maintains an additional \$10,000,000 umbrella policy over all forms of liability. Total premiums for the current fiscal year were \$125,139.

Healthcare

The City's professionally administered self-insurance program provides health coverage for employees of the City and School Division on a cost-reimbursement basis. All active employees, retired City employees and retired School Division employees pay a premium equivalent for participation. The premium equivalent represents a minimum of 5% active or retired employee participation. The City is obligated for claims payments under the program. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$150,000 per covered individual and approximately \$10,310,688 in the aggregate.

During the current fiscal year, total claim expenses of \$7,372,524, 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, 2016. The estimated liability for the City and School Division was \$452,286 and \$411,664, respectively for a total of \$863,950 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
2016	\$ 968,628	\$ 7,372,524	\$ 7,477,202	\$ 863,950
2015	898,880	9,052,509	8,982,761	968,628
2014	689,276	8,331,624	8,122,020	898,880

Other

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

13. Pension Plan

Plan Description

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

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

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

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

VRS PLAN 1

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

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

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

13. Pension Plan (Continued)

VRS PLAN 1 (Continued)

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

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

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

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

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

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

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

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

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

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

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

13. Pension Plan (Continued)

VRS PLAN 1 (Continued)

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

Disability Coverage – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits. Disability coverage is not applicable for members of the VRS Teacher Retirement Plan.

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

VRS PLAN 2

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

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

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

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

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

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

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

13. Pension Plan (Continued)

VRS PLAN 2 (Continued)

Disability Coverage – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits. Disability coverage is not applicable for members of the VRS Teacher Retirement Plan.

HYBRID RETIREMENT PLAN

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

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

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

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

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

* Non-Eligible Members

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

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
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13. Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

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

Creditable Service

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

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

Vesting

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

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

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

Distribution is not required by law until age 70½.

Calculating the Benefit

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

13. Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

Service Retirement Multiplier

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

Defined Contribution Component: Not applicable.

Normal Retirement Age

Defined Benefit Component: Same as VRS Plan 2.

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

Earliest Unreduced Retirement Eligibility

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

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

Earliest Reduced Retirement Eligibility

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

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

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Not applicable.

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

Purchase of Prior Service

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

- Hybrid Retirement Plan members are ineligible for ported service.
- The cost for purchasing refunded service is the higher of 4.00% of creditable compensation or average final compensation.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

13. Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

- Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.

Defined Contribution Component: Not applicable

Employees Covered by Benefit Terms

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the VRS Retirement Plan:

	<u>City of Salem</u>	<u>School Division (Non-Professional)</u>
Inactive members or their beneficiaries currently receiving benefits	507	61
Inactive members:		
Vested inactive members	158	10
Non-vested inactive members	217	25
Inactive members active elsewhere in VRS	327	20
Total inactive members	702	55
Active members	494	77
Total covered employees	<u>1,703</u>	<u>193</u>

Contributions

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

The City's contractually required contribution rate for the year ended June 30, 2016 was 18.13% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by the employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$3,937,014 and \$3,942,152 for the years ended June 30, 2016 and June 30, 2015, respectively.

The School Division's non-professional employees' contractually required contribution rate for the year ended June 30, 2016 was 7.85% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by the employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School Division were \$92,041 and \$93,028 for the years ended June 30, 2016 and June 30, 2015, respectively.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

13. Pension Plan (Continued)

Contributions (Continued)

For the School Division's professional employees covered under the VRS Teacher Retirement Plan, each school division's contractually required contribution rate for the year ended June 30, 2016 was 14.06% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013 adjusted for the transfer in June 2015 of \$192,884,000 as an accelerated payback of the deferred contribution in 2010-12 biennium. The actuarial rate for the Teacher Retirement Plan was 18.20%; however, it was reduced to 17.64% as a result of the transfer. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions were funded at 79.69% of the actuarial rate for the year ended June 30, 2016. Contributions to the pension plan from the School Division were \$2,989,663 and \$3,025,478 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Liability (Asset)

Under the VRS Retirement Plan, the City's and School Division's net pension liabilities (assets) were measured as of June 30, 2015. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Under the VRS Teacher Retirement Plan, the School Division reported a liability of \$35,941,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The School Division's proportion of the Net Pension Liability was based on the School Division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2015 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2015, the School Division's proportion was 0.28555% as compared to 0.29170% at June 30, 2014.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the System was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

13. Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

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

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

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

Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees in the System was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015:

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

13. Pension Plan (Continued)

Actuarial Assumptions – Public Safety Employees (Continued)

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

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

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

13. Pension Plan (Continued)

Actuarial Assumptions – Public Safety Employees (Continued)

All Others (Non 10 Largest) – LEOS:

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

Actuarial Assumptions – VRS Teacher Retirement Plan

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015:

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

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

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
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13. Pension Plan (Continued)

Long-Term Expected Rate of Return

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

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

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

Discount Rate

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

**CITY OF SALEM, VIRGINIA
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13. Pension Plan (Continued)

Changes in Net Pension Liability (Asset)

	<u>Increase (Decrease)</u>		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
City of Salem			
Balances at June 30, 2014	\$ 176,196,440	\$ 142,952,733	\$ 33,243,707
Changes for the year:			
Service cost	2,505,415	-	2,505,415
Interest	12,004,363	-	12,004,363
Differences between expected and actual experience	(2,262,692)	-	(2,262,692)
Contributions - employer	-	3,942,152	(3,942,152)
Contributions - employee	-	1,094,070	(1,094,070)
Net investment income	-	6,436,800	(6,436,800)
Benefit payments, including refunds of employee contributions	(9,521,624)	(9,521,624)	-
Administrative expenses	-	(91,265)	91,265
Other changes	-	(1,350)	1,350
Net changes	<u>2,725,462</u>	<u>1,858,783</u>	<u>866,679</u>
Balances at June 30, 2015	<u>\$ 178,921,902</u>	<u>\$ 144,811,516</u>	<u>\$ 34,110,386</u>
School Division (Non-Professional Staff)			
Balances at June 30, 2014	\$ 4,962,875	\$ 5,052,257	\$ (89,382)
Changes for the year:			
Service cost	132,051	-	132,051
Interest	337,943	-	337,943
Differences between expected and actual experience	(45,142)	-	(45,142)
Contributions - employer	-	93,028	(93,028)
Contributions - employee	-	59,073	(59,073)
Net investment income	-	228,863	(228,863)
Benefit payments, including refunds of employee contributions	(270,236)	(270,236)	-
Administrative expenses	-	(3,202)	3,202
Other changes	-	(47)	47
Net changes	<u>154,616</u>	<u>107,479</u>	<u>47,137</u>
Balances at June 30, 2015	<u>\$ 5,117,491</u>	<u>\$ 5,159,736</u>	<u>\$ (42,245)</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

13. Pension Plan (Continued)

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

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

	Net Pension Liability (Asset)		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
City of Salem			
Retirement Plan	\$ 56,549,140	\$ 34,110,386	\$ 15,413,499
School Division			
Retirement Plan (Non-Professional Staff)	542,996	(42,245)	(533,698)
Teacher Retirement Plan	52,595,000	35,941,000	22,230,000

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

For the year ended June 30, 2016, the City and School Division recognized pension expense of \$1,301,005 and \$(4,588), respectively, under the VRS Retirement Plan.

For the year ended June 30, 2016, the School Division recognized pension expense of \$2,099,000 under the VRS Teacher Retirement Plan. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2016, the City and School Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
City of Salem		
Differences between expected and actual experience	\$ -	\$ 1,424,659
Net difference between projected and actual earnings on pension plan investments	-	3,875,939
Employer contributions subsequent to the measurement date	3,937,015	-
Total	\$ 3,937,015	\$ 5,300,598

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

13. Pension Plan (Continued)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
School Division (Non-Professional Staff)		
Differences between expected and actual experience	\$ -	\$ 29,468
Net difference between projected and actual earnings on pension plan investments	-	136,910
Employer contributions subsequent to the measurement date	92,041	-
Total	<u>\$ 92,041</u>	<u>\$ 166,378</u>
School Division - Teacher Retirement Plan		
Differences between expected and actual experience	\$ -	\$ 495,000
Net difference between projected and actual earnings on pension plan investments	-	2,201,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	2,008,000
Employer contributions subsequent to the measurement date	2,989,663	-
Total	<u>\$ 2,989,663</u>	<u>\$ 4,704,000</u>

Deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of (increase to) the Net Pension Liability (Asset) in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30,</u>	<u>City of Salem</u>	<u>School Division (Non-Professional)</u>	<u>School Division- Teacher Retirement Plan</u>
2017	\$ (2,357,718)	\$ (69,348)	\$ (1,508,000)
2018	(2,106,309)	(67,468)	(1,508,000)
2019	(1,519,684)	(53,673)	(1,508,000)
2020	683,113	24,111	(55,000)
Thereafter	-	-	(125,000)
	<u>\$ (5,300,598)</u>	<u>\$ (166,378)</u>	<u>\$ (4,704,000)</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

13. Pension Plan (Continued)

Payable to the Pension Plan

At June 30, 2016, \$437,896 and \$21,044 were payable to the System under the VRS Retirement Plan for the legally required contributions of the City and School Division, respectively, related to June 2016 payroll.

At June 30, 2016, \$796,057 was payable to the System under the VRS Teacher Retirement Plan for the legally required contributions related to June 2016 payroll.

Pension Plan Fiduciary Net Position

Detailed information about the Fiduciary Net Positions of the VRS Retirement Plan and the VRS Teacher Retirement Plan is available in the separately issued VRS 2015 Comprehensive Annual Financial Report (CAFR). A copy of the 2015 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2015-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

14. Other Postemployment Benefits

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

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

Plan Description

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

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

In addition to the implicit rate subsidy, all pre-65 retirees who retired on or before October 1, 2010 receive a premium subsidy based on their coverage election. If the retiree elects retiree-only coverage, the City contributes between 80% and 95% of the subscriber-only premium. If the retiree elects retiree/spouse, retiree/children, or family coverage, the City contributes between 45% and 55% of the retiree/spouse, retiree/children, or family premium. If the retiree elects retiree/child coverage, the City contributes between 70% and 80% of the retiree/child premium. The actual City contribution within each range depends on the health plan selected by the retiree. For individuals retiring after October 1, 2010 and who were hired before July 1, 2010, the City will contribute 3% of the retiree-only premium for each year of service up to 90% of the total retiree-only premium for the lifetime of the retiree. For employees hired on or after July 1, 2010, the City will contribute 3% of the retiree-only premium for each year of service up to 50% of the total retiree-only premium for the lifetime of the retiree.

When a retiree turns age 65 or otherwise becomes eligible for Medicare, the retiree transfers to a Medicare Health Supplement Plan F Medical and/or Part D Drug plan. These individuals no longer receive the implicit rate subsidy; however, they still receive a premium subsidy. The City contributes 3% of the retiree-only premium for each year of service up to 90% not to exceed \$3,300. Employees hired on or after July 1, 2010 are not eligible to receive the Medicare Health Supplement Plan F Medical and/or Part D Drug plan benefit.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

14. Other Postemployment Benefits (Continued)

Plan Description (Continued)

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

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

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

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

	<u>City of Salem</u>	<u>School Division</u>
Active employees	489	524
Retired participants	<u>257</u>	<u>51</u>
Total participants	<u><u>746</u></u>	<u><u>575</u></u>

Funding Policy

The Retiree Health Plan is funded through member and employer contributions. City Retirees receiving benefits contribute a minimum of 5% to 20%, 20% to 30%, 45% to 55%, 45% to 55%, and 45% to 55% of the health insurance premium rate for retiree only, retiree + one minor child, retiree & spouse, retiree + children, and family coverage, respectively. The actual contribution within each range depends on the health plan selected by the retiree. School Division Retirees receiving benefits contribute 100% of the health insurance premium rate. During the current year, retired City and School Division members contributed \$323,105 and \$390,127, respectively, of the total premiums through their required contributions of between \$10.60 and \$1,708 depending on the type of coverage and years of service.

Based on the June 30, 2015 actuarial valuation, the City contributed \$1,877,454 to the Retiree Health Plan. Included in this amount is a current year contribution of \$263,331 to the OPEB Trust Fund, which consisted of \$100,230 representing 100% of the annual required contribution (ARC) and \$163,101 to reduce the net OPEB obligation to zero and create a net OPEB asset. It is the City's intent to fully fund the ARC each year.

Based on the June 30, 2015 actuarial valuation, the School Division contributed \$207,882 to the Retiree Health Plan. No current year contribution was made to the OPEB Trust Fund. It is the School Division's intent to fully fund the ARC each year.

Annual OPEB Cost and Net OPEB Obligation

The City's and School Division's annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with GAAP. 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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

14. Other Postemployment Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The following table presents the City's and School Division's annual OPEB cost, amount contributed and changes in the net OPEB obligation (asset) for the fiscal year ended June 30, 2016.

	<u>City of Salem</u>	<u>School Division</u>
Annual required contribution	\$ 1,708,763	\$ 179,203
Interest on net OPEB obligation	7,917	(13,088)
Adjustment to annual required contribution	(6,642)	10,980
Annual OPEB cost	1,710,038	177,095
Contributions made	(1,877,454)	(207,882)
Decrease in net OPEB obligation	(167,416)	(30,787)
Net OPEB obligation (asset), beginning	117,416	(186,976)
Net OPEB obligation (asset), ending	<u>\$ (50,000)</u>	<u>\$ (217,763)</u>

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

Three-Year Trend Information

	Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
City of Salem	June 30, 2016	\$ 1,710,038	109.8%	\$ (50,000)
	June 30, 2015	1,680,515	114.4%	117,416
	June 30, 2014	1,970,423	115.2%	358,841
School Division	June 30, 2016	\$ 177,095	117.4%	\$ (217,763)
	June 30, 2015	174,218	169.4%	(186,976)
	June 30, 2014	274,039	100.0%	(66,146)

Funded Status and Funding Progress

As of June 30, 2015, the City's most recent actuarial valuation date, the plan was 16.1% funded. The actuarial accrued liability (AAL) for benefits was \$27,025,707 and the actuarial value of assets was \$4,357,722, resulting in an unfunded actuarial accrued liability (UAAL) for benefits of \$22,667,985. The covered payroll (annual payroll of active employees covered by the plan) was \$24,272,001 and the ratio of the UAAL to the covered payroll was 93.4%.

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

14. Other Postemployment Benefits (Continued)

Methods and Assumptions

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

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

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

	<u>City of Salem</u>	<u>School Division</u>
<i><u>Actuarial methods</u></i>		
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percent of payroll	Level percent of payroll
Amortization period	Open over 30 years	Open over 30 years
Asset valuation method	Market value	Market value
<i><u>Actuarial assumptions</u></i>		
Investment rate of return	7.00%	7.00%
Payroll growth	3.00%	3.00%
Healthcare cost trend rate	Getzen Trend Model Pre-65: 6.50% for 2016 graded to 4.50% over 64 years Post 65: 4.30% for 2016, 4.50% for 2017, 4.80% for 2018 graded to 4.70% over 83 years	Getzen Trend Model Pre-65: 6.40% graded to 4.50% over 61 years Post 65: Not Applicable

15. Commitments and Contingencies

Construction Commitments

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

	<u>Spent To Date</u>	<u>Remaining Contract</u>
Salem Memorial Baseball Stadium Joint Sealants Replacement	\$ 350,640	\$ 30,584
West Club Pump Station Replacement	444,265	29,537
	<u>\$ 794,905</u>	<u>\$ 60,121</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

15. Commitments and Contingencies (Continued)

Electrical Service

On July 1, 2006, the City entered an agreement with American Electric Power Service Corporation to purchase electricity for consumption and resale to City residents. The rates are recalculated annually based on the supplier's cost. As part of the agreement, an annual cost true-up is required based upon American Electric Power's FERC filing. The City's policy is to recognize the true-up as an expense when it is billed. The true-up for December 31, 2015 resulted in a credit of \$862,044 in the current fiscal year. The agreement expires May 31, 2026 with two possible five-year period renewals and may be terminated under certain circumstances.

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

Solid Waste Disposal

On July 1, 2006, the City entered an agreement with Waste Management Inc. for disposal of nonhazardous solid waste. The agreement amended the original contract by extending the expiration date to June 30, 2016. On July 1, 2016, the agreement was extended for an additional three months expiring on September 30, 2016. The agreement will then continue on a month-to-month basis unless terminated by either party with 30 days written notice.

On January 1, 2008, the City entered an agreement with Botetourt County to accept the County's solid waste at the City's transfer station. The agreement was extended on June 30, 2016 to expire on June 30, 2019 and may be assigned by the City to the Roanoke Valley Resource Authority.

On October 1, 2013, the City entered an agreement with Craig County to accept the County's solid waste at the City's transfer station. The agreement was extended on June 30, 2016 to expire on June 30, 2019 and may be assigned by the City to the Roanoke Valley Resource Authority.

Water and Wastewater Treatment Contract

On July 1, 1981, the City entered an agreement with the County of Roanoke, Virginia to sell surplus water at a bulk rate determined by a mutually agreed upon formula. The agreement expires June 30, 2021. The agreement automatically renews for 10-year terms upon expiration and requires a 24-month notification prior to termination.

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

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

Special Services

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

Performance Agreement

On July 30, 2008, the City entered a performance agreement with a company to provide incentive payments for development of property located at 4th Street and Main Street. The City will make maximum annual payments of \$500,000 for no more than 10 years not to exceed \$3,000,000. As of June 30, 2016, \$2,028,592 has been remitted.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

15. Commitments and Contingencies (Continued)

Consent Order

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

Special Purpose Grants

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

Litigation

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

16. Jointly Governed Organizations

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

Blue Ridge Behavioral Healthcare

The Counties of Botetourt, Craig and Roanoke and the Cities of Roanoke and Salem formed Blue Ridge Behavioral Healthcare (BRBH) to provide a system of comprehensive community mental health, intellectual disability and substance abuse services. BRBH is governed by a 16-member board; three members are appointed by the City. Each locality's financial obligation is based on the type and amount of services performed for individuals in the locality. For the year ended June 30, 2016, the City remitted \$103,500 to BRBH for services. Financial statements may be obtained from BRBH at 301 Elm Avenue SW, Roanoke, Virginia, 24016.

Roanoke Valley Detention Commission

The Counties of Botetourt, Franklin and Roanoke and the Cities of Roanoke and Salem formed the Roanoke Valley Detention Commission (Commission) to renovate, expand and operate a detention facility for juveniles. The Commission is governed by a six-member board, of which one member is appointed by the City. Each locality's financial obligation is based on the number of juveniles housed at the facility. The Commission has the authority to issue debt and such debt is the responsibility of the Commission. For the year ended June 30, 2016, the City remitted \$88,375 to the Commission for per diem charges. Financial statements may be obtained from the Commission at 498 Coyner Springs Road, Roanoke, Virginia 24012.

Roanoke Valley Regional Board

The Counties of Botetourt, Craig and Franklin, the City of Roanoke and the City of Salem School Division jointly participate in a regional education program for severely disabled students operated by the Roanoke Valley Regional Board (Regional Board). The Regional Board is governed by a five-member board, one from each participating locality. The School Division has control over budget and financing only to the extent of representation by the one board member appointed. Each locality's financial obligation is based on their proportionate share of students attending the regional program. For the year ended June 30, 2016, the School Division remitted \$739,856 to the Regional Board for services. Financial statements may be obtained from the Regional Board at 57 South Center Drive, Room 225, Daleville, VA 24083.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

16. Jointly Governed Organizations (Continued)

Roanoke Valley Regional Fire/EMS Training Center

The County of Roanoke, the Cities of Roanoke and Salem and the Town of Vinton jointly operate a fire/EMS training center (Center). The Center is governed by a committee designated by the participating jurisdictions. New fire/EMS recruits are required to take a 17-week training course at the facility before being assigned to a station. After completion of the training, the new recruits are state certified. Each jurisdiction is responsible for a percentage of the annual operating costs of the facility. The City of Salem is responsible for 8% of the annual operating costs. For the year ended June 30, 2016, the City remitted \$8,600 for operating costs of the facility. Financial statements may be obtained from the Center at 1220 Kessler Mill Road, Salem, Virginia 24153.

Western Virginia Regional Jail Authority

The Counties of Franklin, Montgomery and Roanoke and the City formed the Western Virginia Regional Jail Authority (Jail Authority) to develop and operate a regional jail. The Jail Authority is governed by a 12-member board; three from each participating locality. Each locality's financial obligation is based on the number of prisoner days used and a share of the capital costs to build the facility. For the year ended June 30, 2016, the City remitted \$1,157,143 for per diem charges and \$400,752 for capital costs to the Jail Authority. Financial statements may be obtained from the Jail Authority at 5885 West River Road, Salem, Virginia 24153.

Roanoke Valley Broadband Authority

The Counties of Botetourt and Roanoke and the Cities of Salem and Roanoke formed the Roanoke Valley Broadband Authority (RVBA) in order to acquire, finance, construct, operate, manage, and maintain a broadband system and related facilities pursuant to the Virginia Wireless Services Authorities Act. RVBA is governed by a five-member board, of which one member is appointed by the City. Based upon participation in the fiber expansion project, the Cities of Salem and Roanoke share equally in the operating and debt service costs of the Authority. For the year ending June 30, 2016, the City remitted \$67,756 to the RVBA.

Western Virginia Regional Industrial Facility Authority

The Counties of Botetourt, Roanoke and Franklin, the Cities of Roanoke and Salem and the Town of Vinton formed the Western Virginia Regional Industrial Facility Authority (WVRIFA) in order to enhance the economic base of each such locality through the developing, owning and operating of one or more facilities on a cooperative basis in the region. WVRIFA is governed by a twelve-member board, of which two members are appointed by the City of Salem. Each locality's financial obligation is based on their percentage of participation in each economic development project. For the year ended June 30, 2016, the City remitted \$10,862 to WVRIFA for their share of the costs of current projects.

Roanoke Valley Governor's School

The Counties of Bedford, Botetourt, Craig, Franklin and Roanoke and the Cities of Roanoke and Salem jointly participate in a regional education program focusing on science, technology, engineering and mathematics operated by Roanoke Valley Governor's School (RVGS). RVGS is governed by a seven member board, with one member from each participating locality. The School Division has control over budget and financing only to the extent of representation by the one board member appointed. Each locality's financial obligation is based on their proportionate share of students attending RVGS. For the year ended June 30, 2016, the School Division remitted \$42,395 for services. Financial statements may be obtained from RVGS at 2104 Grandin Road, Roanoke, Virginia 24015.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

17. Subsequent Events

On October 10, 2016, City Council passed a resolution approving a Participation Agreement between the Western Virginia Regional Industrial Facility Authority (Authority) and the County of Roanoke, the City of Roanoke, and the City (Participants). The Authority was created pursuant to the Virginia Regional Industrial Facilities Act (*Chapter 64, Title 15.2, Code of Virginia (1950), as amended*) in order to promote economic development in the geographical region. The Participants and the Authority identified approximately 106 acres in the vicinity of Interstate 81 and Wood Haven Road to be acquired by the Authority and used for an industrial park or other economic development purposes. On October 14, 2016, the Authority issued \$10,000,000 in taxable revenue bonds series 2016 to be used to finance certain costs of the development of an industrial park, including the acquisition of the land and bond issuance costs. The City's proportionate share of debt service payments is 11.6% and will not exceed \$1,200,000.

Effective November 1, 2016, the City of Salem became a member of the already established Roanoke Valley Resource Authority (Authority) pursuant to the Virginia Water and Waste Authorities Act (*Chapter 51, Title 15.2, Code of Virginia (1950), as amended*) (Act). The City joins the County of Roanoke, the City of Roanoke, and the Town of Vinton as members of the Authority. Per the amended and restated Members and Facilities Use Agreement dated July 1, 2016, the City will convey good and marketable title of the City's existing transfer station and all related existing equipment, property, and existing site work to the Authority. The purpose of the Authority is to exercise all the powers granted to the Authority to acquire, finance, construct, operate, manage, and maintain a garbage and refuse collection and disposal system and related facilities pursuant to the Act.

18. New Accounting Standards

The GASB has issued Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The statement will improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The provisions of this statement are effective for fiscal years beginning after June 15, 2016. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

The GASB has issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. The statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. The provisions of this statement are effective for fiscal years beginning after June 15, 2017. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

The GASB has issued Statement 77, *Tax Abatement Disclosures*. The statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The provisions of this statement are effective for fiscal years beginning after December 15, 2015. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

18. New Accounting Standards (Continued)

The GASB has issued Statement 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The provisions of this statement are effective for fiscal years beginning after June 15, 2016. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

The GASB has issued Statement No. 81, *Irrevocable Split-Interest Agreements*, to improve accounting and financial reporting for irrevocable split-interest agreements for situations in which a government is a beneficiary of the agreement. The provisions of this statement are effective for fiscal years beginning after December 15, 2016. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

The GASB has issued Statement No. 82, *Pension Issues – An Amendment of GASB No. 67, No. 68., and No. 78*, to address certain issues that have been raised with respect to GASB statements No. 67, No. 68, and No. 78. Specifically, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions of this statement are effective for fiscal years beginning after June 15, 2016, except for the requirements for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first fiscal year in which the measurement date of the pension liability is on or after June 15, 2017. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

REQUIRED SUPPLEMENTARY INFORMATION



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

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

	City of Salem		School Division (Non-Professional Staff)	
	2016	2015	2016	2015
Total pension liability				
Service cost	\$ 2,505,415	\$ 2,527,218	\$ 132,051	\$ 145,676
Interest	12,004,363	11,654,127	337,943	323,812
Differences between expected and actual experience	(2,262,692)	-	(45,142)	-
Benefit payments, including refunds of employee contributions	(9,521,624)	(8,944,860)	(270,236)	(264,987)
Net change in total pension liability	2,725,462	5,236,485	154,616	204,501
Total pension liability - beginning	176,196,440	170,959,955	4,962,875	4,758,374
Total pension liability - ending	\$ 178,921,902	\$ 176,196,440	\$ 5,117,491	\$ 4,962,875
Plan fiduciary net position				
Contributions - employer	\$ 3,942,152	\$ 3,507,946	\$ 93,028	\$ 97,271
Contributions - employee	1,094,070	1,098,206	59,073	61,480
Net investment income	6,436,800	19,787,728	228,863	697,591
Benefit payments, including refunds of employee contributions	(9,521,624)	(8,944,860)	(270,236)	(264,987)
Administrative expense	(91,265)	(109,414)	(3,202)	(3,812)
Other	(1,350)	1,043	(47)	37
Net change in plan fiduciary net position	1,858,783	15,340,649	107,479	587,580
Plan fiduciary net position - beginning	142,952,733	127,612,084	5,052,257	4,464,677
Plan fiduciary net position - ending	\$ 144,811,516	\$ 142,952,733	\$ 5,159,736	\$ 5,052,257
Net pension liability (asset) - ending	\$ 34,110,386	\$ 33,243,707	\$ (42,245)	\$ (89,382)
Plan fiduciary net position as a percentage of the total pension liability	80.94%	81.13%	100.83%	101.80%
Covered-employee payroll	\$ 21,743,806	\$ 21,655,628	\$ 1,185,071	\$ 1,229,675
Net pension liability (asset) as a percentage of covered-employee payroll	156.87%	153.51%	-3.56%	-7.27%

Schedule is intended to show information for 10 years. Since 2016 is the second year for this presentation, only one additional year of data is available. However, additional years will be included as they become available.

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

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
YEARS ENDED JUNE 30, 2016 AND 2015

Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
	(a)	(b)	(a-b)	(c)	(b/c)
City of Salem					
2016	\$ 3,937,014	\$ 3,937,014	\$ -	\$ 21,715,466	18.13%
2015*	3,942,152	3,942,152	-	21,743,806	18.13%
School Division (Non-Professional Staff)					
2016	\$ 92,041	\$ 92,041	\$ -	\$ 1,172,497	7.85%
2015*	93,028	93,028	-	1,185,071	7.85%

Schedule is intended to show information for 10 years. Since 2016 is the second year for this presentation, only one additional year of data is available. However, additional years will be included as they become available.

* Revised to reflect actual 2015 amounts as shown in the VRS actuarial report rather than estimated amounts used in the prior year CAFR.

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

<u>Year Ended June 30</u>	<u>Employer's Proportion of the Net Pension Liability</u>	<u>Employer's Proportionate Share of the Net Pension Liability</u>	<u>Covered Employee Payroll</u>	<u>Employer's Share of the Net Pension Liability as a % of Covered Employee Payroll</u>	<u>Plan Fiduciary Net Position as a % of the Total Pension Liability</u>
		(a)	(b)	(a/b)	
2016	0.28555%	\$ 35,941,000	\$ 20,865,367	172.25%	70.68%
2015	0.29170%	35,251,000	19,575,450	180.08%	70.88%

Schedule is intended to show information for 10 years. Since 2016 is the second year for this presentation, only one additional year of data is available. However, additional years will be included as they become available.

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

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

Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
	(a)	(b)	(a-b)	(c)	(b/c)
2016	\$ 2,989,663	\$ 2,989,663	\$ -	\$ 21,263,606	14.06%
2015	3,025,478	3,025,478	-	20,865,367	14.50%

Schedule is intended to show information for 10 years. Since 2016 is the second year for this presentation, only one additional year of data is available. However, additional years will be included as they become available.

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as of Percentage of Covered Payroll ((b-a)/c)
City of Salem						
June 30, 2015	\$ 4,357,722	\$ 27,025,707	\$ 22,667,985	16.1%	\$ 24,272,001	93.4%
June 30, 2013	3,430,040	28,083,367	24,653,327	12.2%	22,978,569	107.3%
June 30, 2011	2,384,957	24,152,578	21,767,621	9.9%	22,707,562	95.9%
School Division						
June 30, 2015	\$ 855,224	\$ 2,275,141	\$ 1,419,917	37.6%	\$ 24,081,341	5.9%
June 30, 2013	699,672	2,951,722	2,252,050	23.7%	23,283,603	9.7%
June 30, 2011	460,426	3,041,121	2,580,695	15.1%	22,300,816	11.6%

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2016

Fiscal year	Annual Required Contribution	Percentage Contributed
City of Salem		
June 30, 2016	\$ 1,708,763	109.9%
June 30, 2015	1,676,657	114.6%
June 30, 2014	1,963,938	115.6%
School Division		
June 30, 2016	\$ 179,203	116.0%
June 30, 2015	174,964	168.6%
June 30, 2014	274,697	99.8%

CITY OF SALEM, VIRGINIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016

1. Changes of Benefit Terms

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

2. Changes of Assumptions

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

Largest 10 – Non-LEOS:

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

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) – LEOS:

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

Teacher cost-sharing pool:

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

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OTHER SUPPLEMENTARY INFORMATION



The Other Supplementary Information subsection of the City of Salem, Virginia's Comprehensive Annual Financial Report includes the combining statement of net position; combining statement of revenues, expenses, and changes in fund net position; and combining statement of cash flows for the nonmajor proprietary funds. This subsection also includes the combining statement of fiduciary assets and liabilities and the combining statement of changes in fiduciary assets and liabilities for the agency funds.

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2016

	Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
ASSETS AND DEFERRED OUTFLOWS			
<i>Current assets:</i>			
Cash and cash equivalents	\$ 7,527	\$ 43,219	\$ 50,746
Receivables, net	46,429	43,334	89,763
Inventories	-	34,084	34,084
Prepaid items	85,201	-	85,201
Total current assets	139,157	120,637	259,794
<i>Capital assets:</i>			
Nondepreciable	176,653	-	176,653
Depreciable, net	3,882,481	35,283	3,917,764
Total capital assets	4,059,134	35,283	4,094,417
Total assets	4,198,291	155,920	4,354,211
DEFERRED OUTFLOWS OF RESOURCES	131,862	37,693	169,555
LIABILITIES			
<i>Current liabilities:</i>			
Accounts payable and accrued liabilities	93,777	21,014	114,791
Accrued payroll and related liabilities	85,878	23,601	109,479
Due to other funds	1,200,000	180,000	1,380,000
Unearned revenues	278,005	4,612	282,617
Compensated absences	51,966	12,262	64,228
Total current liabilities	1,709,626	241,489	1,951,115
<i>Noncurrent liabilities:</i>			
Compensated absences	52,260	34,504	86,764
Net pension liability	1,136,487	327,070	1,463,557
Total noncurrent liabilities	1,188,747	361,574	1,550,321
Total liabilities	2,898,373	603,063	3,501,436
DEFERRED INFLOWS OF RESOURCES	171,755	48,756	220,511
NET POSITION			
Net investment in capital assets	4,059,134	35,283	4,094,417
Unrestricted (deficit)	(2,799,109)	(493,489)	(3,292,598)
Total net position	\$ 1,260,025	\$ (458,206)	\$ 801,819

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016

	Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
OPERATING REVENUES			
Charges for services	\$ 2,289,785	\$ 919,061	\$ 3,208,846
Commissions	10,306	-	10,306
Other	13,257	16,912	30,169
Total operating revenues	<u>2,313,348</u>	<u>935,973</u>	<u>3,249,321</u>
OPERATING EXPENSES			
Salaries	1,073,690	347,068	1,420,758
Fringe benefits	322,267	88,260	410,527
Show expenses	1,602,785	-	1,602,785
Maintenance	157,603	3,867	161,470
Professional services	8,310	16,951	25,261
Insurance	15,673	-	15,673
Administration	93,870	17,512	111,382
Travel and training	20,914	-	20,914
Materials and supplies	42,601	281,985	324,586
Expendable equipment and small tools	7,904	561	8,465
Utilities	269,181	934	270,115
Miscellaneous	98	88	186
Depreciation	488,681	3,930	492,611
Commissions	-	218,991	218,991
Total operating expenses	<u>4,103,577</u>	<u>980,147</u>	<u>5,083,724</u>
Operating loss	<u>(1,790,229)</u>	<u>(44,174)</u>	<u>(1,834,403)</u>
NONOPERATING REVENUES			
Interest income	93	-	93
Gain on sale of capital assets	-	1,435	1,435
Net nonoperating revenues	<u>93</u>	<u>1,435</u>	<u>1,528</u>
Loss before transfers	<u>(1,790,136)</u>	<u>(42,739)</u>	<u>(1,832,875)</u>
Transfers in	<u>1,145,354</u>	<u>43,280</u>	<u>1,188,634</u>
Change in net position	<u>(644,782)</u>	<u>541</u>	<u>(644,241)</u>
Net position, beginning	<u>1,904,807</u>	<u>(458,747)</u>	<u>1,446,060</u>
Net position, ending	<u>\$ 1,260,025</u>	<u>\$ (458,206)</u>	<u>\$ 801,819</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016

	Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
OPERATING ACTIVITIES			
Receipts from customers	\$ 2,492,743	\$ 927,478	\$ 3,420,221
Payments to suppliers	(2,298,639)	(532,183)	(2,830,822)
Payments to employees	(1,471,426)	(455,631)	(1,927,057)
Other receipts	13,257	16,912	30,169
Net cash used in operating activities	(1,264,065)	(43,424)	(1,307,489)
NONCAPITAL FINANCING ACTIVITIES			
Interfund Loan	120,000	35,000	155,000
Transfers in	1,145,354	43,280	1,188,634
Net cash provided by noncapital financing activities	1,265,354	78,280	1,343,634
CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from sale of capital assets	-	1,435	1,435
Net cash provided by capital and related financing activities	-	1,435	1,435
INVESTING ACTIVITIES			
Interest received	93	-	93
Net cash provided by investing activities	93	-	93
Net increase in cash and cash equivalents	1,382	36,291	37,673
Cash and cash equivalents, beginning	6,145	6,928	13,073
Cash and cash equivalents, ending	\$ 7,527	\$ 43,219	\$ 50,746
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES			
Operating loss	\$ (1,790,229)	\$ (44,174)	\$ (1,834,403)
<i>Adjustments to reconcile operating loss to net cash used in operating activities</i>			
Depreciation	488,681	3,930	492,611
Pension expense, net of employer contributions	(86,582)	(24,596)	(111,178)
<i>Decrease (increase) in assets:</i>			
Receivables, net	43,572	3,805	47,377
Inventories	-	(955)	(955)
Prepaid items	(16,897)	-	(16,897)
<i>Increase (decrease) in liabilities:</i>			
Accounts payable and accrued liabilities	(62,803)	9,661	(53,142)
Accrued payroll and related liabilities	17,584	2,929	20,513
Unearned revenues	149,080	4,612	153,692
Compensated absences	15,213	2,062	17,275
Other postemployment benefits	(21,684)	(698)	(22,382)
Net cash used in operating activities	\$ (1,264,065)	\$ (43,424)	\$ (1,307,489)

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2016

	Cardinal Criminal Justice Academy	Court- Community Corrections Program	Total Agency Funds
ASSETS			
Cash and cash equivalents	\$ 451,756	\$ 1,178,913	\$ 1,630,669
Due from Commonwealth of Virginia	-	62,327	62,327
Total assets	<u>\$ 451,756</u>	<u>\$ 1,241,240</u>	<u>\$ 1,692,996</u>
LIABILITIES			
Accounts payable	\$ 4,457	\$ 69,054	\$ 73,511
Liability to agency	447,299	1,172,186	1,619,485
Total liabilities	<u>\$ 451,756</u>	<u>\$ 1,241,240</u>	<u>\$ 1,692,996</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
YEAR ENDED JUNE 30, 2016

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<u>CARDINAL CRIMINAL JUSTICE ACADEMY</u>				
ASSETS				
Cash and cash equivalents	\$ 412,652	\$ 668,568	\$ (629,464)	\$ 451,756
Receivables, net	510	(510)	-	-
Total assets	<u>\$ 413,162</u>	<u>\$ 668,058</u>	<u>\$ (629,464)</u>	<u>\$ 451,756</u>
LIABILITIES				
Accounts payable	\$ 3,682	\$ 104,100	\$ (103,325)	\$ 4,457
Liability to agency	409,480	563,958	(526,139)	447,299
Total liabilities	<u>\$ 413,162</u>	<u>\$ 668,058</u>	<u>\$ (629,464)</u>	<u>\$ 451,756</u>
<u>COURT-COMMUNITY CORRECTIONS PROGRAM</u>				
ASSETS				
Cash and cash equivalents	\$ 1,084,103	\$ 1,813,463	\$ (1,718,653)	\$ 1,178,913
Receivables, net	324	(324)	-	-
Due from Commonwealth of Virginia	60,811	245,313	(243,797)	62,327
Total assets	<u>\$ 1,145,238</u>	<u>\$ 2,058,452</u>	<u>\$ (1,962,450)</u>	<u>\$ 1,241,240</u>
LIABILITIES				
Accounts payable	\$ 43,978	\$ 530,821	\$ (505,745)	\$ 69,054
Liability to agency	1,101,260	1,527,631	(1,456,705)	1,172,186
Total liabilities	<u>\$ 1,145,238</u>	<u>\$ 2,058,452</u>	<u>\$ (1,962,450)</u>	<u>\$ 1,241,240</u>
<u>TOTAL AGENCY FUNDS</u>				
ASSETS				
Cash and cash equivalents	\$ 1,496,755	\$ 2,482,031	\$ (2,348,117)	\$ 1,630,669
Receivables, net	834	(834)	-	-
Due from Commonwealth of Virginia	60,811	245,313	(243,797)	62,327
Total assets	<u>\$ 1,558,400</u>	<u>\$ 2,726,510</u>	<u>\$ (2,591,914)</u>	<u>\$ 1,692,996</u>
LIABILITIES				
Accounts payable	\$ 47,660	\$ 634,921	\$ (609,070)	\$ 73,511
Liability to agency	1,510,740	2,091,589	(1,982,844)	1,619,485
Total liabilities	<u>\$ 1,558,400</u>	<u>\$ 2,726,510</u>	<u>\$ (2,591,914)</u>	<u>\$ 1,692,996</u>

STATISTICAL SECTION



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

Contents	Page
Financial Trends.....	108
<i>These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</i>	
Revenue Capacity.....	113
<i>These schedules contain information to help the reader assess the City's most significant local revenue sources, property tax and sale of electricity.</i>	
Debt Capacity.....	116
<i>These schedules present information to help the reader assess the affordability of the City's current level of outstanding debt and the government's ability to issue additional debt in the future.</i>	
Demographic and Economic Information.....	118
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.</i>	
Operating Information.....	120
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the government provides and the activities it performs.</i>	

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**TABLE 1
UNAUDITED**

**CITY OF SALEM, VIRGINIA
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS**

	<u>2016</u>	<u>2015</u> (1)	<u>2014</u> (2)	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u> (3)
Governmental Activities										
Net investment in capital assets	\$ 80,107,395	\$ 81,968,611	\$ 84,242,062	\$ 86,860,275	\$ 87,145,604	\$ 88,456,284	\$ 90,258,361	\$ 89,946,841	\$ 88,463,741	\$ 85,853,628
Restricted	1,962,017	4,246,340	2,987,926	1,896,959	1,260,230	1,416,694	-	-	-	-
Unrestricted	(33,750,410)	(44,779,654)	(22,664,736)	(20,157,809)	(10,590,213)	(12,606,292)	(9,373,128)	(10,704,656)	(9,598,627)	(9,132,365)
Total governmental net position	<u>\$ 48,319,002</u>	<u>\$ 41,435,297</u>	<u>\$ 64,565,252</u>	<u>\$ 68,599,425</u>	<u>\$ 77,815,621</u>	<u>\$ 77,266,686</u>	<u>\$ 80,885,233</u>	<u>\$ 79,242,185</u>	<u>\$ 78,865,114</u>	<u>\$ 76,721,263</u>
Business-type activities										
Net investment in capital assets	\$ 43,907,614	\$ 42,204,699	\$ 42,936,315	\$ 43,413,519	\$ 44,265,414	\$ 44,172,488	\$ 43,180,397	\$ 40,790,077	\$ 39,787,750	\$ 41,636,232
Restricted	-	-	-	-	-	1,989,529	-	-	-	-
Unrestricted	29,574,731	24,406,951	27,531,700	24,273,387	18,453,692	18,896,375	20,437,874	23,324,884	25,278,681	20,760,143
Total business-type activities net position	<u>\$ 73,482,345</u>	<u>\$ 66,611,650</u>	<u>\$ 70,468,015</u>	<u>\$ 67,686,906</u>	<u>\$ 62,719,106</u>	<u>\$ 65,058,392</u>	<u>\$ 63,618,271</u>	<u>\$ 64,114,961</u>	<u>\$ 65,066,431</u>	<u>\$ 62,396,375</u>
Primary Government										
Net investment in capital assets	\$ 124,015,009	\$ 124,173,310	\$ 127,178,377	\$ 130,273,794	\$ 131,411,018	\$ 132,628,772	\$ 133,438,758	\$ 130,736,918	\$ 128,251,491	\$ 127,489,860
Restricted	1,962,017	4,246,340	2,987,926	1,896,959	1,260,230	3,406,223	-	-	-	-
Unrestricted	(4,175,679)	(20,372,703)	4,866,964	4,115,578	7,863,479	6,290,083	11,064,746	12,620,228	15,680,054	11,627,778
Total Primary Government net position	<u>\$ 121,801,347</u>	<u>\$ 108,046,947</u>	<u>\$ 135,033,267</u>	<u>\$ 136,286,331</u>	<u>\$ 140,534,727</u>	<u>\$ 142,325,078</u>	<u>\$ 144,503,504</u>	<u>\$ 143,357,146</u>	<u>\$ 143,931,545</u>	<u>\$ 139,117,638</u>

Notes:

Source: City of Salem Finance Department

(1) In 2015, the City implemented GASB 68 requiring recognition of the net pension liability.

(2) In 2014, the City implemented GASB 65 requiring debt issuance costs to be expensed as incurred and also segregated health insurance into internal service funds.

(3) Unrestricted net position of business-type activities were restated.

TABLE 2
UNAUDITED

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
			(1), (2)	(3)						(4)
Expenses										
<i>Governmental activities:</i>										
General government	\$ 5,943,899	\$ 6,335,563	\$ 6,248,574	\$ 6,450,069	\$ 6,583,782	\$ 6,110,416	\$ 5,328,382	\$ 5,937,208	\$ 5,031,352	\$ 4,803,246
Judicial administration	1,934,263	1,921,789	2,026,034	1,952,657	1,866,052	1,887,444	1,779,072	1,897,961	1,687,507	1,540,762
Public safety	15,753,795	16,192,190	17,532,682	17,279,490	16,492,831	15,818,359	15,330,477	15,932,421	15,048,715	13,869,676
Public works	16,652,913	12,758,967	13,399,134	13,809,579	14,421,981	13,915,318	14,019,163	14,906,728	14,067,674	13,476,019
Health and welfare	2,974,663	3,050,634	2,578,984	2,709,561	2,430,955	2,738,894	2,333,736	2,354,803	2,450,245	2,193,126
Education	19,739,512	19,151,270	25,103,243	30,295,228	18,471,653	18,420,000	18,420,000	18,420,000	17,995,000	17,095,000
Parks, recreation and cultural	5,335,902	5,127,367	5,279,886	5,436,335	5,284,647	5,495,431	5,064,065	5,620,844	5,721,997	5,796,220
Community development	2,107,808	2,006,736	2,388,701	2,327,751	2,076,325	1,834,749	1,725,528	1,830,327	1,122,221	1,022,096
Interest and other fiscal changes	1,016,739	1,032,140	1,235,080	1,354,680	1,139,218	1,151,867	1,137,667	1,188,350	1,263,858	1,202,201
Total governmental activities	<u>71,459,494</u>	<u>67,576,656</u>	<u>75,792,318</u>	<u>81,615,350</u>	<u>68,767,444</u>	<u>67,372,478</u>	<u>65,138,090</u>	<u>68,088,642</u>	<u>64,388,569</u>	<u>60,998,346</u>
<i>Business-type activities:</i>										
Electric	30,780,810	33,891,833	34,182,987	33,171,403	36,047,453	35,145,346	30,978,370	28,763,182	26,505,160	24,308,309
Water and sewage	10,000,056	10,568,840	10,999,420	10,671,798	10,952,702	11,034,638	11,065,592	11,253,172	11,150,046	10,991,783
Civic Center	4,103,577	2,888,263	2,600,249	2,838,499	2,472,731	2,374,165	2,332,330	2,440,459	2,435,383	2,563,090
Catering and concessions	980,147	851,760	856,866	849,306	903,039	878,171	965,556	1,033,658	1,081,528	1,103,860
Total business-type activities	<u>45,864,590</u>	<u>48,200,696</u>	<u>48,639,522</u>	<u>47,531,006</u>	<u>50,375,925</u>	<u>49,432,320</u>	<u>45,341,848</u>	<u>43,490,471</u>	<u>41,172,117</u>	<u>38,967,042</u>
Total Primary Government	<u>\$ 117,324,084</u>	<u>\$ 115,777,352</u>	<u>\$ 124,431,840</u>	<u>\$ 129,146,356</u>	<u>\$ 119,143,369</u>	<u>\$ 116,804,798</u>	<u>\$ 110,479,938</u>	<u>\$ 111,579,113</u>	<u>\$ 105,560,686</u>	<u>\$ 99,965,388</u>
Program revenues										
<i>Governmental activities:</i>										
Charges for services										
Public safety	\$ 1,281,509	\$ 1,237,901	\$ 1,103,765	\$ 1,069,969	\$ 991,473	\$ 911,073	\$ 900,837	\$ 1,107,794	\$ 1,048,587	\$ 1,148,627
Public works	4,706,219	4,351,157	3,695,667	3,523,970	3,560,239	3,418,637	3,248,138	3,627,290	3,203,179	2,892,913
Other activities	779,384	849,596	1,009,342	1,034,129	1,005,691	782,662	716,248	587,294	566,814	535,125
Operating grants and contributions	7,623,373	7,567,973	6,975,699	7,436,195	7,124,704	7,159,171	6,827,928	6,763,352	6,613,064	7,024,034
Capital grants and contributions	80,406	192,430	391,399	2,003,251	595,986	1,517,633	2,709,381	2,119,392	1,359,606	1,168,709
Total governmental activities	<u>14,470,891</u>	<u>14,199,057</u>	<u>13,175,872</u>	<u>15,067,514</u>	<u>13,278,093</u>	<u>13,789,176</u>	<u>14,402,532</u>	<u>14,205,122</u>	<u>12,791,250</u>	<u>12,769,408</u>
<i>Business-type activities:</i>										
Charges for services										
Electric	38,080,149	39,715,705	39,861,201	40,280,161	36,824,320	35,726,379	32,915,660	30,863,283	31,000,915	29,300,625
Water and sewage	13,537,310	13,658,281	12,645,216	11,729,755	11,114,241	9,988,563	10,329,200	10,981,350	11,569,453	10,740,194
Civic Center	2,313,348	799,948	934,047	775,437	880,306	912,697	865,314	919,781	937,520	1,006,344
Catering and concessions	935,973	791,311	779,220	781,469	856,919	858,714	940,834	994,016	1,048,994	1,097,172
Capital grants and contributions										
Electric	-	47,196	27,380	-	-	39,929	-	-	-	-
Water and sewage	-	-	21,671	-	13,222	-	-	-	-	-
Total business-type activities	<u>54,866,780</u>	<u>55,012,441</u>	<u>54,268,735</u>	<u>53,566,822</u>	<u>49,689,008</u>	<u>47,526,282</u>	<u>45,051,008</u>	<u>43,758,430</u>	<u>44,556,882</u>	<u>42,144,335</u>
Total Primary Government	<u>\$ 69,337,671</u>	<u>\$ 69,211,498</u>	<u>\$ 67,444,607</u>	<u>\$ 68,634,336</u>	<u>\$ 62,967,101</u>	<u>\$ 61,315,458</u>	<u>\$ 59,453,540</u>	<u>\$ 57,963,552</u>	<u>\$ 57,348,132</u>	<u>\$ 54,913,743</u>

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Net (expense) revenue										
Total governmental activities	\$ (56,988,603)	\$ (53,377,599)	\$ (62,616,446)	\$ (66,547,836)	\$ (55,489,351)	\$ (53,583,302)	\$ (50,735,558)	\$ (53,883,520)	\$ (51,597,319)	\$ (48,228,938)
Total business-type activities	9,002,190	6,811,745	5,629,213	6,035,816	(686,917)	(1,906,038)	(290,840)	267,959	3,384,765	3,177,293
Total primary government	<u>\$ (47,986,413)</u>	<u>\$ (46,565,854)</u>	<u>\$ (56,987,233)</u>	<u>\$ (60,512,020)</u>	<u>\$ (56,176,268)</u>	<u>\$ (55,489,340)</u>	<u>\$ (51,026,398)</u>	<u>\$ (53,615,561)</u>	<u>\$ (48,212,554)</u>	<u>\$ (45,051,645)</u>
General Revenues and Other Changes in Net Position										
<i>Governmental activities:</i>										
Taxes										
Property taxes	\$ 34,610,154	\$ 33,371,609	\$ 32,666,172	\$ 32,272,995	\$ 32,480,280	\$ 32,068,912	\$ 31,477,369	\$ 31,335,765	\$ 30,082,026	\$ 27,606,560
Local sales and use taxes	6,638,448	6,688,509	6,432,110	6,083,030	5,891,941	5,707,813	5,492,934	5,568,978	5,908,920	5,711,940
Business license tax	5,391,215	5,088,724	5,078,755	5,107,983	4,751,638	4,564,531	4,421,129	4,827,348	4,714,965	4,258,059
Meals tax	4,715,137	4,464,873	4,277,741	4,118,041	3,242,532	2,551,880	2,429,239	2,448,064	2,546,104	2,397,412
Utility taxes	1,169,894	1,217,299	1,150,691	1,153,190	1,124,383	1,123,400	1,105,818	1,123,616	1,156,775	1,228,975
Other taxes	3,869,411	3,497,219	3,184,568	2,924,694	2,604,603	2,805,271	2,684,054	2,856,119	2,362,788	2,700,657
Intergovernmental revenue not restricted	3,989,413	3,942,960	3,961,782	3,859,380	3,747,854	3,747,722	3,735,738	3,860,269	4,030,210	3,878,955
Unrestricted investment earnings	269,350	164,585	143,186	134,650	127,210	129,640	132,522	213,671	568,689	789,526
Gain on sale of property	100,081	389,290	33,051	1,198	-	-	-	24,624	5,715	-
Other	986,182	586,008	554,303	606,657	411,355	603,696	324,136	375,139	812,702	279,223
Transfers	2,133,023	2,266,120	1,694,330	1,069,822	1,656,490	(3,338,110)	575,667	1,626,999	1,552,276	495,995
Total governmental activities	<u>63,872,308</u>	<u>61,677,196</u>	<u>59,176,689</u>	<u>57,331,640</u>	<u>56,038,286</u>	<u>49,964,755</u>	<u>52,378,606</u>	<u>54,260,592</u>	<u>53,741,170</u>	<u>49,347,302</u>
<i>Business-type activities:</i>										
Unrestricted investment earnings	93	158	172	168	4,121	8,049	23,297	179,714	706,658	928,710
Gain on sale of property	1,435	8,225	5,013	1,638	-	-	-	205,932	-	6,967
Other	-	-	-	-	-	-	346,520	21,924	130,909	20,149
Transfers	(2,133,023)	(2,266,120)	(1,694,330)	(1,069,822)	(1,656,490)	3,338,110	(575,667)	(1,626,999)	(1,552,276)	(495,995)
Total business-type activities	<u>(2,131,495)</u>	<u>(2,257,737)</u>	<u>(1,689,145)</u>	<u>(1,068,016)</u>	<u>(1,652,369)</u>	<u>3,346,159</u>	<u>(205,850)</u>	<u>(1,219,429)</u>	<u>(714,709)</u>	<u>459,831</u>
Total Primary Government	<u>\$ 61,740,813</u>	<u>\$ 59,419,459</u>	<u>\$ 57,487,544</u>	<u>\$ 56,263,624</u>	<u>\$ 54,385,917</u>	<u>\$ 53,310,914</u>	<u>\$ 52,172,756</u>	<u>\$ 53,041,163</u>	<u>\$ 53,026,461</u>	<u>\$ 49,807,133</u>
Changes in Net Position										
Total governmental activities	\$ 6,883,705	\$ 8,299,597	\$ (3,439,757)	\$ (9,216,196)	\$ 548,935	\$ (3,618,547)	\$ 1,643,048	\$ 377,072	\$ 2,143,851	\$ 1,118,364
Total business-type activities	6,870,695	4,554,008	3,940,068	4,967,800	(2,339,286)	1,440,121	(496,690)	(951,470)	2,670,056	3,637,124
Total Primary Government	<u>\$ 13,754,400</u>	<u>\$ 12,853,605</u>	<u>\$ 500,311</u>	<u>\$ (4,248,396)</u>	<u>\$ (1,790,351)</u>	<u>\$ (2,178,426)</u>	<u>\$ 1,146,358</u>	<u>\$ (574,398)</u>	<u>\$ 4,813,907</u>	<u>\$ 4,755,488</u>

Notes:

Source: City of Salem Finance Department

- (1) Education expenses of governmental activities includes \$5,481,200 of bond funds transferred to the School Division to fund capital projects.
- (2) In 2014, the City implemented GASB 65 requiring debt issuance costs to be expensed as incurred and also segregated health insurance into internal service funds.
- (3) Education expenses of governmental activities includes \$9,518,800 of bond funds transferred to the School Division to fund capital projects.
- (4) Electric expenses and Water and Sewage expenses of business-type activities were restated.

**TABLE 3
UNAUDITED**

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

	2016	2015	2014	2013	2012	2011
Post-GASB 54 implementation:			(1)			
General Fund						
Nonspendable	\$ 567,605	\$ 514,556	\$ 421,117	\$ 447,097	\$ 497,206	\$ 554,962
Restricted	1,959,638	4,180,415	2,661,958	1,896,731	1,244,986	1,287,008
Committed	76,219	-	-	-	519,817	-
Assigned	743,727	505,633	465,178	941,626	1,256,103	1,588,768
Unassigned	15,701,124	9,797,393	5,271,609	3,517,718	3,469,721	3,351,935
Total general fund	<u>\$ 19,048,313</u>	<u>\$ 14,997,997</u>	<u>\$ 8,819,862</u>	<u>\$ 6,803,172</u>	<u>\$ 6,987,833</u>	<u>\$ 6,782,673</u>
All Other Governmental Funds						
Restricted	\$ 4,193,169	\$ 65,925	\$ 325,968	\$ 228	\$ 15,244	\$ 129,686
Committed	81,754	96,503	125,651	115,000	39,436	-
Assigned	63,848	-	8,291	-	-	-
Unassigned	-	-	-	(432,316)	-	-
Total all other governmental funds	<u>\$ 4,338,771</u>	<u>\$ 162,428</u>	<u>\$ 459,910</u>	<u>\$ (317,088)</u>	<u>\$ 54,680</u>	<u>\$ 129,686</u>
	2010	2009	2008	2007		
Pre-GASB 54 implementation:						
General Fund						
Reserved	\$ 1,038,347	\$ 916,227	\$ 893,623	\$ 1,357,034		
Unreserved	5,183,434	5,486,537	7,086,974	6,547,440		
Total general fund	<u>\$ 6,221,781</u>	<u>\$ 6,402,764</u>	<u>\$ 7,980,597</u>	<u>\$ 7,904,474</u>		
All Other Governmental Funds						
Reserved	\$ 784,005	\$ 2,130,298	\$ 3,388,893	\$ 1,083,915		
Unreserved, reported in:						
Capital projects fund	(1,051,141)	(2,031,615)	(3,152,261)	(189,129)		
Total all other governmental funds	<u>\$ (267,136)</u>	<u>\$ 98,683</u>	<u>\$ 236,632</u>	<u>\$ 894,786</u>		

Note:

Source: City of Salem Finance Department
FY2011 was the first year the City implemented GASB 54 which revised fund balance classifications

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

**TABLE 4
UNAUDITED**

**CITY OF SALEM, VIRGINIA
CHANGES IN FUND BALANCE, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
			(1)	(2)						
Revenues										
Taxes	\$ 57,116,158	\$ 54,697,901	\$ 53,203,553	\$ 52,276,472	\$ 50,284,343	\$ 48,794,986	\$ 47,592,620	\$ 48,272,897	\$ 47,254,766	\$ 44,555,391
Permits, fees and licenses	394,968	394,827	218,804	198,742	202,342	218,094	243,035	228,687	303,958	293,004
Fines and forfeitures	116,417	127,002	126,761	153,584	160,816	164,161	159,179	171,056	159,489	159,363
Revenue from use of money and property	531,379	511,980	697,565	697,140	642,067	677,805	465,564	539,930	786,455	1,434,893
Charges for services	6,075,639	5,632,172	4,956,368	4,925,221	4,700,364	4,463,860	4,282,550	4,602,745	4,154,836	3,915,569
Other	357,115	153,748	160,095	247,149	104,701	284,324	172,872	195,505	152,478	47,673
Intergovernmental	11,603,416	11,638,740	11,289,569	13,129,214	11,462,504	12,562,674	12,525,033	12,526,047	10,859,986	10,336,870
Total revenues	76,195,092	73,156,370	70,652,715	71,627,522	67,557,137	67,165,904	65,440,853	66,536,867	63,671,968	60,742,763
Expenditures										
General government	5,918,110	6,062,763	5,689,510	5,881,344	5,792,852	4,900,770	5,232,405	6,380,771	4,891,569	4,694,442
Judicial administration	2,026,255	1,913,666	1,919,961	1,866,050	1,801,429	1,788,821	1,695,531	1,723,427	1,649,871	1,506,395
Public safety	15,824,899	15,779,717	16,358,165	16,371,685	15,353,250	14,792,022	14,358,932	14,371,192	14,397,297	13,358,739
Public works	14,672,498	10,709,120	11,087,740	11,502,485	11,988,380	11,656,775	11,101,013	12,113,469	12,156,138	11,434,040
Health and welfare	2,827,459	2,900,389	2,465,194	2,672,631	2,391,628	2,682,090	2,293,464	2,315,841	2,410,340	2,163,687
Education	19,739,512	19,151,270	25,103,243	30,295,228	18,471,653	18,420,000	18,420,000	18,420,000	17,995,000	17,095,000
Parks, recreation and cultural	4,482,414	4,401,263	4,323,040	4,508,319	4,403,170	4,203,452	4,204,705	4,716,767	4,464,456	4,354,144
Community development	1,087,606	1,062,184	857,219	829,081	981,483	879,709	618,217	1,148,291	469,835	639,535
Non-departmental	3,240,075	3,248,409	2,759,940	2,867,807	2,658,955	2,908,441	2,579,752	3,349,639	1,976,756	1,769,127
Capital projects	2,187,595	697,503	1,788,469	2,377,884	1,571,118	3,703,365	2,350,384	1,624,611	1,397,376	2,750,335
<i>Debt service:</i>										
Principal retirement	2,988,314	3,018,738	2,647,514	7,765,685	2,623,661	2,606,810	2,593,118	2,618,896	2,612,403	2,607,365
Interest	941,386	1,101,829	980,558	824,824	970,434	930,767	1,029,641	1,105,218	1,171,197	1,119,793
Bond Issuance Cost	32,987	10,377	15,500	45,750	31,900	117,689	-	-	-	-
Total expenditures	75,969,110	70,057,228	75,996,053	87,808,773	69,039,913	69,590,711	66,477,162	69,888,122	65,592,238	63,492,602
Excess (deficiency) of revenues over (under) expenditures	225,982	3,099,142	(5,343,338)	(16,181,251)	(1,482,776)	(2,424,807)	(1,036,309)	(3,351,255)	(1,920,270)	(2,749,839)
Other Financing Sources (Uses)										
Proceeds from long-term debt	5,281,400	-	7,275,000	9,518,800	-	6,540,000	-	-	-	-
Proceeds from sale of refunding bonds	-	1,932,097	-	5,036,200	9,485,000	3,339,279	-	-	-	-
Payment to refunded bond escrow agent	-	(1,921,720)	-	-	(9,513,728)	(3,430,000)	-	-	-	-
Premium on sale of bonds	-	-	-	-	-	248,757	-	-	-	-
Discount on sale of bonds	-	-	-	-	-	(48,989)	-	-	-	-
Proceeds from sale of capital assets	211,254	505,014	-	-	-	-	-	-	-	-
Issuance of capital leases	375,000	-	-	-	-	-	-	-	-	-
Transfers in	7,930,241	7,766,233	6,832,903	5,626,851	6,458,723	5,683,661	4,985,609	6,043,796	6,474,312	7,536,323
Transfers out	(5,797,218)	(5,500,113)	(5,131,569)	(4,557,029)	(4,817,065)	(8,950,187)	(4,496,102)	(4,408,322)	(5,136,073)	(4,627,341)
Total other financing sources (uses), net	8,000,677	2,781,511	8,976,334	15,624,822	1,612,930	3,382,521	489,507	1,635,474	1,338,239	2,908,982
Net change in fund balances	\$ 8,226,659	\$ 5,880,653	\$ 3,632,996	\$ (556,429)	\$ 130,154	\$ 957,714	\$ (546,802)	\$ (1,715,781)	\$ (582,031)	\$ 159,143
Debt service as a percentage of noncapital expenditures	5.44%	6.06%	4.93%	10.16%	5.37%	5.39%	5.76%	5.73%	6.04%	6.26%

Notes:

Source: City of Salem Finance Department

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

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

TABLE 5
UNAUDITED

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

Fiscal Year	Real Estate		Personal Property		Machinery and Tools		Public Service Corporation		Mobile Homes		Total Taxable Assessed Value	Total Direct Tax Rate
	Assessed Value	Direct Tax Rate	Assessed Value	Direct Tax Rate	Assessed Value	Direct Tax Rate	Assessed Value	Direct Tax Rate	Assessed Value	Direct Tax Rate		
2016	\$ 2,022,951,024	\$1.18	\$ 295,173,346	\$3.25	\$ 91,322,128	\$3.20	\$ 41,308,358	\$1.18	\$ 1,059,063	\$1.18	\$ 2,451,813,919	\$1.50
2015	2,012,050,247	1.18	282,311,121	3.25	91,977,805	3.20	40,513,445	1.18	1,195,515	1.18	2,428,048,133	1.50
2014	2,003,007,334	1.18	276,846,201	3.20	91,226,535	3.20	41,408,575	1.18	1,249,050	1.18	2,410,213,827	1.49
2013	1,997,447,800	1.18	267,755,307	3.20	84,169,172	3.20	42,281,759	1.18	1,431,949	1.18	2,393,085,987	1.47
2012	1,977,986,400	1.18	267,877,285	3.20	90,287,324	3.20	37,468,284	1.18	1,668,743	1.18	2,375,288,036	1.48
2011	1,973,655,843	1.18	265,450,351	3.20	80,706,659	3.20	37,993,502	1.18	1,460,966	1.18	2,359,267,321	1.48
2010	1,940,941,700	1.18	262,153,501	3.20	79,120,695	3.20	36,874,789	1.18	1,543,032	1.18	2,320,633,717	1.48
2009	1,912,957,600	1.18	263,305,279	3.20	80,517,625	3.20	36,468,242	1.18	1,655,642	1.18	2,294,904,388	1.48
2008	1,805,483,900	1.18	263,662,393	3.20	82,535,751	3.20	36,451,099	1.18	1,780,273	1.18	2,189,913,416	1.50
2007	1,601,239,600	1.18	254,765,656	3.20	86,685,532	3.20	34,992,259	1.18	1,632,022	1.18	1,979,315,069	1.52

Note:

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

TABLE 6
UNAUDITED

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

Calendar Year Ended December 31,	Taxes Levied for the Calendar Year	Collected within the Calendar Year of the Levy		Supplemental Assessments & Exonerations Levied in Subsequent Years	Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy			Amount	Percentage of Levy
2016	\$ 33,896,364	\$ 32,608,317	96.20%	\$ -	\$ -	32,608,317	96.20%
2015	33,630,244	32,291,449	96.02%	(19,886)	1,045,099	33,336,548	99.19%
2014	32,905,743	31,229,276	94.91%	(65,358)	1,483,005	32,712,281	99.61%
2013	32,537,416	30,854,728	94.83%	70,534	1,693,631	32,548,359	99.82%
2012	32,672,916	31,351,991	95.96%	44,690	1,242,516	32,594,507	99.62%
2011	32,104,079	30,836,144	96.05%	105,503	1,247,158	32,083,302	99.61%
2010	31,627,310	30,440,194	96.25%	309,847	1,424,732	31,864,926	99.77%
2009	31,336,233	30,288,062	96.66%	124,862	1,114,864	31,402,926	99.82%
2008	29,846,597	28,917,802	96.89%	217,549	1,097,386	30,015,188	99.84%
2007	27,357,053	26,652,952	97.43%	361,155	1,029,594	27,682,546	99.87%

Note:

Source: City of Salem Finance Department

TABLE 7
UNAUDITED

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

Taxpayer	2016			2007		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Lewis-Gale Hospital HCA (1)	\$ 39,425,000	1	1.92%	\$ 63,017,000	1	3.52%
Lewis Gale Clinic/HRT	22,324,900	2	1.09%			
Yokohama Industries	13,946,300	3	0.68%	16,327,300	2	0.91%
Lowes/VALO LLC	12,462,800	4	0.61%			
Spartan Square, Inc.	10,758,000	5	0.52%	7,923,700	6	0.44%
U.S. Food Service, Inc.	10,708,600	6	0.52%	12,364,000	3	0.69%
Chateau Riviera Apartments/CSW Associates	9,694,200	7	0.47%	8,394,300	5	0.47%
General Electric	9,635,900	8	0.47%	10,536,100	4	0.59%
Salem Terrace/White Whale	8,361,700	9	0.41%			
Carthy Corporation/Carter Machinery	7,586,000	10	0.37%	6,525,300	9	0.36%
Rowe Furniture/Salem Frame				7,365,400	7	0.41%
Wal-Mart Stores, Inc.				6,840,900	8	0.38%
Lakeside Plaza				5,818,500	10	0.33%

Note:

Source: City of Salem Real Estate Valuation Department

(1) In 2005, Lewis-Gale Hospital HCA acquired the assets of Lewis-Gale Building Corporation

TABLE 8
UNAUDITED

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

Customer	2016			2007		
	Services Billed	Rank	Percentage of Total Services Billed	Services Billed	Rank	Percentage of Total Services Billed
Lewis Gale Hospital HCA	\$2,314,623	1	6.15%	\$1,282,234	1	4.48%
Roanoke College	1,100,873	2	2.92%	895,320	2	3.13%
Graham White	936,100	3	2.49%	689,692	3	2.41%
Rowe Furniture/Salem Frame	781,541	4	2.08%	547,662	5	1.91%
U.S. Food Service, Inc.	761,374	5	2.02%	591,739	4	2.07%
Accellent Noble-Met	666,039	6	1.77%			
Kroger	596,422	7	1.58%	423,501	7	1.48%
Sewell Products	564,446	8	1.50%	340,576	8	1.19%
Carter Machinery Co.	493,743	9	1.31%	315,838	9	1.10%
Wal-Mart Stores, Inc.	357,403	10	0.95%	253,267	10	0.88%
Old Virginia Brick Co.				427,195	6	1.49%

Note:

Source: City of Salem Finance Department

TABLE 9
UNAUDITED

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

Fiscal Year	Governmental Activities			Business-Type Activities	
	General Obligation Bonds	Other Long-term Debt	Total	General Obligation Bonds	Total Primary Government
	(1)	(1)			
2016	\$ 36,971,375	\$ -	\$ 36,971,375	\$ 49,665,950	\$ 86,637,325
2015	34,681,163	-	34,681,163	47,663,394	82,344,557
2014	37,640,582	-	37,640,582	49,258,943	86,899,525
2013	32,625,067	-	32,625,067	50,697,384	83,322,451
2012	25,470,726	-	25,470,726	53,677,900	79,148,626
2011	27,913,904	-	27,913,904	55,461,508	83,375,412
2010	23,764,903	125,000	23,889,903	56,004,049	79,893,952
2009	26,141,121	250,000	26,391,121	58,850,591	85,241,712
2008	28,543,117	375,000	28,918,117	61,654,565	90,572,682
2007	30,938,620	500,000	31,438,620	64,301,352	95,739,972

Fiscal Year	Total Taxable Assessed Value	Percentage of Estimated Actual Value of Taxable Property	Population	Bonded Debt Per Capita	Per Capita Personal Income	Percentage of Bonded Debt Per Capita to Per Capita Personal Income
	(2)				(3)	
2016	\$ 2,451,813,919	3.53%	25,432	\$ 3,407	\$ 45,577	7.00%
2015	2,428,048,133	3.39%	25,483	3,231	43,418	7.00%
2014	2,410,213,827	3.61%	25,299	3,435	42,288	8.00%
2013	2,393,085,987	3.48%	25,267	3,298	40,688	8.00%
2012	2,375,288,036	3.33%	25,145	3,148	39,866	8.00%
2011	2,359,267,321	3.53%	24,970	3,339	39,866	8.00%
2010	2,320,633,717	3.44%	24,860	3,214	39,866	8.00%
2009	2,294,904,388	3.71%	24,684	3,453	39,525	9.00%
2008	2,189,913,416	4.14%	24,673	3,671	40,760	9.00%
2007	1,979,315,069	4.84%	24,482	3,911	39,479	10.00%

Notes:

Source: City of Salem Finance Department

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

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

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

(2) See Table 5 for actual value of taxable property.

(3) See Table 11 for population and per capita personal income.

TABLE 10
UNAUDITED

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

Fiscal Year	Assessed Value of Real Property	Debt Limit 10% of Assessed Value	Amount of Debt Applicable to Limit				Legal Debt Margin
			Total General Obligation Bonds	Total Other Long-term Debt	Enterprise Bonds	Net Debt Applicable to Limit	
	(1)				(2)	(3)	
2016	\$ 2,064,259,382	\$ 206,425,938	\$ 86,637,325	\$ -	\$ (49,665,950)	\$ 36,971,375	17.91%
2015	2,052,563,692	205,256,369	82,344,557	-	(47,663,394)	34,681,163	16.90%
2014	2,044,415,909	204,441,591	86,899,525	-	(49,258,943)	37,640,582	18.41%
2013	2,039,729,559	203,972,956	83,322,451	-	(50,697,384)	32,625,067	15.99%
2012	2,015,454,684	201,545,468	79,148,626	-	(53,677,900)	25,470,726	12.64%
2011	2,011,649,345	201,164,935	83,375,412	-	(55,461,508)	27,913,904	13.88%
2010	1,977,816,489	197,781,649	79,768,952	125,000	(56,004,049)	23,889,903	12.08%
2009	1,949,425,842	194,942,584	84,991,712	250,000	(58,850,591)	26,391,121	13.54%
2008	1,841,934,999	184,193,500	90,197,682	375,000	(61,654,565)	28,918,117	15.70%
2007	1,636,231,859	163,623,186	95,239,972	500,000	(64,301,352)	31,438,620	19.21%

Notes:

Source: City of Salem Finance Department

(1) Includes real estate and public service corporation assessments from table 5.

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

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

**TABLE 11
UNAUDITED**

**CITY OF SALEM, VIRGINIA
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS**

Fiscal Year Ended	Population	Total Personal Income (In Thousands)	Per Capita Personal Income	Public School Enrollment	Unemployment Rate
(1)	(2)	(3)	(3)	(4)	(5)
2016	25,432	\$ 5,435,865	\$ 45,577	3,751	4.0%
2015	25,483	5,159,100	43,418	3,797	5.2%
2014	25,299	4,984,547	42,288	3,770	5.2%
2013	25,267	4,789,030	40,688	3,823	6.6%
2012	25,145	4,672,291	39,866	3,867	6.5%
2011	24,970	4,672,291	39,866	3,892	6.1%
2010	24,860	4,672,291	39,866	3,907	7.2%
2009	24,684	4,620,761	39,525	3,905	6.3%
2008	24,673	4,743,543	40,760	3,911	3.6%
2007	24,482	4,563,905	39,479	3,966	3.0%

Notes:

- (1) Population, public school enrollment and unemployment rate figures are based on fiscal years ending June 30. Per capita personal income figures are as of March 2015.
- (2) Population is based on Intercensal estimates of the resident population for counties of Virginia: April 1, 2000 to July 1, 2010. U.S. Census Bureau, Population Division. Population for 2015 and 2016 were obtained from U.S. Census Bureau Population Estimates Program.
- (3) Bureau of Economic Analysis (BEA). Total personal income reported is for Roanoke County and the City of Salem. No data is available for the City of Salem only. Per capital personal income was computed using Census Bureau midyear population estimates.
- (4) Director of Business, School Division
- (5) Virginia Employment Commission

TABLE 12
UNAUDITED

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

Employer	2016			2007		
	Employees	Rank	Percentage of Total City Employment (1)	Employees	Rank	Percentage of Total City Employment (1)
Veterans Administration Medical Center	1,900	1	9.35%	1,393	1	6.16%
Lewis-Gale Hospital HCA	1,450	2	7.14%	1,344	2	5.94%
Yokohama Industries	826	3	4.06%	900	5	3.98%
General Electric	666	4	3.28%	1,100	3	4.86%
Lewis-Gale Physicians	665	5	3.27%	390	10	1.72%
City of Salem Schools	520	6	2.56%	581	6	2.57%
City of Salem	493	7	2.43%	531	7	2.35%
Roanoke College	483	8	2.38%	449	9	1.98%
Kroger	422	9	2.08%			
U.S. Food Service, Inc.	420	10	2.07%	459	8	2.03%
Virginia Department of Transportation				945	4	4.18%

Notes:

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

(1) Calculated using data provided by Virginia Employment Commission

TABLE 13
UNAUDITED

CITY OF SALEM, VIRGINIA
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS

Function	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
General government	69	69	67	66	66	69	67	69	71	69
Judicial administration	18	19	19	19	21	20	20	20	20	20
Public safety	157	157	159	162	160	161	162	167	165	164
Public works	89	88	94	94	100	105	110	112	113	111
Parks, recreation and cultural	32	32	31	32	32	32	33	33	26	25
Community development	2	3	3	3	3	3	3	3	3	3
Electric	27	29	27	26	26	28	29	29	29	29
Water and sewage	48	52	49	49	51	52	53	58	58	59
Civic Center	16	17	17	17	18	18	17	18	20	19
Catering and concessions	4	4	4	4	4	4	4	5	5	5
Total	<u>462</u>	<u>470</u>	<u>470</u>	<u>472</u>	<u>481</u>	<u>492</u>	<u>498</u>	<u>514</u>	<u>510</u>	<u>504</u>

Notes:

Source: City of Salem Finance Department

TABLE 14
UNAUDITED

CITY OF SALEM, VIRGINIA
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS

Function	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
General government										
<i>Finance</i>										
Accounts payable checks issued	9,238	8,601	9,280	8,937	11,002	12,260	13,595	12,104	13,991	14,617
<i>Human resources</i>										
Positions filled (full-time and temporary)	154	140	184	142	146	143	129	257	244	201
<i>Registrar</i>										
Number of registered voters	16,584	16,282	16,695	16,625	16,678	16,436	16,309	16,258	15,897	15,524
<i>Fleet</i>										
Pieces of equipment maintained	567	583	576	572	573	565	551	560	600	558
Judicial administration										
<i>Sheriff</i>										
Inmates housed	2,681	2,730	2,885	2,776	2,668	2,587	2,343	1,494	1,294	1,296
Inmate transports	1,222	1,137	1,240	1,062	1,069	1,276	1,879	1,594	1,545	1,427
Courts worked	595	614	699	686	648	691	676	695	624	639
Public safety										
<i>Police</i>										
Calls for service	32,310	32,798	32,203	39,519	36,549	33,903	34,342	35,159	34,526	33,776
Accidents	1,108	983	1,053	905	919	1,063	975	1,024	1,300	1,329
DUI Arrests	92	63	68	107	62	95	129	122	146	176
<i>Fire</i>										
Emergency responses - fire	3,019	3,203	3,181	3,337	3,241	3,661	3,270	3,441	3,083	2,715
Emergency responses - medic units	4,292	3,809	3,446	3,569	3,358	3,632	3,335	3,596	3,085	2,982
Hazardous conditions responses	127	80	77	125	105	137	134	161	182	146
<i>Building inspections</i>										
Residential construction permits	158	150	198	106	122	123	130	148	169	336
Commercial construction permits	133	139	148	110	116	124	63	71	103	93
Public works										
<i>Refuse collection</i>										
Refuse collected (tons per year)	88,565	80,827	82,905	80,609	81,427	81,485	83,607	88,365	77,027	90,405
Tons recycled	5,060	1,404	1,386	2,315	2,844	1,764	3,883	4,841	4,623	4,724
<i>Other public works</i>										
Tons of asphalt used in resurfacing	15,453	-	639	5,770	7,507	5,821	3,616	5,185	6,958	14,510
Square yards of milling completed	302,937	-	10,718	92,988	143,962	99,960	39,959	80,155	68,091	84,386
Tons of salt used	848	705	769	1,098	183	817	1,389	176	170	277
Leaves collected (loads)	295	360	293	316	369	494	507	448	323	421
Parks, recreation and cultural										
<i>Parks and recreation</i>										
Tournaments hosted	52	47	58	62	58	49	53	50	54	57
Special events held	25	26	24	24	24	24	25	24	24	25
Youth sports teams	151	155	164	170	205	225	210	195	252	186
Adult sports teams	29	27	29	39	37	44	49	48	59	48
<i>Library</i>										
Circulation	230,454	240,516	252,237	271,600	295,911	285,337	290,309	276,578	264,184	241,816
Children's program attendance	8,972	3,622	3,616	3,924	4,926	6,891	7,129	8,792	7,647	4,591
Patron visits to the library	172,012	178,323	195,878	211,605	226,696	232,559	245,807	239,745	233,524	234,379
New patrons	968	1,049	1,138	1,373	1,315	1,288	1,417	1,648	1,694	1,694
Internet sessions	25,944	27,571	28,965	33,885	51,033	52,397	58,517	50,711	62,650	55,689
Electric										
Number of customer accounts	12,880	13,021	13,204	13,198	13,202	13,163	13,131	13,175	13,130	13,032
Water										
Number of customer accounts	9,486	9,381	9,372	9,375	9,365	9,341	9,301	9,304	9,256	9,170
Million gallons sold to customers	932	989	876	838	955	1,004	977	1,003	1,067	1,043
Sewage										
Number of customer accounts	8,952	8,929	8,824	8,823	8,803	8,764	8,717	8,706	8,664	8,561
Waste/water treated (million gallons/day)	9.1	6.8	7.8	7.0	7.0	6.5	8.3	6.2	5.7	8.1
Civic Center										
Concerts	11	6	9	11	13	13	9	9	9	13
Meetings	852	778	721	614	792	936	1,156	1,216	1,295	1,081
Tickets sold	93,373	73,668	82,929	83,638	87,006	102,678	103,891	112,997	99,581	147,491
Arena utilization days	215	198	191	175	173	178	179	202	219	201

Notes:

Source: Various City of Salem Departments

TABLE 15
UNAUDITED

CITY OF SALEM, VIRGINIA
CAPITAL ASSET STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS

Function	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Public safety										
Police station	1	1	1	1	1	1	1	1	1	1
Law enforcement vehicles	47	46	48	47	47	47	46	49	50	48
Fire stations	3	3	3	3	3	3	3	3	3	3
Fire trucks	7	6	6	6	6	6	6	6	7	6
Ambulances	4	4	4	4	4	5	5	5	5	5
Public works										
Primary streets (lane miles)	68	68	68	68	68	68	68	68	68	68
Secondary streets (lane miles)	272	272	272	272	272	272	272	272	272	270
Alleys (lane miles)	12	12	12	12	12	12	12	12	12	12
Garbage trucks	16	16	14	13	12	12	12	12	13	13
Parks, recreation and cultural										
Community center/senior center	1	1	1	1	1	1	1	1	1	1
Parks/athletic fields	15	15	15	15	15	15	15	15	15	15
Acres of parks maintained	495	495	495	495	495	495	495	495	495	495
Library	1	1	1	1	1	1	1	1	1	1
Golf course	1	1	1	1	1	1	1	1	1	1
Dog park	1	1	1	1	1	-	-	-	-	-
Electric										
Substations	11	11	11	11	11	11	11	11	11	11
Overhead distribution lines (miles)	165	172	172	172	172	172	172	171	158	158
Underground distribution lines (miles)	42	38	38	38	38	38	38	38	33	33
Transmission lines (miles)	17	17	17	17	17	17	17	17	17	17
Water and sewage										
Water treatment plant	1	1	1	1	1	1	1	1	1	1
Water distribution lines (miles)	176	175	175	175	175	182	182	181	182	181
Sanitary sewer lines (miles)	170	170	170	170	177	177	177	171	176	176

Notes:

Source: City of Salem Finance Department

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COMPLIANCE SECTION



The compliance section of the City of Salem, Virginia's Comprehensive Annual Financial Report presents a Schedule of Expenditures of Federal Awards. Also included are reports from the independent auditors.

CITY OF SALEM, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016

Federal Grantor Pass-through Grantor Program Title or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Passed Through to Subrecipients
Department of Agriculture				
Local Environmental Agricultural Project Inc				
Food Insecurity Nutrition Incentive Grants Program	10.331	FINI-120	\$ 1,698	
Virginia Department of Agriculture and Consumer Services				
SNAP Cluster:				
Supplemental Nutrition Assistance Program	10.551	--	\$ 6,368	6,368
Child Nutrition Cluster:				
Food Distribution - Commodities	10.555	--	108,525	
Virginia Department of Education				
Child Nutrition Cluster:				
National School Breakfast Program 2015	10.553	2015IN109941	11,948	
National School Breakfast Program 2016	10.553	2016IN109941	135,447	
National School Lunch Program 2015	10.555	2015IN109941	52,852	
National School Lunch Program 2016	10.555	2016IN109941	500,694	809,466
Department of Justice				
Direct Payments				
Bulletproof Vest Partnership Program	16.607			4,024
Equitable Sharing Program	16.922			7,354
Virginia Department of Criminal Justice Services				
Crime Victim Assistance	16.575	16-S9575VW15		62,853
Byrne Justice Assistance Grant	16.738	16-A3273BY11		9,434
Virginia Office of the Attorney General				
Equitable Sharing Program	16.922			66,082
Department of Transportation				
Virginia Department of Transportation				
Highway Planning and Construction Cluster:				
Highway Planning and Construction:				
Bicycle & Pedestrian Safety Improvement Program	20.205	UPC 100656	30,876	
Roanoke River Greenway Project Phase 2B	20.205	UPC 56409	17,427	
Roanoke River Greenway Project Phase 5	20.205	UPC 56409/106486	6,664	
Mason Creek Greenway Phase 2	20.205	UPC 106268	2,320	57,287
Virginia Division of Motor Vehicles				
Highway Safety Cluster:				
State and Community Highway Safety:				
Selective Enforcement - Speed FY15	20.600	SC-2015-55010-5749	1,914	
Selective Enforcement - Speed FY16	20.600	SC-2016-56015-6215	9,302	
Selective Enforcement - Occupant Protection FY16	20.600	OP-2016-56020-6220	3,068	
Selective Enforcement - Pedestrian/Bicycle FY16	20.600	PS-2016-56045-6245	552	
National Priority Safety Programs:				
Selective Enforcement - Occupant Protection FY15	20.616	M2HVE-2015-55011-5750	531	15,367
Alcohol Open Container Requirements:				
Selective Enforcement - Alcohol FY15	20.607	15AL-2015-55007-5746		258
Selective Enforcement - Alcohol FY16	20.607	15AL-2016-56014-6214		7,425
Department of Education				
Virginia Department of Education				
Adult Education - Basic Grants to States 2014	84.002	V002A140047	25,329	17,422
Adult Education - Basic Grants to States 2015	84.002	V002A150047	280,882	18,080
Title I Grants to Local Educational Agencies 2013	84.010	S010A130046	299	
Title I Grants to Local Educational Agencies 2014	84.010	S010A140046	49,198	
Title I Grants to Local Educational Agencies 2015	84.010	S010A150046	388,383	
Career and Technical Education - Basic Grants to States (Perkins IV)	84.048	V048A150046	44,375	
Supporting Effective Instruction State Grant	84.367	S367A150044	99,431	
Special Education Cluster (IDEA):				
Special Education - Grants to States (IDEA, Part B) 2013	84.027	H027A130172	3,150	
Special Education - Grants to States (IDEA, Part B) 2014	84.027	H027A140107	98,796	
Special Education - Grants to States (IDEA, Part B) 2015	84.027	H027A150107	594,861	
Special Education - Preschool Grants (IDEA Preschool) 2013	84.173	H173A130112	7,794	
Special Education - Preschool Grants (IDEA Preschool) 2014	84.173	H173A140112	15,309	
Special Education - Preschool Grants (IDEA Preschool) 2015	84.173	H173A150112	9,228	729,138
County of Roanoke, Virginia				
English Language Acquisition State Grants	84.365	S365A150046	8,485	

(Continued)

CITY OF SALEM, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016

<u>Federal Grantor</u> <i>Pass-through Grantor</i> Program Title or Cluster Title	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>	<u>Passed Through to Subrecipients</u>
<u>Department of Health and Human Services</u>				
<i>Goodwill Industries of the Valleys</i>				
Health Profession Opportunity Grants	93.093	90FX0038-01-01	\$ 6,405	
<u>Department of Homeland Security</u>				
<i>Virginia Department of Emergency Management</i>				
Hazard Mitigation Grant	97.039		2,436	
Homeland Security Grant Program:				
2014 State Homeland Security Program Grant (SHSP)	97.067	Grant FY 2014 - SHSP	62,000	
2015 State Homeland Security Program Grant (SHSP)	97.067	Grant FY 2015 - SHSP	13,470	
Total Expenditures of Federal Awards			<u>\$ 2,757,447</u>	<u>\$ 35,502</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, 2016, the Component Unit – School Division had food commodities in inventory of \$19,550.

Note 3: Indirect Cost Rate

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Salem, Virginia (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 17, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and disclosed two instances of noncompliance to be reported under the *Specifications for Audits of Counties, Cities and Towns*, which are described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002.

Management's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

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

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

Roanoke, Virginia
November 17, 2016

Report of Independent Auditor on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited the City of Salem, Virginia's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal program for the year ended June 30, 2016. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance on the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the City's major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

Roanoke, Virginia
November 17, 2016

City of Salem, Virginia

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

A. Summary of Auditor's Results

1. The type of report issued on the financial statements: **Unmodified opinion**
2. Significant deficiencies in internal control disclosed by the audit of the financial statements: **None reported**
3. Material weaknesses: **No**
4. Noncompliance, which is material to the financial statements: **No**
5. Significant deficiencies in internal control over major program: **None reported**
6. Material weaknesses: **No**
7. The type of report issued on compliance for major program: **Unmodified opinion**
8. Any audit findings which are required to be reported the Uniform Guidance: **No**
9. The program tested as a major program was:

Name of Program

CFDA #

Special Education Cluster

84.027 and 84.173

10. Dollar threshold to distinguish between Type A and Type B Programs: **\$750,000**
11. The City of Salem, Virginia was determined to be a low risk auditee.

B. Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*:

None reported

C. Findings and Questioned Costs Relating to Federal Awards:

None reported

D. Findings and Questioned Costs Relating to Compliance with Commonwealth of Virginia Laws, Regulations, Contracts, and Grants

2016-001: Non-Compliance: Conflict of Interest

Criteria: Section 2.2-3115 of the *Code of Virginia* ("Code") requires certain local government employees who are members of a governing body of any authority established in any county or city and having the power to issue bonds or expend funds in excess of \$10,000 in any fiscal year to file a Statement of Economic Interest ("SOEI") with the office of the Virginia Conflict of Interest and Ethics Advisory Council (the "Council") semi-annually by December 15th and June 15th. Additionally, the Council specifies that certain members of local entities must file an annual Financial Disclosure Statement ("FDS") by December 15th, if not designated to file a SOEI by their local governing body.

City of Salem, Virginia

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Condition: During our testing, one (1) SOEI form was not submitted timely in accordance with the requirements.

Cause: The City's controls in place to ensure all required SOEI forms are fully prepared and filed in accordance with the prescribed requirements did not function completely.

Effect: The City is not in compliance with the Code.

Recommendation: Local government officials should complete the required filings in accordance with the prescribed requirements.

Views of Responsible Officials: The City concurs with the finding and has noted it for future reference.

2016-002: Non-Compliance: Personal Property Tax Exonerations

Criteria: Section 2-4 of the *Specifications for Audits of Counties, Cities, and Towns* (the "Specifications") requires that the auditor select a sample of exoneration forms and determine whether they have been properly approved. The auditor must also verify that the treasurer has properly recorded the exoneration in the general ledger and subsidiary assessment records.

Condition: During our testing, we noted that while personal property tax exonerations were entered by the Commissioner of Revenue's office, they were not subjected to a formal management approval process.

Cause: The City's controls in place to ensure all personal property tax exonerations are approved did not function as intended.

Effect: The City is not in compliance with the requirements of the Specifications.

Recommendation: Personal property tax exonerations should be reviewed on a routine basis and approved by the Commissioner of Revenue or her designee as being appropriate exonerations.

Views of Responsible Officials: The City concurs with the finding and will put an approval process in place.

E. Summary Schedule of Prior Audit Findings

None reported

**Department of Finance
City of Salem, Virginia**

Rosemarie B. Jordan, CPA

Director of Finance

Accounting/Accounts Payable/Purchasing

Vickie L. Akers

Accounting Assistant

Wendy D. Boggess

Buyer

Ellen T. Bowen, CPA

Senior Accountant

Yen T. Ha

Senior Accountant

Amy R. Morris, CPA

Financial Systems Accountant

Mary Ann Penney, CPA

Accounting Supervisor

Tammy H. Todd, CPA

Assistant Director of Finance

Karen M. Vaught

Accounting Technician

Administrative

Alyson R. Chaisson

Finance Administrative Secretary/
Accounting Technician

Payroll

Tara N. Pugh

Payroll Technician

Carrington R. Sumner

Payroll Manager