



**CITY OF SALEM, VIRGINIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**YEAR ENDED JUNE 30, 2008**

# CITY OF SALEM, VIRGINIA



## COMPREHENSIVE ANNUAL FINANCIAL REPORT YEAR ENDED JUNE 30, 2008

DEPARTMENT OF FINANCE

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# INTRODUCTORY SECTION

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## CITY OF SALEM, VIRGINIA

November 25, 2008

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

In accordance with Section 8.9 of the Salem City Charter, we are pleased to present the City of Salem (the City) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2008. 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 generally accepted accounting principles (GAAP) as promulgated by the Government Accounting Standards Board (GASB).

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the 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.

Management's discussion and analysis (MD&A) on page 19 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 at the southern end of the Shenandoah Valley, approximately 170 miles west of Richmond and 235 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 14.3 square miles and operates under a council-manager form of government. The City's 2008 estimated population, 25,143, accounts for almost 8% of the population in

its metropolitan statistical area (MSA), which includes the neighboring City of Roanoke and the Counties of Botetourt, Craig, Franklin and Roanoke.

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, and community development activities. 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 the Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39. 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. 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. The discretely presented component unit is the School Board of the City of Salem. A five member appointed School Board supervises the operation of the City's school system. The school system receives significant financial support from the City. The School Board 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.

The 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 1<sup>st</sup>. After an extensive study process and a public hearing to receive citizen input, the City Council adopts the budget on or before June 15<sup>th</sup>.

### **Local Economic Condition and Outlook**

Although small in area, Salem is large when looking at its economic base and that of the surrounding communities. This base consists of industrial manufacturing, medical facilities, wholesale/retail trade, agriculture, hotel and motel services, higher education, rail transportation, banking services and regional utility services.

Salem strives to provide an atmosphere and quality of life conducive to families and businesses. Over the years, Salem has been able to maintain a low unemployment rate, currently 3.6%, and stable property tax rates, while enjoying moderate growth. A strong educational system providing a well-educated and skilled workforce along with generally lower operating costs is a key reason why employers have chosen to relocate in Salem and the rest of the Valley. The City's effort to retain existing business and industry is an integral part of its economic development efforts. The use of public funds when appropriate to attract or expand existing businesses has paid off for Salem in terms of expanded investments and employment.

Included in the manufacturing process are hi-tech electronics, medical equipment, tires, furniture, steel and motor manufacturing, tool and die, and railroad equipment, just to name a few. The largest employers include such companies as General Electric, Hospital Corporation of America, Veterans Administration Medical Center, Carter Machinery, and Yokohama Industries. The top employers in Salem provide over 10,000 jobs to Salem's citizens and those of the surrounding valley.

The past year has seen the completion of a number of residential subdivisions along with business expansions and relocations. In the residential area, Phillips Brook and Emory Creek, both high-end subdivisions were completed with 36 new homes and an assessed value in excess of \$10.4 million. Construction continued on North Oaks, Wyndstone and Rivendell subdivisions. Once complete, over 175 new homes will be added. Seven of the planned fourteen townhomes were completed at Lake Spring Village. During the current year, 62 new homes were constructed in the City with an assessed value of \$16.7 million.

Construction began on a mixed-use apartment complex, which will house eight apartments on the top floors, while providing space for business use on the ground floor. Roanoke College began a dormitory renovation and expansion project to provide housing for the increasing number of students living on-campus.

In the business and commercial market, the City sold two lots on Spring Street as part of the redevelopment of the West Salem Plaza. Demolition of the current structure began in October of 2008. Construction of a new Lowe's Home Improvement store is planned with a scheduled opening date of January 2010. It is anticipated that the new store will generate at least \$625,000 in new tax dollars each year.

A road was completed at Salem Commerce Park, connecting Texas Street with Lynchburg Turnpike and allowing access to additional lots for development. Salem Commerce Park, with over 30 acres is already occupied by One Beacon Insurance Company, Atlantic Mutual Insurance Company and the Waldrop Medical Office Park. Construction of a real estate company corporate headquarters is also planned. When completed, the Park will provide as many as 1,500 jobs and \$100 million in assessed

value, becoming a jewel in the City's efforts to provide for the future. In Salem Commerce Park, five lots are still available for commercial development as well as approximately three acres for residential development.

Several restaurants, including Frank's Pizza, Zaxby's and All-Sports Café opened during 2008. Business relocations include General Imports and New Century Venture Center. Drs. Blum, Newman, Blackstock, and Associates renovated an existing building on West Main Street and opened an optometrist's office. Comfort Suites, a 72 room hotel, opened in fiscal year 2008. Holiday Inn Express is under construction on Russell Drive. Several business expansions took place in fiscal year 2008, including Clinical Pharmacy Services and Liberty.

A parcel in the downtown area was purchased for \$1.2 million in fiscal year 2008 which will be the site of the Veteran's Administration Credit Union. Construction of a third building at St. John Place Commerce Center was completed and other undeveloped land is available for future development. The Lakeside Plaza was completed which houses the Virginia Probation and Parole Office for District 16 and a golf driving range.

Fiscal year 2008 revenue performance reflected growth in property tax category including increases in real estate revenue of 13% due to reassessment and new construction. Effective with the 2009 fiscal year, real estate assessments will be done annually, which allows for a more even and predictable growth in assessments compared to the bi-annual method used in fiscal year 2008 and earlier. Business license tax also showed growth due to the opening of several new businesses. Machinery and tools tax declined largely due to the new guidelines issued by the Department of Taxation which deemed idle machinery and tools not subject to local taxation. Intergovernmental revenue and charges for services also increased,

As part of its fiscal year 2008 budget process, the City was again able to meet the goals of maintaining service levels to citizens, providing additional funding for employee compensation and benefits, and capital replacement and maintenance.

### **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 School Division is noted as a high achieving school division based on the standardized testing and the percentage of students who attend post secondary educational institutions. All six schools were fully accredited by the State and by the Southern Association of Colleges and Schools and all met the benchmarks under the *No Child Left Behind Act* based upon testing in the 2007-2008 school year.

Salem works hard in the areas of economic development and is committed to creating jobs for its citizens and in generating new sources of tax revenue by strengthening and diversifying its economy. Development in Salem Commerce Park is underway with three successful businesses constructed and space for several more. Redevelopment of the West Salem Plaza property began in October of 2008 and will house Lowe's Home Improvement Store along with other retail space.

Salem continues to be active in tourism development as a means of economic development. Located at the Salem Civic Center, the Visitor's Center provides an abundance of information about local sites and events. The City continues to participate with the Roanoke Valley Convention and Visitors Bureau to promote conventions and events in the region. Events such as Salem Avalanche Baseball, Olde Salem Days, the Salem Fair, Stagg Bowl, Commonwealth Games, the Roanoke Valley Horse Show, NCAA Championship events, the Virginia Tech Memorial and many other events bring hundreds of thousands participants, spectators, and tourists to Salem and the surrounding area.

Construction of new bathroom facilities and replacement of the clubhouse roof at Kiwanis Field were substantially completed during fiscal year 2008. Administrative offices, locker rooms and an umpire facility are located in the clubhouse. Kiwanis Field is utilized daily from January to November, hosting events at youth, adult, high school, collegiate and national levels. The 2008 USA Olympic Softball Tour, "Bound 4 Beijing" participated in a tournament held at Kiwanis on July 24th. New playground equipment totaling almost \$50,000 was purchased to replace outdated equipment in Moyer Park and Beverly Heights Park.

Salem, in partnership with the Counties of Roanoke, Franklin and Montgomery, created the Western Virginia Regional Jail Authority and began construction on a new regional jail intended to house 600 inmates, with capacity for up to 800. Construction of the 264,000 square foot facility is expected to be completed in March 2009. Some staff have been hired and are attending training at the Roanoke County Public Safety Training Academy. It is anticipated that 197 people will be employed by the jail.

Like many businesses and other local governments Salem will soon face the retirement of the "Baby Boomer Generation". In order to effectively plan for this event the City has created a "Leadership Program" to identify and instill in the younger management staff the ethics, knowledge, education, and technical training to pass on the "Salem Way" to future leaders of the City. Currently, over 50 individuals are enrolled in this program.

### **Prospects for the Future**

The budget for 2008-09 includes both cost-of-living and merit increase. It maintains all real and personal property tax rates. Overall the General Fund, which includes the School Division, increased by 3.9% over the amended 2007-08 Budget and meets all of the City's current requirements.

An upgrade of the existing electric substations and construction of two new electric substations was completed which increased the reliability of the City's distribution system. Construction continued on the new electric department service center and administration building. Phase one of this project is expected to be complete in February 2009. The City's new data center will also be housed at this facility.

The Colorado Street Bridge replacement, which will be funded by federal, state and local monies, began in fiscal year 2008. It is anticipated that the bridge replacement will cost almost \$4 million and take two years to complete. Easements were obtained to complete the greenway project connecting the David Smith Trail at Moyer Park with Rotary Park. The City was awarded a grant from the state that will fund canoe launches, water fountains, kiosks and benches as an extension of this project.

The City invested in a regional wastewater collection and treatment contract along with the City of Roanoke, Town of Vinton and the Counties of Roanoke and Botetourt. Upgrades were completed in fiscal year 2008 that increased wastewater treatment capacity, modified procedures to meet permit limits and reduced overflows. Electrical upgrades and the evaluation of more environmentally energy alternatives will be included in the next phase of the project, which is expected to begin in fiscal year 2009.

The City of Salem was authorized by the State Corporation Commission to provide local exchange telecommunication services. The City has undertaken a feasibility study to evaluate the provision of a broad range of services, which may include broadband, cable, wireless, phone and other telecommunication services.

The City expects to complete the actuarial study to determine the impact of GASB 45 regulations on the City and look at recommendations for its health plan applicable to retirees. As required, implementation will occur in fiscal year 2008-09.

### **Accounting System and Budgetary Controls**

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.

Currently the City utilizes a financial management system that was developed internally in conjunction with the Department of Management Information Services. The City established as of May 2008 the Technology and Business Process Planning Department which is charged with reviewing both current business practices and best practices in order to develop a Request for Proposal for a new Financial Management System. The goal of this project is to obtain enterprise functionality that fully utilizes technology to maximize the users' ability to retrieve data. Systems to be included are financial, payroll / human resources, budget, work order, inventory, fixed assets, treasury management and utility management. City-wide needs assessment and ERP planning have been underway in the current fiscal year with the initial phase being implemented in the 2009-10 fiscal year. The completion of the City's new data center is anticipated to be in late Spring of 2009.

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 provision embodied in the annual appropriated budget approved by City Council. Activities of the general fund and debt service fund are included in the annual budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level. The government also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts lapse at year-end. However, encumbrances generally are re-appropriated as part of the following year's budget.

### **Cash Management**

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

### **Risk Management**

The City utilizes a variety of techniques to identify and monitor risks and exposures for the City activities. Risk management is a function of several departments under the General Government heading. The City is insured for most general liability and property coverage. In addition, workmen's compensation is insured through the Virginia Municipal League (VML) Self Insurance Association. The City is self-insured for health coverage for City and School employees. Note 14 of the financial statements provides an outline of Salem's Risk Management Coverage.

## 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. Brown, Edwards & Company, L.L.P., has performed an annual audit of the Comprehensive Annual Financial Report. Their audit was conducted in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. The auditor's report, which includes their opinion on the financial statements of the 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 of Salem, Virginia, for its Comprehensive Annual Financial Report for 2007. This represents the twentieth 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 Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. We believe this report conforms to the Certificate of Achievement Program requirements, and standards and are submitting it to the GFOA to determine its eligibility for another certificate.

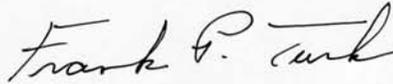
## Acknowledgments

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

Respectfully submitted,



Kevin S. Boggess  
City Manager



Frank P. Turk  
Director of Finance

**CITY OF SALEM, VIRGINIA  
DIRECTORY OF PRINCIPAL OFFICIALS  
JUNE 30, 2008**

**MEMBERS OF CITY COUNCIL**

Howard C. Packett ..... Mayor  
John C. Givens ..... Vice-Mayor  
Brian R. Foley ..... Member  
Jane W. Johnson ..... Member  
William D. Jones ..... Member

**GENERAL CITY GOVERNMENT**

Kevin S. Boggess ..... City Manager  
James E. Taliaferro, II ..... Assistant City Manager and Clerk of Council  
Frank P. Turk ..... Director of Finance  
Stephen M. Yost ..... City Attorney  
Bonnie C. McCormack ..... City Treasurer  
Linda M. Carroll ..... Commissioner of Revenue  
Thomas E. Bowers ..... Commonwealth's Attorney  
Gary Chance Crawford ..... Clerk of Circuit Court  
Eric A. Atkins ..... City Sheriff  
Carolyn H. Barrett ..... Director of Human Resources  
Mark R. Waldron ..... Director of Management Information Services  
James R. Bryant ..... Chief of Police  
Chester G. Counts ..... 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  
Janis C. Augustine ..... Library Director  
Dana M. Oliver ..... Registrar  
A. K. Briele, III ..... Director of Electric Department  
Melvin B. Doughty ..... Director of Water and Sewer Department  
Wendel I. Ingram ..... Real Estate Assessor  
Charles B. Aldridge, Sr. .... Building Official and Zoning Administrator  
James M. Fender, Jr. .... Director of Solid Waste Disposal  
Melinda J. Payne ..... Director of Planning and Community Development  
R. Carey Harveycutter, Jr. .... Director of Civic Facilities

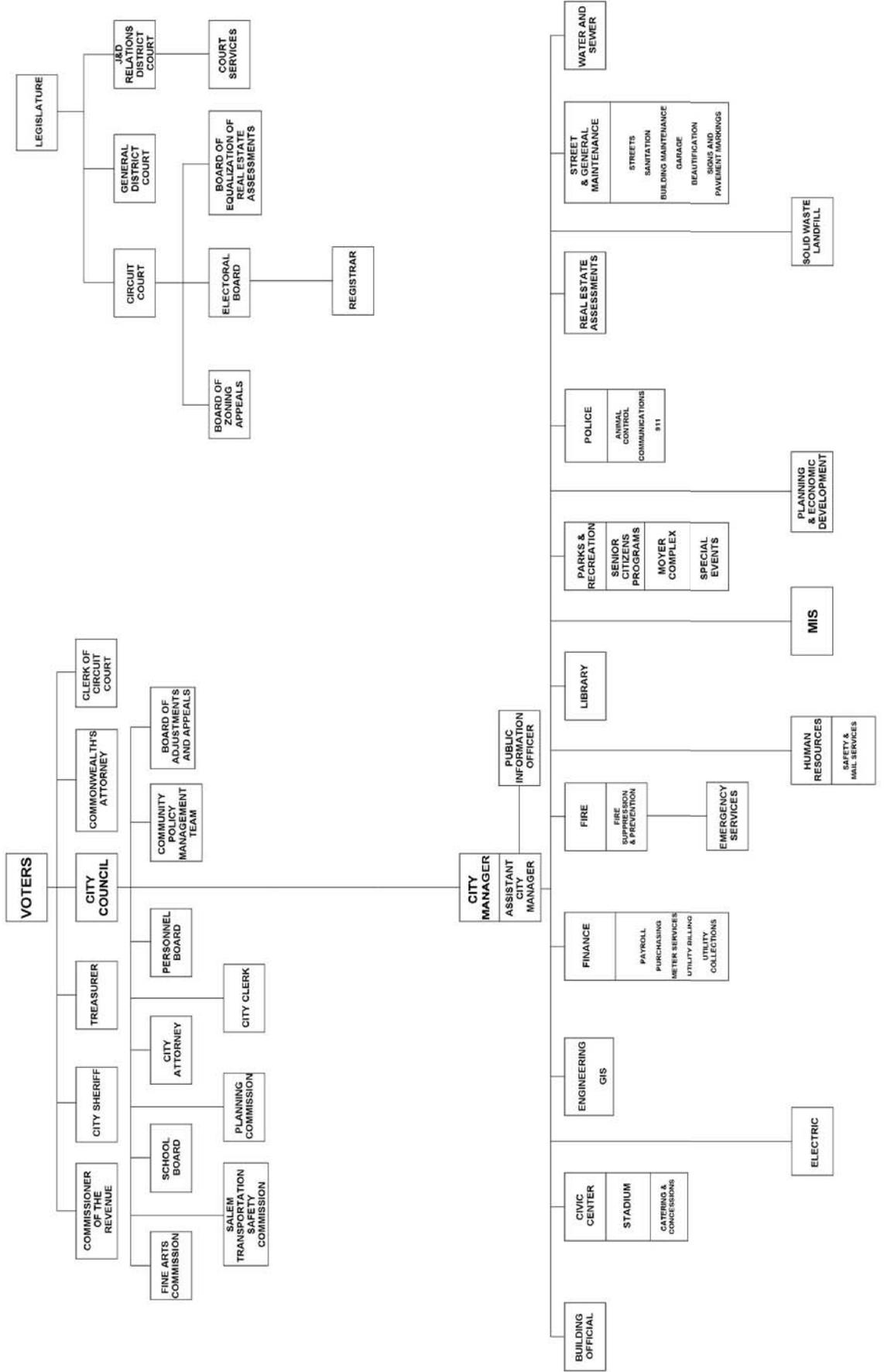
**MEMBERS OF SCHOOL BOARD**

Sarah W. Southard ..... Chairman  
C. Wayne Adkins ..... Vice-Chairman  
Cindy W. Neathawk ..... Member  
David H. Preston ..... Member  
William Sinkler ..... Member

**SCHOOL ADMINISTRATION**

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

# CITY OF SALEM, VIRGINIA ORGANIZATIONAL CHART



# 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, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Oliver S. Cox*

President

*Jeffrey R. Emmer*

Executive Director

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# FINANCIAL SECTION

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## INDEPENDENT AUDITOR'S REPORT

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

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 ("City"), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2008 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and the required supplementary information on pages 19 through 28, and 63, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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, combining nonmajor fund statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-profit Organizations*, and is also not a required part of the basic financial statements of the City. The combining and individual nonmajor fund statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken 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 express no opinion on them.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 25, 2008

**CITY OF SALEM, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2008**

The following discussion and analysis of the City of Salem's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. It should be read in conjunction with the transmittal letter and the City's basic financial statements.

**FINANCIAL HIGHLIGHTS**

- The total assets of the City of Salem Primary Government exceeded its liabilities as of June 30, 2008 by \$143.9 million (*net assets*). Of this amount, \$128.2 million is invested in capital assets and \$15.7 million is unrestricted.
- During the year, the City's governmental activities reflect an increase in net assets of \$2.1 million. Net assets of governmental activities totaled \$78.8 million at June 30, 2008.
- The business-type activities net assets at June 30, 2008 totaled \$65.1 million, an increase of \$2.7 million from the June 30, 2007 balance. Of this amount, \$25.3 million is unrestricted.
- Component unit net assets decreased by \$0.5 million to \$42 million. Of this amount, \$2.1 million is unrestricted while \$39.9 million is invested in capital assets.
- At the end of the current fiscal year, undesignated fund balance for the general fund was approximately \$5.8 million or 9.1% of fiscal year 2008 general fund revenues. The City Council has stated its intent to increase the undesignated general fund balance to a minimum of 15% of general fund revenues.

**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 snapshot of the City's finances. The focus is on both the City as a whole (government-wide) and the fund financial statements. The government-wide financial statements 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, which present a longer-term view. 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 31 and include the Statement of Net Assets 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 assets and changes that affected net assets during the fiscal year. The change in the City's net assets, the difference between assets and liabilities, is one way to measure the City's financial health, or financial position. Increases or decreases in net assets are indicators of whether the City's financial health is improving or deteriorating. Other non-financial factors, such as changes in the City's property tax base and the condition of the City's infrastructure should also be considered in assessing the overall financial health of the City.

In the Statement of Net Assets 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 departments. Property taxes, other local taxes, and federal and state grants finance most of these activities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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). The City of Salem is financially accountable for the School Division although it is a legally separate entity.

### Fund Financial Statements

The fund financial statements begin on page 33 and provide detailed information about the most significant funds, not the City as a whole. The City has three types of funds.

Governmental funds – Most of the City's basic services are included in 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. 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, capital projects fund and the debt service fund. The differences between governmental activities as reported in the government-wide and fund financial statements are reconciled in Exhibits 3 and 4 on pages 33 and 34.

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. Proprietary funds, like the government-wide statements, utilize the accrual basis of accounting and their statements provide both short and long-term financial information.

The City's enterprise funds, one type of proprietary fund, are the same 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 Distribution, Water and Sewage, Civic Center and Catering and Concessions.

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 accounts for assets held on behalf of the Cardinal Criminal Justice Academy and the Court-Community Corrections Program as agency funds. Agency funds are custodial in nature and do not involve measurement of results of operations.

**Notes to the basic financial statements.** The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found beginning on page 40 of this report.

**Required supplementary information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's and School Division's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 63 of this report.

**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 Net Assets:**

The following table presents a condensed summary of net assets:

**Summary of Net Assets (as restated)**  
**(In Thousands)**

	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2008	2007	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 12,381	\$ 12,407	\$ 36,656	\$ 40,410	\$ 49,037	\$ 52,817	\$ 7,184	\$ 6,558
Capital assets, net	100,467	100,419	97,810	92,412	198,277	192,831	39,837	40,662
<b>Total assets</b>	<b>112,848</b>	<b>112,826</b>	<b>134,466</b>	<b>132,822</b>	<b>247,314</b>	<b>245,648</b>	<b>47,021</b>	<b>47,220</b>
Other liabilities	3,440	3,088	7,227	5,610	10,667	8,698	4,263	4,083
Long-term liabilities	30,543	33,017	62,173	64,816	92,716	97,833	804	697
<b>Total liabilities</b>	<b>33,983</b>	<b>36,105</b>	<b>69,400</b>	<b>70,426</b>	<b>103,383</b>	<b>106,531</b>	<b>5,067</b>	<b>4,780</b>
Invested in capital assets, net of related debt	88,464	85,853	39,788	41,636	128,252	127,489	39,837	40,662
Unrestricted	(9,599)	(9,132)	25,278	20,760	15,679	11,628	2,117	1,778
<b>Total net assets</b>	<b>\$ 78,865</b>	<b>\$ 76,721</b>	<b>\$ 65,066</b>	<b>\$ 62,396</b>	<b>\$ 143,931</b>	<b>\$ 139,117</b>	<b>\$ 41,954</b>	<b>\$ 42,440</b>

The City's combined net assets increased from \$139.1 million to \$143.9 million. Net assets invested in capital assets, net of related debt, represents the amount of capital assets owned by the City, including infrastructure, net of any outstanding debt issued to fund the asset purchase or construction. Net assets are 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. Unrestricted net assets, the portion of net assets that can be used to finance the day-to-day operations of the City, totaled \$15.7 million.

The net assets of governmental activities increased \$2.1 million during 2008. Significant current year activities affecting net assets include:

- Unrestricted net assets of governmental activities are negative due to the amount of debt issued for school improvements. The City assumes all debt issued for school improvements, while the School Division records the related asset. As of June 30, 2008, approximately \$17 million of bonds payable related to School Division projects were recorded as a liability of the City and reduced unrestricted net assets of governmental activities.
- General revenues increased \$3.3 million or 6.8%. Property taxes, meals tax, sales tax and business and professional occupational license tax showed growth from the previous year.
- Governmental activities expenses increased \$3.4 million or 5.6% from the prior year. The contribution to the City of Salem School Division was \$0.9 million higher than the previous year. Public safety expenses increased \$1.2 million or 8.5%. Public works expenses increased \$0.6 million or 4.4%.
- Operating grants and contributions declined approximately \$400,000 or 5.9%

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

The net assets of business-type activities increased approximately \$2.7 million during 2008. Significant current year activities affecting net assets include:

- Charges for services for the electric fund increased approximately \$1.7 million due to an increase in the power cost adjustment, which is charged based on kilowatt hours used. This adjustment was effective in July 2007 and was necessary to offset rising fuel costs. The \$2.7 million increase in purchased power costs reflects the effect of rising fuel costs.
- The water and sewage fund sold 190 million gallons of water to the Western Virginia Water Authority, increasing charges for services \$0.4 million. Costs for treatment of sewage declined 19.8%. Dry weather and infiltration abatement work created less infiltration of storm water and resulted in lower consumption.
- Net transfers of \$1,552,276 include the following amounts transferred from business-type activities to governmental activities: a payment in lieu of taxes of \$1,265,000, funding of \$1,200,000 for capital projects and transfer of capital assets with a net value of \$214,037. Governmental activities provided \$1,126,761 in operational support to the Civic Center.

Net assets of the School Division decreased \$486,000. Payments from the City of Salem were \$900,000 higher than the previous year, while state aid decreased \$249,000 due to declines in sales tax and basic aid. Expenses, including depreciation, increased \$929,000. Operating grants and contributions declined \$287,000 due to a decrease in Title I and flow-through program spending, which resulted in lower amounts of federal reimbursements.

**Summary of Changes in Net Assets:**

The following table shows the revenues of the government:

	<b>Summary of Changes in Net Assets (In Thousands)</b>							
	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2008	2007	2008	2007	2008	2007	2008	2007
<b>Revenues</b>								
<i>Program Revenues:</i>								
Charges for services	\$ 4,818	\$ 4,577	\$ 44,557	\$ 42,145	\$ 49,375	\$ 46,722	\$ 1,500	\$ 1,570
Operating grants and contributions	6,613	7,024	-	-	6,613	7,024	6,848	6,560
Capital grants and contributions	1,360	1,169	-	-	1,360	1,169	-	-
<i>General Revenues:</i>								
Property taxes	30,082	27,607	-	-	30,082	27,607	-	-
Local sales and use taxes	5,909	5,712	-	-	5,909	5,712	-	-
Business license tax	4,715	4,258	-	-	4,715	4,258	-	-
Utility taxes	1,157	1,229	-	-	1,157	1,229	-	-
Meals tax	2,546	2,397	-	-	2,546	2,397	-	-
Other taxes	2,363	2,700	-	-	2,363	2,700	-	-
Intergovernmental revenue not restricted	4,030	3,879	-	-	4,030	3,879	-	-
State aid unrestricted	-	-	-	-	-	-	14,068	14,318
Interest and investment income	569	789	706	929	1,275	1,718	-	-
Other	818	279	131	27	949	306	589	450
Payments from Salem City	-	-	-	-	-	-	17,995	17,095
<b>Total Revenues</b>	<b>\$ 64,980</b>	<b>\$ 61,620</b>	<b>\$ 45,394</b>	<b>\$ 43,101</b>	<b>\$ 110,374</b>	<b>\$ 104,721</b>	<b>\$ 41,000</b>	<b>\$ 39,993</b>

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

The property tax classification, which comprises 46.3% of total revenue generated by governmental activities, includes real estate tax, the local portion of personal property tax, machinery and tools tax and public service corporation taxes. Real estate tax revenue, the largest source of revenue for the City, increased 12.6% from the previous year due to reassessment and new construction.

The Commonwealth's share of tax revenue under the Personal Property Tax Relief Act totaled \$2.6 million and is included in the intergovernmental revenue category. Personal property tax revenue, including the Commonwealth's share, totaled \$8.4 million, an increase of 3.5% from the previous year.

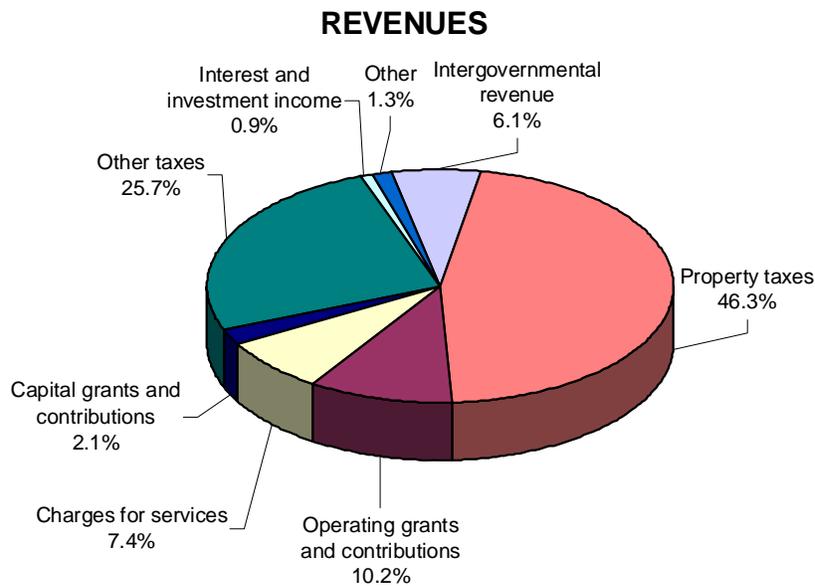
Business and occupational license taxes reflected growth of approximately 10.7% from the previous year. The largest increase was recognized in the professional category with personal services, wholesale and repair service categories also reflecting growth. Sales tax revenue increased a modest 3% from the previous year.

Operating grants and contributions comprised approximately 10.2% of governmental activities revenue and reflected a decline of 5.9% from the previous year. In fiscal year 2007, the City received funds from the Federal Emergency Management Agency (FEMA) to purchase properties located in the flood plain. No funding was received from FEMA in fiscal year 2008. In addition, funding received under the Comprehensive Services Act decreased from the previous year.

Charges for services include items such as fines, court fees, inspection fees, garbage collection fees along with recreation and other program-based fees and generated 7.4% of governmental activities revenue. Public works charges for services increased due to a new waste disposal contract with Botetourt County.

Intergovernmental revenue, which accounted for 6.1% of governmental activities revenue, increased 3.9% from the previous year due to communications tax reform.

Revenues generated for governmental activities are presented below by category:



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

The following table shows the expenses of the government:

Expenses	Summary of Changes in Net Assets (as restated) (In Thousands)							
	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2008	2007	2008	2007	2008	2007	2008	2007
General government administration	\$ 5,031	\$ 4,803	\$ -	\$ -	\$ 5,031	\$ 4,803	\$ -	\$ -
Judicial administration	1,687	1,541	-	-	1,687	1,541	-	-
Public safety	15,049	13,870	-	-	15,049	13,870	-	-
Public works	14,068	13,476	-	-	14,068	13,476	-	-
Health and welfare	2,450	2,193	-	-	2,450	2,193	-	-
Education	17,995	17,095	-	-	17,995	17,095	41,486	40,556
Parks, recreation and cultural	5,722	5,796	-	-	5,722	5,796	-	-
Community development	1,122	1,022	-	-	1,122	1,022	-	-
Interest on long term debt	1,264	1,202	-	-	1,264	1,202	-	-
Electric	-	-	26,505	24,309	26,505	24,309	-	-
Water and sewage	-	-	11,150	10,992	11,150	10,992	-	-
Civic center	-	-	2,435	2,563	2,435	2,563	-	-
Catering and concessions	-	-	1,082	1,104	1,082	1,104	-	-
<b>Total Expenses</b>	<b>64,388</b>	<b>60,998</b>	<b>41,172</b>	<b>38,968</b>	<b>105,560</b>	<b>99,966</b>	<b>41,486</b>	<b>40,556</b>
Excess (Deficiency) before transfers	592	622	4,222	4,133	4,814	4,755	(486)	(563)
Transfers	1,552	496	(1,552)	(496)	-	-	-	-
Increase (Decrease) in net assets	2,144	1,118	2,670	3,637	4,814	4,755	(486)	(563)
Net Assets, Beginning, as reported of restatement of prior period	76,721	75,603	62,396	58,759	139,117	134,362	42,440	43,003
Net Assets, Ending	<u>\$ 78,865</u>	<u>\$ 76,721</u>	<u>\$ 65,066</u>	<u>\$ 62,396</u>	<u>\$ 143,931</u>	<u>\$ 139,117</u>	<u>\$ 41,954</u>	<u>\$ 42,440</u>

Local support of education expenses comprised 28% of governmental activities. Funding of \$18 million was provided to the School Division to support School operations, an increase of 5.3% from fiscal year 2007.

Public safety expenses comprised approximately 23.4% of governmental activities. Operations of the police and fire departments are included in this category, along with expenses of emergency medical services, communications (E911 call center), and the cost of juvenile justice programs. Expenses for both the police and fire departments increased from the prior year largely due to increased personnel costs. The rate paid to house prisoners and the number of prisoner days were higher than the previous year, increasing public safety expenses. In addition, Salem paid \$264,000 for their share of renovation costs for the Roanoke County Salem Jail.

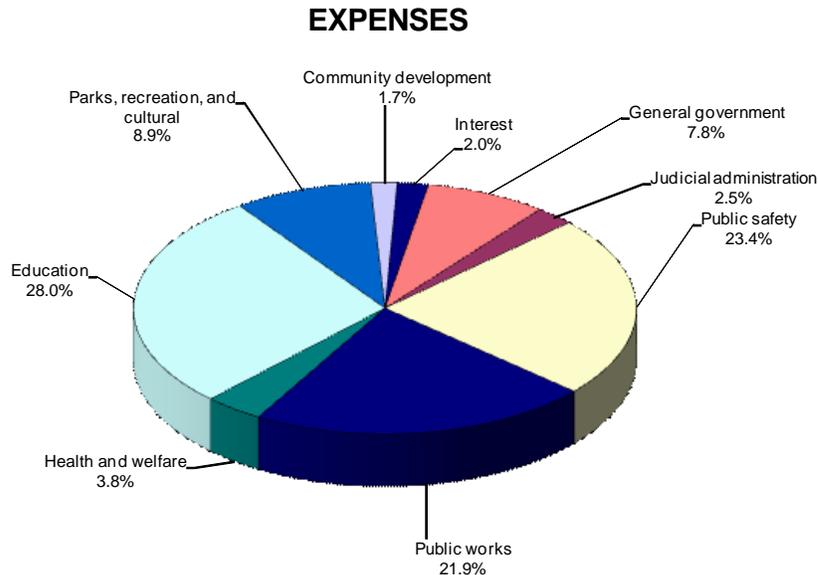
Public works expenses comprised approximately 21.9% of governmental activities. Expenses for engineering, solid waste management, building maintenance, street paving, traffic engineering and street maintenance are included in the public works category. Public works expenses increased from the prior year due to a new contract with Botetourt County. The City's transfer station began accepting refuse from Botetourt, which increased waste hauling and disposal costs. A corresponding increased occurred in public works charges for services.

Parks, recreation and cultural and general government administration comprised 8.9% and 7.8%, respectively, of governmental activities expense. Parks, recreation and cultural included maintenance of city parks, the library, and costs for City-wide recreational and athletic events. The general government administration category includes charges for administrative departments. The Comprehensive Services Act and social services programs incurred the majority of expenses reported in the health and welfare

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

category, which comprised 3.8% of governmental activities expenses and increased 11.7% from the prior year.

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



**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

For the fiscal year ended June 30, 2008, the governmental funds reflect a total fund balance of \$8.2 million. Of this amount, \$3.9 million constitutes unreserved fund balance, which is available for spending for services and capital projects. It should be noted that the negative unreserved fund balance of \$3.1 million in the capital projects fund will be offset by a grant of a like amount in 2009. Unreserved fund balance is available to purchase capital equipment, pay self-insured claims, pay for future years' capital projects expenditures and provide for unforeseen circumstances. The remainder of fund balance is reserved for inventory and encumbrances, which indicates that it has already been committed to liquidate contracts and purchase orders outstanding at year-end.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the general fund unreserved fund balance was \$7.1 million while the total fund balance was \$8 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents approximately 11.7% of the total General Fund expenditures, while total fund balance represents 13.2% of that same amount.

In fiscal year 2008, fund balance of the General Fund increased by \$76,123. Property and local taxes generated the majority of General Fund revenue, totaling approximately \$47.3 million in fiscal year 2008. Real estate taxes showed growth of 12.6% due to reassessment and new construction. Fiscal year 2008 was the final year that reassessments were done on a biannual basis. Beginning in fiscal year 2009, reassessments will be done annually to allow for a more even and predictable growth in assessments.

Business license tax increased 10.7%. Taxes paid in the professional category increased almost \$0.3 million from the previous year. Several new businesses filed in fiscal year 2008. The personal services, wholesale and repair service categories also increased from the previous year.

Personal property tax revenues remained level with previous year results. Machinery and tools tax decreased due to the new guidelines issued by the Department of Taxation which deemed idle machinery and tools not subject to local taxation. There were no increases in the rates assigned to any of the City's real, personal property or other taxes.

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

Intergovernmental revenue was the next largest source of General Fund revenues, generating approximately \$10.3 million in fiscal year 2008, an increase of \$0.3 million from the prior year. Most of this revenue was received from the Commonwealth and includes personal property tax relief funds, reimbursement for social services programs, library grants, law enforcement funding received under House Bill 599 and street maintenance funds. Communications taxes remitted by the state increased \$0.7 million as reform was effective for the entire 2008 fiscal year versus half of the previous fiscal year. Reimbursement received for street maintenance increased while Comprehensive Services Act and Compensation Board reimbursements declined.

Public safety expenditures increased approximately \$1 million or 7.8% due to higher salary and benefit costs. In addition, costs to house prisoners increased and the City paid \$264,000 related to renovation of jail facilities. Local funding provided to schools increased \$0.9 million or 5.3%. The City began accepting waste from Botetourt County at the transfer station, which contributed to the increased charges for services revenue and public works expenditures in fiscal year 2008.

The Capital Projects fund balance decreased \$658,154. Work continued on the Roanoke River Greenway project. Construction of a new bathroom facility and fieldhouse roof replacement took place at Kiwanis Field. Replacement of the Colorado Street Bridge began at the end of 2008. Funding for this project will be received in 2009.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The City's budget is prepared in accordance with the *Code of Virginia*. During the year, the City amended the original budget primarily for the following purposes:

- To re-appropriate monies to pay for encumbrances established prior to June 30, 2007, but not paid by that date.
- To re-appropriate grants, donations and other revenues authorized in fiscal year 2007 or earlier, but not expended or encumbered as of June 30, 2007.
- To appropriate grants, donations, and other revenues accepted or adjusted in fiscal year 2008 when official notice of approval was received.
- To appropriate the undesignated general fund balance to capital projects.
- To appropriate funds as authorized by City Council during the mid-year review process.

Below is a condensed version of the budgetary comparison of the General Fund original budget, amended budget and actual amounts for the fiscal year 2008.

**Budgetary Highlights for 2008**

	<b>Original Budget</b>	<b>Budget As Amended</b>	<b>Actual</b>
Revenues/Transfers In	\$ 63,191,802	\$ 66,044,689	\$ 65,623,458
Expenditures	58,947,930	62,223,331	60,411,262
Transfers Out	(4,643,872)	(5,136,089)	(5,136,073)
Use of Fund Balance	\$ (400,000)	\$ (1,314,731)	\$ 76,123

**CAPITAL ASSETS**

As of June 30, 2008, the City's capital assets for its governmental and business-type activities amounted to \$198.3 million net of accumulated depreciation. This investment includes land, land improvements, buildings and structures, equipment, infrastructure, and construction in progress. The total net increase (additions less retirements and depreciation) in the City's investment in capital assets for the current fiscal year was \$5.5 million or 2.8%.

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

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

	Governmental		Business-type		Total Primary Government	
	Activities		Activities		Government	
	2008	2007	2008	2007	2008	2007
Land and improvements	\$ 4.8	\$ 4.8	\$ 1.4	\$ 1.3	\$ 6.2	\$ 6.1
Buildings and improvements	28.1	28.0	3.6	3.8	31.7	31.8
Equipment	5.5	5.3	2.8	2.3	8.3	7.6
Infrastructure	60.8	60.9	-	-	60.8	60.9
Construction in progress	1.3	1.4	9.3	24.7	10.6	26.1
Distribution and transmission	-	-	17.9	6.6	17.9	6.6
Utility plant	-	-	36.8	37.7	36.8	37.7
Sewage treatment contract	-	-	26.0	16.0	26.0	16.0
<b>Total</b>	<u>\$ 100.5</u>	<u>\$ 100.4</u>	<u>\$ 97.8</u>	<u>\$ 92.4</u>	<u>\$ 198.3</u>	<u>\$ 192.8</u>

The changes in each category of capital assets are presented in detail in note 6 to the Basic Financial Statements on page 50.

Major capital asset events during the fiscal year included the following:

- The Colorado Street bridge replacement project began in fiscal year 2008. The project is expected to cost over \$3 million and will be funded by federal, state and local monies. As of June 30, 2008, \$137,000 was expended.
- The Virginia Department of Transportation completed the traffic signal at Thompson Memorial Drive and Cleveland Avenue at a cost of \$710,000. The project was recognized as a donation of approximately \$700,000 in fiscal year 2008.
- A new fire engine was purchased at a cost of \$523,000.
- A new bathroom was constructed at Kiwanis Field at a cost of \$212,550. Replacement of the fieldhouse roof at Kiwanis Field was substantially completed at a cost of \$55,000.
- Several major storm drain projects were completed during the year. An undersized storm drain system on Millstream Drive was replaced at a cost \$100,000. This project eliminated flooding problems for several homes in the area. On White Oak Street, twin corrugated metal pipes were replaced with concrete box culverts, which allow more water flow and will eliminate flood issues in the area. This project cost approximately \$92,000.
- The construction of two new electric substations and the upgrade of existing electric substations were completed during fiscal year 2008 at a cost of \$12 million. This upgrade was done to increase the reliability of the City's electric distribution system.
- Approximately \$5.8 million was spent in the current year on the electric department service center and administrative building, which is expected to be completed in the winter of fiscal year 2009 at a total cost of \$11.2 million. A generator was purchased at a cost of \$560,000 which will be used primarily as a backup power source for the new electric building.

**LONG-TERM DEBT**

At June 30, 2008, the City's long-term liabilities, excluding compensated absences, landfill liability and bond discounts and costs totaled \$91,657,872 comprised of \$29,403,442 related to governmental activities, and \$62,254,430 related to business-type activities. School Division debt of \$17,385,788 is included in the long-term liabilities of governmental activities. An additional \$250,262 was borrowed from the Virginia Resource Authority to fund upgrades to the regional wastewater treatment plant. Principal payments made during fiscal year 2008 totaled \$5,559,351. Total debt decreased by \$5,309,089.

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

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

The Charter of the City of Salem 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 some 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 \$29,403,442 is below the legal debt limit of \$184,195,214. Table 10 on page 81 provides additional information.

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, as its own. In addition to bonded debt the City's long-term obligations include compensated absences and estimated landfill liability. Additional information concerning the City's long-term liabilities is presented in Note 8 to the financial statements and Table 9 of the statistical section.

Interest and fiscal charges for 2008 were \$1,263,858 or 1.96% of total governmental activities expenses.

### **FACTORS INFLUENCING FUTURE BUDGETS**

The economic challenges our nation is facing, exacerbated by volatile fuel prices and declines in the housing market, will affect the City going forward. To deal with revenue shortfalls experienced by the state, it is anticipated that state funding will be cut by approximately \$250,000 in fiscal year 2009. State funding cuts of approximately \$250,000 are also anticipated in fiscal year 2010. Increases in health insurance premiums are anticipated. In addition, the City will be implementing the requirements of GASB 45 in fiscal year 2009. Adequate funding for the capital improvement program continues to be a struggle during lean budget years.

Salem's housing market remains stable, with slight growth in assessments anticipated in the upcoming year. The City's unemployment rate of 3.6%, while slightly higher than the previous year, remains level with the state rate and below the national rate. Salem's job market is diversified, with the highest number of people employed in the health care/social assistance and manufacturing industries. Thirty one new businesses were started in Salem during the first three quarters of FY08 (source: Virginia Employment Commission).

The City is in the third year of a twenty year contract to purchase electricity. The rate the City pays for wholesale electricity varies based on the supplier's costs and is adversely affected when fuel prices increase. In addition, capital needs must be addressed to continue to maintain the high level of service provided to water and sewer customers.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, tax payers, 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, telephone number (540) 375-3061, or visit the City's website at [www.ci.salem.va.us](http://www.ci.salem.va.us).

Additional information on the Component Unit can be obtained from the Director of Business Service, Salem Public Schools, 510 South College Avenue, Salem, Virginia 24153.

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# **BASIC FINANCIAL STATEMENTS**

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**CITY OF SALEM, VIRGINIA**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2008**

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit School Division
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,780,621	\$ 20,580,823	\$ 24,361,444	\$ 6,162,446
Investments	-	3,702,406	3,702,406	-
Receivables, net	2,968,767	5,411,545	8,380,312	114,521
Due from other governmental units	4,658,222	-	4,658,222	839,321
Inventories	529,935	1,708,810	2,238,745	68,195
Prepaid items	-	78,237	78,237	-
<i>Restricted assets:</i>				
Cash and cash equivalents	443,689	5,174,629	5,618,318	-
<i>Capital assets:</i>				
Nondepreciable	6,119,797	10,648,653	16,768,450	1,451,103
Depreciable, net	94,347,361	87,161,438	181,508,799	38,385,597
Total assets	<u>112,848,392</u>	<u>134,466,541</u>	<u>247,314,933</u>	<u>47,021,183</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	1,969,998	5,222,560	7,192,558	671,116
Accrued interest	241,865	987,937	1,229,802	-
Accrued payroll and related liabilities	934,184	290,680	1,224,864	3,576,208
Self insurance claims liability	155,956	43,763	199,719	-
Unearned revenue	138,316	152,952	291,268	16,056
Customer security deposits	-	529,144	529,144	-
<i>Long-term liabilities:</i>				
Due within one year	3,818,896	3,214,199	7,033,095	334,598
Due in more than one year	26,724,063	58,958,875	85,682,938	469,130
Total liabilities	<u>33,983,278</u>	<u>69,400,110</u>	<u>103,383,388</u>	<u>5,067,108</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	88,463,741	39,787,750	128,251,491	39,836,700
Unrestricted	(9,598,627)	25,278,681	15,680,054	2,117,375
Total net assets	<u>\$ 78,865,114</u>	<u>\$ 65,066,431</u>	<u>\$ 143,931,545</u>	<u>\$ 41,954,075</u>

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

**CITY OF SALEM, VIRGINIA  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2008**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit School Division
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-type Activities		
<b>Primary Government:</b>								
<i>Governmental activities:</i>								
General government administration	\$ 5,031,352	\$ 139,553	\$ 569,513	\$ -	\$ (4,322,286)		\$ (4,322,286)	
Judicial administration	1,687,507	213,922	962,335	-	(511,250)		(511,250)	
Public safety	15,048,715	1,048,587	1,089,249	-	(12,910,879)		(12,910,879)	
Public works	14,067,674	3,203,179	3,165,539	1,359,606	(6,339,350)		(6,339,350)	
Health and welfare	2,450,245	-	630,239	-	(1,820,006)		(1,820,006)	
Education	17,995,000	-	-	-	(17,995,000)		(17,995,000)	
Parks, recreation, and cultural	5,721,997	192,894	196,189	-	(5,332,914)		(5,332,914)	
Community development	1,122,221	20,445	-	-	(1,101,776)		(1,101,776)	
Interest on long-term debt	1,263,858	-	-	-	(1,263,858)		(1,263,858)	
Total governmental activities	<u>64,388,569</u>	<u>4,818,580</u>	<u>6,613,064</u>	<u>1,359,606</u>	<u>(51,597,319)</u>		<u>(51,597,319)</u>	
<i>Business-type activities:</i>								
Electric	26,505,160	31,000,915	-	-		\$ 4,495,755	4,495,755	
Water and sewage	11,150,046	11,569,453	-	-		419,407	419,407	
Civic Center	2,435,383	937,520	-	-		(1,497,863)	(1,497,863)	
Catering and concessions	1,081,528	1,048,994	-	-		(32,534)	(32,534)	
Total business-type activities	<u>41,172,117</u>	<u>44,556,882</u>	<u>-</u>	<u>-</u>		<u>3,384,765</u>	<u>3,384,765</u>	
<b>Total primary government</b>	<u>\$ 105,560,686</u>	<u>\$ 49,375,462</u>	<u>\$ 6,613,064</u>	<u>\$ 1,359,606</u>	<u>\$ (51,597,319)</u>	<u>\$ 3,384,765</u>	<u>\$ (48,212,554)</u>	
<b>Component Unit:</b>								
School division	<u>\$ 41,485,273</u>	<u>\$ 1,499,500</u>	<u>\$ 6,847,722</u>	<u>\$ -</u>				<u>\$ (33,138,051)</u>
<i>General revenues:</i>								
Property taxes					30,082,026	-	30,082,026	-
Meals tax					2,546,104	-	2,546,104	-
Local sales and use taxes					5,908,920	-	5,908,920	-
Utility taxes					1,156,775	-	1,156,775	-
Business license tax					4,714,965	-	4,714,965	-
Other taxes					2,362,788	-	2,362,788	-
Intergovernmental revenue not restricted					4,030,210	-	4,030,210	-
Payments from City of Salem					-	-	-	17,995,000
State aid - unrestricted					-	-	-	14,068,288
Unrestricted investment earnings					568,689	706,658	1,275,347	-
Gain on sale of property					5,715	-	5,715	-
Other					812,702	130,909	943,611	589,003
Transfers					1,552,276	(1,552,276)	-	-
Total general revenues and transfers					<u>53,741,170</u>	<u>(714,709)</u>	<u>53,026,461</u>	<u>32,652,291</u>
Change in net assets					2,143,851	2,670,056	4,813,907	(485,760)
<b>Net assets at July 1, restated (Note 16)</b>					<u>76,721,263</u>	<u>62,396,375</u>	<u>139,117,638</u>	<u>42,439,835</u>
<b>Net assets at June 30</b>					<u>\$ 78,865,114</u>	<u>\$ 65,066,431</u>	<u>\$ 143,931,545</u>	<u>\$ 41,954,075</u>

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

**CITY OF SALEM, VIRGINIA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008**

	General	Debt Service	Capital Projects	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,780,621	\$ -	\$ -	\$ 3,780,621
Cash and cash equivalents, restricted	148,489	-	295,200	443,689
Receivables, net	2,968,767	-	-	2,968,767
Due from other governmental units	4,550,402	-	107,820	4,658,222
Inventories	529,935	-	-	529,935
Total assets	<u>\$ 11,978,214</u>	<u>\$ -</u>	<u>\$ 403,020</u>	<u>\$ 12,381,234</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 1,882,156	\$ -	\$ 166,388	\$ 2,048,544
Accrued payroll and related liabilities	934,184	-	-	934,184
Self insurance claims liability	155,956	-	-	155,956
Deferred revenue	1,025,321	-	-	1,025,321
Total liabilities	<u>3,997,617</u>	<u>-</u>	<u>166,388</u>	<u>4,164,005</u>
<b>FUND BALANCES</b>				
<i>Reserved for:</i>				
Inventories	529,935	-	-	529,935
Encumbrances	363,688	-	3,388,893	3,752,581
<i>Unreserved, reported in:</i>				
General fund, designated for uninsured claims	1,327,767	-	-	1,327,767
Capital projects, undesignated	-	-	(3,152,261)	(3,152,261)
General fund, undesignated	5,759,207	-	-	5,759,207
Total fund balances	<u>7,980,597</u>	<u>-</u>	<u>236,632</u>	<u>8,217,229</u>
Total liabilities and fund balances	<u>\$ 11,978,214</u>	<u>\$ -</u>	<u>\$ 403,020</u>	

**Amounts reported for governmental activities in the statement of net assets are different because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	100,467,158
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	887,005
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable	(29,403,442)
Bond discounts	14,237
Bond issuance costs	471,088
Accrued interest	(241,865)
Compensated absences	(1,546,296)
Net assets of governmental activities	<u>\$ 78,865,114</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, 2008**

	General	Debt Service	Capital Projects	Total Governmental Funds
<b>REVENUES</b>				
General property taxes	\$ 30,140,445	\$ -	\$ -	\$ 30,140,445
Other local taxes	17,114,321	-	-	17,114,321
Permits, privilege fees, and regulatory licenses	303,958	-	-	303,958
Fines and forfeitures	159,489	-	-	159,489
Revenue from use of money and property	786,455	-	-	786,455
Charges for services	4,154,836	-	-	4,154,836
Other	152,478	-	-	152,478
Intergovernmental	10,346,476	266,490	247,020	10,859,986
Total revenues	<u>63,158,458</u>	<u>266,490</u>	<u>247,020</u>	<u>63,671,968</u>
<b>EXPENDITURES</b>				
<i>Current:</i>				
General government administration	4,891,569	-	-	4,891,569
Judicial administration	1,649,871	-	-	1,649,871
Public safety	14,397,297	-	-	14,397,297
Public works	12,156,138	-	-	12,156,138
Health and welfare	2,410,340	-	-	2,410,340
Education	17,995,000	-	-	17,995,000
Parks, recreation, and cultural	4,464,456	-	-	4,464,456
Community development	469,835	-	-	469,835
Non-departmental	1,976,756	-	-	1,976,756
Capital projects	-	-	1,397,376	1,397,376
<i>Debt service:</i>				
Principal retirement	-	2,612,403	-	2,612,403
Interest and fiscal charges	-	1,171,197	-	1,171,197
Total expenditures	<u>60,411,262</u>	<u>3,783,600</u>	<u>1,397,376</u>	<u>65,592,238</u>
Excess (deficiency) of revenues over expenditures	<u>2,747,196</u>	<u>(3,517,110)</u>	<u>(1,150,356)</u>	<u>(1,920,270)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	2,465,000	3,517,110	492,202	6,474,312
Transfers out	(5,136,073)	-	-	(5,136,073)
Total other financing sources (uses)	<u>(2,671,073)</u>	<u>3,517,110</u>	<u>492,202</u>	<u>1,338,239</u>
Net change in fund balances	76,123	-	(658,154)	(582,031)
<b>FUND BALANCES AT JULY 1</b>	<u>7,904,474</u>	<u>-</u>	<u>894,786</u>	
<b>FUND BALANCES AT JUNE 30</b>	<u>\$ 7,980,597</u>	<u>\$ -</u>	<u>\$ 236,632</u>	

**Adjustments for the Statement of Activities:**

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate the cost of those assets over the life of the assets.	2,972,889
Capital outlay	2,972,889
Capital donated	1,131,022
Depreciation expense	(4,092,753)
Net capital transfer from proprietary fund	214,037
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 asset.	
Proceeds from sale of assets	(11,642)
Loss from sale of assets	(165,405)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as fund revenues.	184,485
Repayment of bond principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the statement of net assets.	
Principal payments	2,612,403
Amortization of current year bond discounts	(1,779)
Amortization of current year bond issuance costs	(90,121)
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	6,502
Change in compensated absences	(33,756)
Change in net assets of governmental activities	<u>\$ 2,143,851</u>

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

**CITY OF SALEM, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>REVENUES</b>				
General property taxes	\$ 32,777,191	\$ 30,041,964	\$ 30,140,445	\$ 98,481
Other local taxes	17,342,215	17,152,215	17,114,321	(37,894)
Permits, privilege fees, and regulatory licenses	304,500	304,500	303,958	(542)
Fines and forfeitures	170,000	160,000	159,489	(511)
Revenue from use of money and property	762,000	812,000	786,455	(25,545)
Charges for services	3,939,550	4,038,550	4,154,836	116,286
Other	24,000	134,000	152,478	18,478
Intergovernmental	6,607,346	10,936,460	10,346,476	(589,984)
Total revenues	<u>61,926,802</u>	<u>63,579,689</u>	<u>63,158,458</u>	<u>(421,231)</u>
<b>EXPENDITURES</b>				
General government administration	5,535,418	5,361,576	4,891,569	470,007
Judicial administration	1,593,096	1,669,169	1,649,871	19,298
Public safety	13,137,293	14,453,790	14,397,297	56,493
Public works	11,644,488	12,420,946	12,156,138	264,808
Health and welfare	1,309,430	3,371,677	2,410,340	961,337
Education	17,995,000	17,995,000	17,995,000	-
Parks, recreation, and cultural	4,484,396	4,491,163	4,464,456	26,707
Community development	427,809	472,609	469,835	2,774
Non-departmental	2,821,000	1,987,401	1,976,756	10,645
Total expenditures	<u>58,947,930</u>	<u>62,223,331</u>	<u>60,411,262</u>	<u>1,812,069</u>
Excess of revenues over expenditures	<u>2,978,872</u>	<u>1,356,358</u>	<u>2,747,196</u>	<u>1,390,838</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,265,000	2,465,000	2,465,000	-
Transfers out	(4,643,872)	(5,136,089)	(5,136,073)	16
Total other financing sources (uses)	<u>(3,378,872)</u>	<u>(2,671,089)</u>	<u>(2,671,073)</u>	<u>16</u>
Net change in fund balances	<u>\$ (400,000)</u>	<u>\$ (1,314,731)</u>	<u>\$ 76,123</u>	<u>\$ 1,390,854</u>

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

**CITY OF SALEM, VIRGINIA**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2008**

	Business-type Activities - Enterprise Funds			Total Proprietary Funds
	Electric	Water and Sewage	Nonmajor Proprietary Funds	
<b>ASSETS</b>				
<i>Current assets:</i>				
Cash and cash equivalents	\$ 20,284,604	\$ 66,929	\$ 229,290	\$ 20,580,823
Investments	3,702,406	-	-	3,702,406
Receivables, net	3,486,865	1,682,691	241,989	5,411,545
Due from other funds	400,000	-	15,000	415,000
Inventories	1,436,401	252,412	19,997	1,708,810
Prepaid items	-	-	78,237	78,237
Total current assets	<u>29,310,276</u>	<u>2,002,032</u>	<u>584,513</u>	<u>31,896,821</u>
<i>Noncurrent assets:</i>				
Restricted cash	5,174,629	-	-	5,174,629
Capital assets, net	28,557,919	66,271,892	2,980,280	97,810,091
Total noncurrent assets	<u>33,732,548</u>	<u>66,271,892</u>	<u>2,980,280</u>	<u>102,984,720</u>
Total assets	<u>63,042,824</u>	<u>68,273,924</u>	<u>3,564,793</u>	<u>134,881,541</u>
<b>LIABILITIES</b>				
<i>Current liabilities:</i>				
Accounts payable and accrued liabilities	4,408,961	584,249	229,350	5,222,560
Accrued interest	262,433	725,504	-	987,937
Accrued payroll and related liabilities	84,498	109,817	96,365	290,680
Self insurance claims liability	11,339	22,659	9,765	43,763
Due to other funds	-	400,000	15,000	415,000
Unearned revenue	-	5,000	147,952	152,952
Customer security deposits	529,144	-	-	529,144
Bonds payable	556,319	2,281,962	-	2,838,281
Compensated absences	157,993	146,983	70,942	375,918
Total current liabilities	<u>6,010,687</u>	<u>4,276,174</u>	<u>569,374</u>	<u>10,856,235</u>
<i>Noncurrent liabilities:</i>				
Bonds payable	20,687,215	38,129,069	-	58,816,284
Compensated absences	73,726	46,490	22,375	142,591
Total noncurrent liabilities	<u>20,760,941</u>	<u>38,175,559</u>	<u>22,375</u>	<u>58,958,875</u>
Total liabilities	<u>26,771,628</u>	<u>42,451,733</u>	<u>591,749</u>	<u>69,815,110</u>
<b>NET ASSETS (DEFICIT)</b>				
Invested in capital assets, net of related debt	12,323,724	24,483,746	2,980,280	39,787,750
Unrestricted	23,947,472	1,338,445	(7,236)	25,278,681
Total net assets	<u>\$ 36,271,196</u>	<u>\$ 25,822,191</u>	<u>\$ 2,973,044</u>	<u>\$ 65,066,431</u>

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

**CITY OF SALEM, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2008**

	Business-type Activities - Enterprise Funds			Total Proprietary Funds
	Electric	Water and Sewage	Nonmajor Proprietary Funds	
<b>OPERATING REVENUES</b>				
Charges for services	\$ 30,332,995	\$ 10,943,947	\$ 1,921,552	\$ 43,198,494
Connections and transfers	12,651	118,776	-	131,427
Penalties	83,215	166,384	-	249,599
Pole rentals	156,827	-	-	156,827
Commissions	-	-	17,611	17,611
Equipment rental credits	272,811	148,767	-	421,578
Other	142,416	191,579	47,351	381,346
Total operating revenues	<u>31,000,915</u>	<u>11,569,453</u>	<u>1,986,514</u>	<u>44,556,882</u>
<b>OPERATING EXPENSES</b>				
Salaries	-	1,908,662	1,388,861	3,297,523
Fringe benefits	-	741,945	480,850	1,222,795
Labor charged to capital improvements	-	(415,089)	-	(415,089)
Show expenses	-	-	145,015	145,015
Maintenance	-	1,075,369	259,532	1,334,901
Billing and collection	339,060	505,161	-	844,221
Professional services	24,167	48,171	26,441	98,779
Insurance	47,992	53,990	13,474	115,456
Purchased power	21,616,096	-	-	21,616,096
Distribution - operations	1,112,398	-	-	1,112,398
Distribution - maintenance	1,316,857	-	-	1,316,857
Administration	542,761	238,887	30,726	812,374
Travel and training	-	13,599	20,490	34,089
Materials and supplies	-	444,709	351,873	796,582
Utilities	-	325,355	249,222	574,577
Miscellaneous	190,907	3,868	3,826	198,601
Depreciation	894,095	2,564,640	309,945	3,768,680
Amortization	7,266	92,035	-	99,301
Treatment of sewage	-	1,873,101	-	1,873,101
Commissions	-	-	235,680	235,680
Total operating expenses	<u>26,091,599</u>	<u>9,474,403</u>	<u>3,515,935</u>	<u>39,081,937</u>
Operating income (loss)	<u>4,909,316</u>	<u>2,095,050</u>	<u>(1,529,421)</u>	<u>5,474,945</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest income	706,018	-	640	706,658
Interest expense	(405,751)	(1,662,999)	-	(2,068,750)
Increase in fair value of investments	12,596	-	-	12,596
Loss on sale of capital assets	(7,810)	(12,644)	(976)	(21,430)
Net nonoperating revenue (expenses)	<u>305,053</u>	<u>(1,675,643)</u>	<u>(336)</u>	<u>(1,370,926)</u>
Income (loss) before contributions and transfers	<u>5,214,369</u>	<u>419,407</u>	<u>(1,529,757)</u>	<u>4,104,019</u>
<b>CAPITAL CONTRIBUTIONS IN CAPITAL CONTRIBUTIONS OUT</b>	<u>-</u>	<u>119,373</u>	<u>3,000</u>	<u>122,373</u>
<b>TRANSFERS IN TRANSFERS OUT</b>	<u>(212,184)</u>	<u>(5,913)</u>	<u>-</u>	<u>(218,097)</u>
<b>TRANSFERS IN TRANSFERS OUT</b>	<u>-</u>	<u>-</u>	<u>1,126,761</u>	<u>1,126,761</u>
Change in net assets	<u>(2,465,000)</u>	<u>-</u>	<u>-</u>	<u>(2,465,000)</u>
	<u>2,537,185</u>	<u>532,867</u>	<u>(399,996)</u>	<u>2,670,056</u>
<b>NET ASSETS AT JULY 1, restated (Note 16)</b>	<u>33,734,011</u>	<u>25,289,324</u>	<u>3,373,040</u>	<u>62,396,375</u>
<b>NET ASSETS AT JUNE 30</b>	<u>\$ 36,271,196</u>	<u>\$ 25,822,191</u>	<u>\$ 2,973,044</u>	<u>\$ 65,066,431</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, 2008**

	Business-type Activities - Enterprise Funds			
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total Proprietary Funds
<b>OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 30,758,984	\$ 10,971,530	\$ 1,952,428	\$ 43,682,942
Payments to suppliers	(21,872,434)	(4,540,304)	(1,290,432)	(27,703,170)
Payments to employees	(1,702,959)	(2,212,556)	(1,875,383)	(5,790,898)
Other receipts	142,416	191,579	64,962	398,957
Net cash provided by (used in) operating activities	<u>7,326,007</u>	<u>4,410,249</u>	<u>(1,148,425)</u>	<u>10,587,831</u>
<b>NONCAPITAL FINANCING ACTIVITIES</b>				
Interfund transfers	(2,865,000)	408,865	1,126,761	(1,329,374)
Net cash provided by (used in) noncapital financing activities	<u>(2,865,000)</u>	<u>408,865</u>	<u>1,126,761</u>	<u>(1,329,374)</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from sale of capital assets	-	87,377	-	87,377
Purchases of capital assets	(7,158,647)	(2,036,487)	(88,993)	(9,284,127)
Proceeds from capital debt	-	250,262	-	250,262
Principal paid on capital debt	(533,887)	(2,413,061)	-	(2,946,948)
Interest paid on capital debt	(963,266)	(1,564,483)	-	(2,527,749)
Net cash used in capital and related financing activities	<u>(8,655,800)</u>	<u>(5,676,392)</u>	<u>(88,993)</u>	<u>(14,421,185)</u>
<b>INVESTING ACTIVITIES</b>				
Proceeds from the sale of investments	(26,461)	-	-	(26,461)
Interest received	706,018	-	640	706,658
Net cash provided by investing activities	<u>679,557</u>	<u>-</u>	<u>640</u>	<u>680,197</u>
Net decrease in cash and cash equivalents	(3,515,236)	(857,278)	(110,017)	(4,482,531)
<b>CASH AND CASH EQUIVALENTS</b>				
Beginning at July 1	28,974,469	924,207	339,307	30,237,983
Ending at June 30	<u>\$ 25,459,233</u>	<u>\$ 66,929</u>	<u>\$ 229,290</u>	<u>\$ 25,755,452</u>
<b>SUMMARY OF CASH AND CASH EQUIVALENTS IN THE STATEMENT OF NET ASSETS</b>				
Cash and cash equivalents	\$ 20,284,604	\$ 66,929	\$ 229,290	\$ 20,580,823
Restricted cash	5,174,629	-	-	5,174,629
	<u>\$ 25,459,233</u>	<u>\$ 66,929</u>	<u>\$ 229,290</u>	<u>\$ 25,755,452</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 4,909,316	\$ 2,095,050	\$ (1,529,421)	\$ 5,474,945
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation and amortization	901,361	2,656,675	309,945	3,867,981
Change in assets and liabilities				
(Increase) decrease in:				
Receivables, net	(133,819)	(411,344)	(15,485)	(560,648)
Inventories	(130,164)	(28,241)	(95)	(158,500)
Prepaid items	-	-	19,578	19,578
(Decrease) increase in:				
Accounts payable and accrued liabilities	1,745,725	64,939	23,684	1,834,348
Accrued payroll and related liabilities	(3,480)	22,962	(5,672)	13,810
Self insurance claims liability	2,764	5,208	2,680	10,652
Customer security deposits payable	34,304	-	-	34,304
Unearned revenue	-	5,000	46,361	51,361
Net cash provided by (used in) operating activities	<u>\$ 7,326,007</u>	<u>\$ 4,410,249</u>	<u>\$ (1,148,425)</u>	<u>\$ 10,587,831</u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Capital assets financed with accounts payable	\$ 364,949	\$ 88,863	\$ -	\$ 453,812
<b>NONCASH INVESTING ACTIVITIES</b>				
Unrealized gain on investments	\$ 12,596	\$ -	\$ -	\$ 12,596

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

**CITY OF SALEM, VIRGINIA**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**JUNE 30, 2008**

**ASSETS**

Cash and cash equivalents	\$ 754,508
Receivables, net	118,907
Grant receivable	975
Due from Commonwealth of Virginia	70,017
Total assets	<u>\$ 944,407</u>

**LIABILITIES**

Accounts payable	\$ 77,981
Liability to agency	866,426
Total liabilities	<u>\$ 944,407</u>

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

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**1. Summary of Significant Accounting Policies**

**A. 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 consists of a mayor and four other council members. The City is not part of a county and has taxing powers subject to state-wide restrictions and tax limits. The City of Salem 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 administrative services, education, parks, recreation and library, electric, water, and sewer services.

The following entities are excluded from the accompanying financial statements:

**Joint Ventures**

***Roanoke Valley Regional Board***

The City of Salem School Division, along with Counties of Botetourt, Craig and Franklin and the City of Roanoke jointly participate in a regional education program for severely handicapped students operated by the Roanoke Valley Regional Board (Regional Board). The Regional Board is composed of five members, one from each participating locality. The School Division has control over budget and financing of the venture only to the extent of representation by the Regional 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, 2008, the City's proportionate share was \$317,480, which was paid by the School Division. Financial statements can be obtained from the Executive Director of The Roanoke Valley Regional Board at 12 Barron Drive, Suite 1, Troutville, Virginia 24175.

***Roanoke Valley Regional Fire/EMS Training Center***

The City, along with the County of Roanoke, the City of Roanoke 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 five-month 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, 2008, the City paid \$7,090 of the total annual operating costs of the facility. Financial statements may be obtained from the Roanoke Valley Regional Fire/EMS Training Center, 1220 Kessler Mill Road, Salem, Virginia 24153.

***Western Virginia Regional Jail Authority***

The City, along with the Counties of Franklin, Montgomery and Roanoke formed the Western Virginia Regional Jail Authority on May 25, 2005 for the purpose of developing and operating a regional jail for the benefit of Member Jurisdictions. The Board consists of three representatives from each of the Member Jurisdictions. The Member Jurisdictions will each be responsible for a per diem cost based on prisoner days used. The new jail is currently under construction and is expected to be operational by the spring of 2009.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**1. Summary of Significant Accounting Policies (Continued)**

**A. The Financial Reporting Entity (Continued)**

**Jointly Governed Organizations**

***Roanoke Valley Detention Commission***

The Counties of Botetourt, Craig, 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. 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, 2008, the City remitted \$262,122 in per diem charges.

***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, mental retardation and substance abuse services. BRBH is governed by a sixteen-member board. 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, 2008, the City remitted \$110,000 to BRBH.

***Fifth Planning District Disability Services Board***

The Counties of Alleghany, Botetourt, Craig, and Roanoke, the Cities of Covington, Roanoke and Salem and the Towns of Clifton Forge and Vinton jointly participate in the Fifth Planning District Disability Services Board (Services Board). The Services Board provides input to state and local agencies on service needs and priorities of persons with physical and sensory disabilities.

**B. 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 Services, 510 South College Avenue, Salem, Virginia 24153.

The City provided support of \$17,995,000 to the School Division during fiscal year 2008.

**C. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. *Governmental activities*, which normally are 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.

**CITY OF SALEM, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**1. Summary of Significant Accounting Policies (Continued)**

**C. Government-Wide and Fund Financial Statements (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and the fiduciary fund, even though the latter are excluded from the government-wide financial statements. Major individual government funds and enterprise funds are reported as separate columns in the fund financial statements.

**D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as *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. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

As a general rule, 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 as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The City reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**1. Summary of Significant Accounting Policies (Continued)**

**D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

- The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *capital projects fund* accounts for resources to be used for the acquisition or construction of major capital facilities.

**Proprietary funds** distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the electric and the water and sewage enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds 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.

The City reports the following major proprietary 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 sewer operations.

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

**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 fund:

- The *agency funds* are used to account for monies held on behalf of the Cardinal Criminal Justice Academy and Court-Community Criminal Justice Board in a custodial capacity.

**E. 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. The following procedures are used by the City in establishing the budgetary data reflected in the financial statements:

- 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 the following July 1. This budget includes proposed expenditures and the means of financing them for the general fund. The Capital Projects Fund utilizes a project length budget in lieu of an annual budget; therefore, no annual budgets for capital projects are presented.
- Public hearings are conducted to obtain citizen comments.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**1. Summary of Significant Accounting Policies (Continued)**

**E. Budgets and Budgetary Accounting (Continued)**

- Prior to June 30, the budgets are legally enacted through passage of an Appropriations Ordinance. City Council may, from time to time, amend the budget providing for additional expenditures and the means for financing them. City Council approved additional appropriations of \$3,767,618 during the current year primarily for grants, reappropriation of fund balances for encumbrances, capital outlay and unforeseen operating expenditures.
- The Appropriations Ordinance places legal restrictions on expenditures at the department or function level. The City Manager is authorized to transfer budget amounts within and between the general government departments and categories.
- Formal budgetary integration is employed as a management control device for the general fund.
- All appropriations lapse on June 30 except for the capital projects fund, which carry unexpended balances through a project's life.

**F. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the general and capital project funds. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. These encumbrances are subject to reappropriation by City Council in the subsequent fiscal year.

**G. Deposits and Investments**

The City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Investments are stated at fair value.

**H. Allowance for Uncollectible Accounts**

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

**I. 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 principally 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.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**1. Summary of Significant Accounting Policies (Continued)**

**J. Prepaid Items**

Prepaid items include, among other items, costs incurred as of year end, which are directly related to Civic Center shows and events scheduled for the subsequent fiscal year. Such costs are expensed in the subsequent fiscal year to obtain a proper matching of revenues and expenses.

**K. 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. Capital assets are defined by the government as assets with an initial individual cost of more than \$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 estimated fair market value on the date of donation.

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

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

Furniture and equipment	5-10 years
Machinery 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	50 years

**L. Capitalization of Interest**

The City follows the policy of capitalizing net interest costs on funds borrowed to finance the construction of proprietary capital assets. Interest is not capitalized on the construction of assets used in governmental activities. Interest of \$547,054 was capitalized for the year ended June 30, 2008.

**M. School Division Capital Assets and Related Debt Reporting**

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

**N. Surety Bond Payable**

Deposits may be received in lieu of bond insurance or letter 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.

**CITY OF SALEM, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**1. Summary of Significant Accounting Policies (Continued)**

**O. Unearned and Deferred Revenue**

Unearned revenue arises when assets are received before revenue recognition criteria can be satisfied. Unearned revenue is reported in the statement of net assets and consists primarily of deposits for events or rentals associated with the subsequent year.

Deferred revenue arises when assets are recognized but are not available to finance expenditures of the current fiscal period. Deferred revenue is reported in the general fund balance sheet and consists primarily of property taxes not collected within 60 days of year end and property taxes collected that are not yet due.

**P. Compensated Absences**

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

**Q. 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 fund statement of net assets. Bonds payable are reported net of the applicable bond premium or discount. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Issuance costs are reported as deferred charges and amortized over the term of the related debt.

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.

**R. Fund Equity**

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

**S. Estimates**

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

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**2. Deposits and Investments**

**Deposits**

All cash of the City and School Division is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the *Code of Virginia* or covered by federal depository insurance.

**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, banker's acceptances, repurchase agreements, the State Treasurer's Local Government Investment Pool (LGIP), and the State Treasurer's Non-Arbitrage Program (SNAP).

During the year, the City had invested bond proceeds subject to rebate of arbitrage earnings in the SNAP, which is designed to assist local governments in complying with the arbitrage rebate requirements of the Tax Reform Act of 1986. These programs provide comprehensive investment management, accounting and arbitrage rebate calculation services for proceeds of general obligation and revenue tax-exempt financing of Virginia counties, cities and towns.

**Credit Risk**

State statute requires that obligations of the Commonwealth of Virginia and its political subdivisions 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.

As of June 30, 2008, 27% of the portfolio was invested in "Aaa" rated securities, 3% was invested in "Aa1" rated securities, 1% was invested in "Aa2" rated securities, 6% was invested in "Aa3" rated securities, 2% was invested in "A1" rated securities, 1% was invested in "A2" rated securities, 55% was invested in "AAAm" rated securities and 3% was invested in "P-1" rated commercial paper. The remaining 2% of the portfolio was invested in money market accounts guaranteed by the U.S. Government. All credit ratings presented in this paragraph are either S&P or Moody's ratings.

**Concentration of Credit Risk**

Although the intent of the City is to diversify its investment portfolio to avoid incurring unreasonable risks regarding (i) security type, (ii) individual financial institution or issuing entity, and (iii) maturity; the City places no limit on the amount it may invest in any one issuer.

As of June 30, 2008, the portions of the portfolio with a single issuer that exceed 5% of the total portfolio are as follows:

<u>Issuer</u>	<u>Percentage of Portfolio</u>
SNAP	55%
Corporate Obligations	16%
Other Federal Obligations	10%

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**2. Deposits and Investments (Continued)**

**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 average maturity.

As of June 30, 2008, the fair values and weighted average maturity of the investments were as follows:

	<u>Fair Value</u>	<u>Average Maturity*</u>
Corporate Obligations	\$ 1,462,097	227
U.S. Treasury Bills	280,707	906
Municipal Obligations	201,647	244
Other Federal Obligations	942,294	227
Federal National Mortgage Association	411,820	339
Federal Home Loan Bank	403,841	244
Commercial Paper	273,792	59
Money Market	197,920	1
SNAP	5,174,629	1
Total Investments	<u>\$ 9,348,747</u>	
Portfolio weighted average maturity		<u>119</u>

\* Average maturity in days.

**Custodial Credit Risk**

As required by the *Code of Virginia*, all security holdings with maturities over 30 days may not be held in safekeeping with the "counterparty" to the investment transaction. As of June 30, 2008, all of the City's investments are held in a bank's trust department in the City's name by the City's designated custodian.

All investment activity during the year was in securities of the type held at year end. The previous items are reflected in the statements as follows:

	<u>Primary Government</u>	<u>Component Unit School Division</u>
Cash and cash equivalents	\$ 24,361,444	\$ 6,162,446
Investments	3,702,406	-
Cash and cash equivalents, restricted	5,618,318	-
	<u>\$ 33,682,168</u>	<u>\$ 6,162,446</u>

Restricted cash and cash equivalents consist of surety bond payable, unused bond proceeds and amounts for capital projects.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**3. Receivables**

Receivables are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>			<u>Component Unit</u>
	General	Electric	Water and Sewage	Nonmajor Proprietary	School Division
Taxes	\$ 1,569,155	\$ -	\$ -	\$ -	\$ -
Accounts	-	3,619,955	1,744,145	252,327	-
Other	1,966,980	-	-	-	114,521
Gross receivables	3,536,135	3,619,955	1,744,145	252,327	114,521
Less allowance for uncollectibles	567,368	133,090	61,454	10,338	-
Receivables, net	<u>\$ 2,968,767</u>	<u>\$ 3,486,865</u>	<u>\$ 1,682,691</u>	<u>\$ 241,989</u>	<u>\$ 114,521</u>

**4. Interfund Receivables, Payables, and Transfers**

The composition of the interfund receivables and payables is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric Fund	Water and Sewage Fund	\$ 400,000
Nonmajor Proprietary Fund	Nonmajor Proprietary Fund	15,000
		<u>\$ 415,000</u>

The amounts due from the water and sewage fund to the electric fund and between the nonmajor proprietary funds represent a short-term loan of cash for operations.

The composition of the interfund transfers is as follows:

	<u>Transfers In:</u>				<u>Total</u>
	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Proprietary</u>	
Transfers out:					
General	\$ -	\$ 3,517,110	\$ 492,202	\$ 1,126,761	\$ 5,136,073
Electric	2,465,000	-	-	-	2,465,000
	<u>\$ 2,465,000</u>	<u>\$ 3,517,110</u>	<u>\$ 492,202</u>	<u>\$ 1,126,761</u>	<u>\$ 7,601,073</u>

Transfers between major funds and other nonmajor proprietary funds were primarily for debt payments, operation of funds, and funding of capital projects. The general fund transferred capital assets of \$1,060 and \$3,000 to the water and sewage fund and a nonmajor proprietary fund, respectively. The electric and water and sewage funds transferred capital assets of \$212,184 and \$5,913, respectively to the general fund. The net transfers between general fund and proprietary funds were \$214,037, which is a reconciling item for interfund transfers for the governmental funds between Exhibit 2 and Exhibit 4.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**5. Due from Other Governmental Units**

Amounts due from other governmental units are as follows:

	<b>Governmental Activities</b>	<b>Component Unit School Division</b>
Commonwealth of Virginia		
Personal property tax	\$ 2,588,707	\$ -
State sales tax	-	564,913
Local sales tax	1,057,500	-
Communications tax	197,028	-
Constitutional officers	106,237	-
Comprehensive services act	459,190	-
Other	249,560	-
Federal government		
School funds	-	274,408
	<u>\$ 4,658,222</u>	<u>\$ 839,321</u>

**6. Capital Assets**

Capital asset activity for the year is as follows:

<b>Governmental Activities</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	\$ 4,826,117	\$ -	\$ -	\$ 4,826,117
Construction in progress	1,382,985	564,530	653,835	1,293,680
Total capital assets, nondepreciable	<u>6,209,102</u>	<u>564,530</u>	<u>653,835</u>	<u>6,119,797</u>
Capital assets, depreciable				
Machinery and equipment	15,510,953	1,568,353	642,317	16,436,989
Buildings and improvements	37,619,596	959,339	39,261	38,539,674
Public domain infrastructure	86,215,105	2,083,520	211,981	88,086,644
Total capital assets, depreciable	<u>139,345,654</u>	<u>4,611,212</u>	<u>893,559</u>	<u>143,063,307</u>
Less accumulated depreciation				
Machinery and equipment	10,235,233	1,295,424	608,701	10,921,956
Buildings and improvements	9,617,133	863,514	27,901	10,452,746
Public domain infrastructure	25,283,380	2,136,715	78,851	27,341,244
Total accumulated depreciation	<u>45,135,746</u>	<u>4,295,653</u>	<u>715,453</u>	<u>48,715,946</u>
Total capital assets, depreciable, net	<u>94,209,908</u>	<u>315,559</u>	<u>178,106</u>	<u>94,347,361</u>
Governmental activities capital assets, net	<u>\$ 100,419,010</u>	<u>\$ 880,089</u>	<u>\$ 831,941</u>	<u>\$ 100,467,158</u>

**CITY OF SALEM, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**6. Capital Assets (Continued)**

<b>Business-type Activities</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	\$ 1,252,171	\$ 110,897	\$ 1,953	\$ 1,361,115
Construction in progress	24,700,940	7,450,438	22,863,840	9,287,538
Total capital assets, nondepreciable	<u>25,953,111</u>	<u>7,561,335</u>	<u>22,865,793</u>	<u>10,648,653</u>
Capital assets, depreciable				
Machinery and equipment	5,856,531	1,572,145	735,181	6,693,495
Buildings and improvements	7,531,325	26,072	4,377	7,553,020
Distribution and transmission	20,782,634	12,138,913	255,673	32,665,874
Utility plant	71,003,662	1,118,534	145,146	71,977,050
Sewage treatment contract	18,297,088	10,546,309	-	28,843,397
Total capital assets, depreciable	<u>123,471,240</u>	<u>25,401,973</u>	<u>1,140,377</u>	<u>147,732,836</u>
Less accumulated depreciation				
Machinery and equipment	3,578,289	967,800	615,885	3,930,204
Buildings and improvements	3,671,558	270,193	3,401	3,938,350
Distribution and transmission	14,150,018	601,392	35,678	14,715,732
Utility plant	33,324,959	1,938,883	47,079	35,216,763
Sewage treatment contract	2,287,085	483,264	-	2,770,349
Total accumulated depreciation	<u>57,011,909</u>	<u>4,261,532</u>	<u>702,043</u>	<u>60,571,398</u>
Total capital assets, depreciable, net	<u>66,459,331</u>	<u>21,140,441</u>	<u>438,334</u>	<u>87,161,438</u>
Business-type activities capital assets, net	<u>\$ 92,412,442</u>	<u>\$ 28,701,776</u>	<u>\$ 23,304,127</u>	<u>\$ 97,810,091</u>
<b>Component Unit School Division</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	\$ 1,123,637	\$ -	\$ -	\$ 1,123,637
Construction in progress	-	327,466	-	327,466
Total capital assets, nondepreciable	<u>1,123,637</u>	<u>327,466</u>	<u>-</u>	<u>1,451,103</u>
Capital assets, depreciable				
Furniture and equipment	5,000,254	299,968	77,309	5,222,913
Buildings and improvements	51,710,854	191,753	73,562	51,829,045
Total capital assets, depreciable	<u>56,711,108</u>	<u>491,721</u>	<u>150,871</u>	<u>57,051,958</u>
Less accumulated depreciation				
Furniture and equipment	2,671,403	321,617	66,550	2,926,470
Buildings and improvements	14,501,651	1,279,991	41,751	15,739,891
Total accumulated depreciation	<u>17,173,054</u>	<u>1,601,608</u>	<u>108,301</u>	<u>18,666,361</u>
Total capital assets, depreciable, net	<u>39,538,054</u>	<u>(1,109,887)</u>	<u>42,570</u>	<u>38,385,597</u>
Component unit capital assets, net	<u>\$ 40,661,691</u>	<u>\$ (782,421)</u>	<u>\$ 42,570</u>	<u>\$ 39,836,700</u>

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**6. Capital Assets (Continued)**

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

**Governmental Activities**

General government administration	\$ 214,090
Judicial administration	40,354
Public safety	691,332
Public works	2,450,613
Parks, recreation, and cultural	694,627
Community development	1,737
Total depreciation expense	<u>\$ 4,092,753</u>

**Business-type Activities**

Electric	\$ 894,095
Water and sewage	2,564,640
Civic Center	296,565
Catering	13,380
Total depreciation expense	<u>\$ 3,768,680</u>

Depreciation expense is less than increases in accumulated depreciation shown in the capital asset activity tables because the tables include accumulated depreciation for assets transferred into the funds. Current year accumulated depreciation for assets transferred into the funds was \$202,900 for governmental activities and \$492,852 for business-type activities.

**Construction Commitments**

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

	Spent to Date	Remaining Contract
Electric Department Service Center	\$ 5,716,667	\$ 5,324,588
Colorado Street Bridge Replacement	135,510	2,928,471
Andrew Lewis Middle School Roof	50,000	49,872
East Salem and South Salem Elementary School Boilers	73,150	98,630
	<u>\$ 5,975,327</u>	<u>\$ 8,401,561</u>

**Sewage Treatment Contract**

The sewage treatment contract represents a 1994 agreement between the Counties of Botetourt and Roanoke, the Cities of Roanoke and Salem and the Town of Vinton to provide for the transportation and treatment of waste for a 40-year period. On July 1, 2004, the Western Virginia Water Authority (WVWA) was created by the County of Roanoke and the City of Roanoke. The WVWA is a full service authority that provides water and wastewater treatment to the Roanoke Valley region. This authority assumed the contractual obligation to provide wastewater treatment to the City of Salem. Rates are adjusted annually.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**7. Unearned and Deferred Revenue**

Unearned revenue reported in the statement of net assets is as follows:

	<b>Governmental</b>		<b>Component</b>	
	<b>Activities</b>	<b>Business-type Activities</b>		<b>Unit</b>
	General	Water and Sewage	Nonmajor Enterprise	School Division
Fees paid in advance	\$ 113,086	\$ 5,000	\$ 147,952	\$ 16,056
Taxes paid for subsequent year	25,230	-	-	-
Unearned revenue	<u>\$ 138,316</u>	<u>\$ 5,000</u>	<u>\$ 147,952</u>	<u>\$ 16,056</u>

Deferred revenue reported in the governmental funds is as follows:

	Unavailable	Unearned	Total
Delinquent property taxes receivable	\$ 755,390	\$ -	\$ 755,390
Charges for services and fees	131,615	113,086	244,701
Taxes paid for subsequent year	-	25,230	25,230
Deferred revenue	<u>\$ 887,005</u>	<u>\$ 138,316</u>	<u>\$ 1,025,321</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 and interest and income tax regulations under those provisions. In addition, the government issues revenue bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds have been issued for business-type activities only.

**Prior Year Defeasances of Debt**

In prior years, the City defeased certain general obligation bonds by placing the proceeds in irrevocable trusts to provide for all future debt service on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On June 30, 2008, \$26,670,000 of bonds were considered defeased. The deferred costs are being amortized over the life of the new bonds.

**CITY OF SALEM, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**8. Long-Term Liabilities (Continued)**

Details of long-term indebtedness are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Governmental Activities	Business-type Activities
<u>General Obligation Bonds</u>						
1999 Public Improvement	4.0-4.9%	04-99	04-19	\$ 17,000,000	\$ 2,750,000	\$ 6,600,000
2002 Public Improvement	4.5-5.0%	01-02	01-12	23,000,000	-	2,825,000
2003A Public Improvement	2.0-4.5%	10-03	10-23	22,000,000	17,600,000	-
2003B Refunding	2.0-3.5%	10-03	12-12	5,700,000	3,030,000	-
2004 Refunding	1.5-3.5%	03-04	04-16	9,640,000	3,209,555	4,035,445
2006A Public Improvement	4.0-5.0%	05-06	04-31	25,000,000	2,438,887	21,306,113
2007A Refunding	4.0-5.0%	02-07	01-27	17,045,000	-	16,860,000
					<u>29,028,442</u>	<u>51,626,558</u>
			Bond premiums		-	942,540
			Bond discounts		(14,237)	-
			Bond issuance costs		(471,088)	(1,542,405)
					<u>\$ 28,543,117</u>	<u>\$ 51,026,693</u>
<u>Other Long-term Debt</u>						
Literary Fund Loan	4.0%	01-91	02-11	2,500,000	\$ 375,000	\$ -
<u>Revenue Bond</u>						
Virginia Resource Authority	3.0%	04-04	07-26	11,052,222	\$ -	\$ 10,627,872

The annual requirements to amortize long-term debt and related interest are as follows:

Governmental Activities Year Ended June 30,	General Obligation Bonds		Other Long-term Debt	
	Principal	Interest	Principal	Interest
2009	\$ 2,493,896	\$ 1,090,217	\$ 125,000	\$ 15,000
2010	2,468,118	1,019,642	125,000	10,000
2011	2,442,415	941,216	125,000	5,000
2012	2,421,617	859,860	-	-
2013	2,428,053	772,458	-	-
2014-2018	8,265,551	2,729,436	-	-
2019-2023	6,281,019	1,194,404	-	-
2024-2028	1,756,327	224,210	-	-
2029-2033	471,446	43,556	-	-
	<u>\$ 29,028,442</u>	<u>\$ 8,874,999</u>	<u>\$ 375,000</u>	<u>\$ 30,000</u>
Business-type Activities Year Ended June 30,	General Obligation Bonds		Revenue Bond	
	Principal	Interest	Principal	Interest
2009	\$ 2,401,104	\$ 2,284,559	\$ 437,177	\$ 315,530
2010	2,446,882	2,194,071	450,391	302,368
2011	2,487,585	2,100,547	464,004	288,755
2012	2,538,383	2,003,022	478,028	274,730
2013	2,591,947	1,894,842	492,477	260,282
2014-2018	12,734,449	7,804,064	2,694,864	1,068,929
2019-2023	10,978,981	5,037,221	3,127,500	636,294
2024-2028	11,328,673	2,386,430	2,483,431	151,224
2029-2033	4,118,554	380,504	-	-
	<u>\$ 51,626,558</u>	<u>\$ 26,085,260</u>	<u>\$ 10,627,872</u>	<u>\$ 3,298,112</u>

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**8. Long-Term Liabilities (Continued)**

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
General obligation bonds	\$ 31,515,845	\$ -	\$ 2,487,403	\$ 29,028,442	\$ 2,493,896
Other long-term debt	500,000	-	125,000	375,000	125,000
Landfill closure liability	65,572	12,974	-	78,546	78,546
Compensated absences	1,512,540	2,011,357	1,977,601	1,546,296	1,121,454
<i>Adjust for deferred amounts:</i>					
Bond discounts	(16,016)	-	(1,779)	(14,237)	-
Bond issuance costs	(561,209)	-	(90,121)	(471,088)	-
	<u>\$ 33,016,732</u>	<u>\$ 2,024,331</u>	<u>\$ 4,498,104</u>	<u>\$ 30,542,959</u>	<u>\$ 3,818,896</u>
<b>Business-type Activities</b>					
General obligation bonds	\$ 54,149,155	\$ -	\$ 2,522,597	\$ 51,626,558	\$ 2,401,104
Revenue bond	10,801,961	250,262	424,351	10,627,872	437,177
Compensated absences	515,008	550,046	546,545	518,509	375,918
<i>Adjust for deferred amounts:</i>					
Bond premiums	991,942	-	49,402	942,540	-
Bond issuance costs	(1,641,706)	-	(99,301)	(1,542,405)	-
	<u>\$ 64,816,360</u>	<u>\$ 800,308</u>	<u>\$ 3,443,594</u>	<u>\$ 62,173,074</u>	<u>\$ 3,214,199</u>
<b>Component Unit School Division</b>					
Compensated absences	<u>\$ 696,816</u>	<u>\$ 205,074</u>	<u>\$ 98,162</u>	<u>\$ 803,728</u>	<u>\$ 334,598</u>

The general fund has been used to liquidate the liability for compensated absences in prior years.

**9. Landfill Closure and Post-Closure Care Costs**

The City stopped accepting waste at its municipal landfill prior to October 9, 1993. State and federal regulations required the City to place a final cover on the landfill site and to perform certain maintenance and monitoring functions at the site for ten years after closure. Post-closure maintenance and monitoring costs are currently being recognized as expenditures under the modified accrual basis of accounting. The cumulative accrual is reported with the governmental activities long-term liabilities. The City uses the financial test method of demonstrating assurance for closure and post-closure care cost. The City's landfill has been closed ten years and the City is seeking release from continuing requirements and future costs arising from this site are expected to be minimal.

**10. Pension Plan**

**Plan Description**

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

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

**Plan Description (Continued)**

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 with 5 years of service for participating law enforcement officers and firefighters) or at age 50 with 30 years of service for participating employers (age 50 with 25 years of service for participating law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for an annual cost-of-living adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5% per year. AFC is defined as the highest consecutive 36 months of reported compensation. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the VRS. A copy of that report may be downloaded from <http://www.varetire.org/Employers/Publications/Index.asp?type=annualreport> or obtained by writing to the System at P.O. Box 2500, Richmond, Virginia 23218-2500.

**Funding Policy**

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. This 5% member contribution has been assumed by both the City and School Division. In addition, the City and School Division are required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The City's and the School Division's non-professional contribution rates for the year ended June 30, 2008 were 15.52% and 10.11% of the annual covered payroll, respectively (including the employee share of 5% paid by the employer).

For the three years ended June 30, 2008, 2007, and 2006, total employer and employee contributions made to the VRS statewide teacher pool for professional employees by the School Division were \$3,199,428, \$2,921,443, and \$2,314,332 representing 15.30%, 14.20%, and 11.62% of annual covered payroll, respectively.

**Annual Pension Cost**

For the year ending June 30, 2008 the City's and the School Division's annual pension cost of \$3,529,121 and \$146,761, respectively, were equal to their required and actual contributions. The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return, (b) projected salary increases ranging from 3.50% to 5.60% per year, and (c) 2.5% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.5%. The actuarial value of the City's and the School Division's assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City's and School Division's actuarial accrued liabilities are being amortized as a level percentage of payroll on an open basis with a period of 20 years or less.

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

**Annual Pension Cost (Continued)**

**Three-Year Trend Information for the City**

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2008	\$ 3,529,121	100%	\$ -
June 30, 2007	\$ 5,397,504	100%	\$ -
June 30, 2006	\$ 4,949,519	100%	\$ -

**Three-Year Trend Information for the School Division  
Non-Professional Staff**

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2008	\$ 146,761	100%	\$ -
June 30, 2007	\$ 143,720	100%	\$ -
June 30, 2006	\$ 109,561	100%	\$ -

**Funded Status and Funding Progress**

As of June 30, 2007, the most recent actuarial valuation date for the City of Salem, the plan was 85% funded. The actuarial accrued liability for benefits was \$142,383,864 and the actuarial value of assets was \$121,024,346, resulting in an unfunded actuarial accrued liability (UAAL) of \$21,359,518. The covered payroll (annual payroll of active employees covered by the plan) was \$35,317,550, and ratio of the UAAL to the covered payroll was 60.5%.

As of June 30, 2007, the most recent actuarial valuation date for the School Division, the plan was 99.6% funded. The actuarial accrued liability for benefits was \$3,723,947 and the actuarial value of assets was \$3,709,263, resulting in an unfunded actuarial accrued liability (UAAL) of \$14,684. The covered payroll (annual payroll of active employees covered by the plan) was \$1,389,211, and ratio of the UAAL to the covered payroll was 1.1%.

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 actuarial accrued liability for benefits.

**11. Other Post-Employment Benefits**

The City provides healthcare benefits under current personnel policy to retired employees under one of two programs. In the first program, retirees 65 and under who are ineligible for the Nationwide Medicare Program are allowed to continue in the City's health insurance program described in Note 14. The City continues to pay the retiree's share of the single rate premium. The City's contribution to this program for the year ended June 30, 2008 was \$531,216. At June 30, 2008, there were 102 participants eligible to receive benefits under this program.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
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**11. Other Post-Employment Benefits (Continued)**

In the second healthcare benefit program, for those eligible retirees age 65 and over participating in the Nationwide Medicare Program, the City provides supplemental healthcare coverage under the Medicare Extended Plus Program and Medicare D, drug plan administered by Anthem Blue Cross Blue Shield. The City's contribution to this program for the year ended June 30, 2008 was \$170,119. This amount represents the full single premium for retirees. The City's liability under this program is limited to paying the monthly premium. At June 30, 2008, there were 119 participants eligible to receive benefits under this program.

The City's contributions under both these programs are funded on a current disbursement basis.

**12. Service Contracts**

A summary of significant service contracts is as follows:

**Electrical Service**

Agreement with American Electric Power Service Corporation to purchase electricity for consumption and resale to City residents effective July 1, 2006 through May 31, 2026 with two possible renewals of five year periods each. An early termination date may become effective under certain circumstances. 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 AEP's FERC filing due in December of each year. Accordingly, the estimate for the current fiscal year is indeterminable at year end. As such, the City's policy is to recognize the true-up as an expense when it is billed in the following fiscal year.

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 cancellation.

Agreement with Blue Ridge Power Agency for billing and power supply related services and partial assignment of contract effective July 1, 2005 through June 30, 2010. The agreement requires a 90-day notification prior to termination.

**Water Contract**

Agreement dated July 1, 1981, to sell surplus water to Roanoke County, Virginia at a bulk rate determined by a mutually agreed upon formula. The contract is for a term of 30 years and automatically renews for terms of ten years unless 24 months notice of termination is given. The WVWA has assumed this contract from Roanoke County.

**Solid Waste Disposal**

On July 1, 2006, the City entered an amendment to the July 1, 1998 agreement with Waste Management Inc., extending the contract for disposal of nonhazardous solid waste until June 30, 2016.

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 contract will terminate on June 30, 2016 or upon expiration of the agreement with Waste Management, Inc., whichever occurs first.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**12. Service Contracts (Continued)**

**Special Services**

The following special services are provided by the County of Roanoke, Virginia under an agreement effective July 1, 1973 which can be renewed or terminated at the end of any two-year period with proper notice:

- Social Services – Salem shares in the local costs of providing services to Salem citizens in need qualifying under Federal Regulations. Salem's share is the total cost of services less any applicable Federal or State Grants.
- Agricultural and Home Demonstration Services – Cost is shared based on population.
- Jail Services and Facilities – Cost is shared per prisoner, per day based on total net cost.

**13. Property Taxes**

The two major sources of property taxes are as follows:

**Real Estate**

The City levies real estate taxes on all real estate within its boundaries, except that exempted by statute, each year as of July 1 on 100% of estimated fair market value of the property. Real estate taxes become a lien on real property the first day of the levy year. The City follows the practice of reassessing all property biannually. Real estate taxes are due in equal semiannual payments on December 5 and June 5 and are considered delinquent after each due date. The tax rate for 2008 was \$1.18 per \$100 of assessed value.

**Personal Property**

The City levies personal property taxes on motor vehicles and business and other tangible personal property. Personal property taxes do not create a lien on property; however, City vehicle tags, which are required by law for all vehicles garaged in the City, may not be issued to any individual having outstanding personal property taxes. These levies are made each year as of January 1 with payment due the following May 31. In addition, personal property transactions during the year are taxed on a prorated basis. Personal property taxes are considered delinquent after the May 31 due date. The tax rate for 2008 was \$3.20 per \$100 of assessed value.

**14. Risk Management**

The risk management programs of the City are as follows:

**Worker's Compensation**

Worker's 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 the *Code of Virginia* Section 65.2-100; premiums are based upon covered payroll, job rates, and claims experience. Total premiums for the current year were \$488,548 and \$103,512 for the City and School Division, respectively.

**General Liability and Other**

The City provides general liability and other insurance through policies with the St. Paul Insurance Company. General liability and business automobile have a \$2,000,000 limit. Boiler and machinery coverage and property insurance are covered as per statement of values. The City maintains an additional \$5,000,000 umbrella policy over all forms of liability through the St. Paul Insurance Company. In addition, both police professional liability and public officials liability insurance with a \$1,000,000 limit are covered through a policy with the Commonwealth of Virginia. Total premiums for the current year were \$573,359 and \$136,847 for the City and School Division, respectively.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**14. Risk Management (Continued)**

**Healthcare**

The City's professionally administered self-insurance program provides health coverage for employees of the City and the School Division on a cost-reimbursement basis. Retired employees and dependents of employees of the City are also covered by the program provided they pay a premium to the City. Under the program, the City is obligated for claims payments. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$125,000 per covered individual and approximately \$6,890,393 in the aggregate. During the current fiscal year, total claims expense of \$5,048,740, which did not exceed the stop loss provisions, was incurred. This represents claims processed and an estimate, based on plan experience prior and subsequent to year end, for claims incurred but not reported (IBNR) as of June 30, 2008. The designated portion of fund balance for self-insurance equaled \$1,327,767 at year end. The estimated liability, including reported and IBNR claims, was \$342,503 at year end. Changes in the reported liability during the last three fiscal years are as follows:

Year Ended June 30	Liability July 1	Claims and Changes in Estimates	Claim Payments	Liability June 30
2008	\$ 370,380	\$ 5,048,740	\$ 5,076,617	\$ 342,503
2007	\$ 650,201	\$ 5,879,714	\$ 6,159,535	\$ 370,380
2006	\$ 541,469	\$ 6,521,345	\$ 6,412,613	\$ 650,201

**Other**

There were no significant changes in insurance coverages from the prior year and no settlements that exceeded the amount of insurance coverage during the last three fiscal years. On July 1, 2007 Blue Ridge Behavioral Healthcare terminated participation in the City's Health Plan.

**15. Commitments and Contingencies**

**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.

**16. Prior Period Adjustment**

The June 30, 2007 accrued interest expense for the electric and water and sewage funds was miscalculated. As a result, beginning net assets have been reduced by \$89,461 for the electric fund and increased by \$82,058 for the water and sewage fund. The net effect for the Business-type Activities – Enterprise Funds was \$7,403.

**17. Subsequent Event**

In July 2008, the City entered into a performance agreement with a development company. Per the agreement, the City will provide grant money for the development of property located at 4<sup>th</sup> Street and Main Street. The City will make annual payments of up to \$500,000 for no more than 10 grant years not to exceed \$3,000,000.

**CITY OF SALEM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**18. New Accounting Standards**

The Governmental Accounting Standards Board (GASB) has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The statement establishes standards for the measurement, recognition and display of OPEB expense and related liabilities in the financial statements. The requirements of the statement are effective in three phases based on the government's annual revenues, with the earliest effective date being for the year ended June 30, 2008. The City is required to implement this statement for fiscal year end June 30, 2009. The City has engaged the firm of Wachovia Retirement Services to complete the required actuarial study and provide recommendations for compliance. 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. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance on how to calculate and report costs and obligations associated with pollution cleanup efforts. The statement will be effective for the year ended June 30, 2009. Management has implemented this standard, in relation to the environmental remediation mentioned in Note 9, but has not assessed the impact of the standard on other potential pollution remediation.

The GASB has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes accounting and financial reporting requirements for intangible assets including easements, water rights, timber rights, patents, trademarks and computer software. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. 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

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**CITY OF SALEM, VIRGINIA  
 REQUIRED SUPPLEMENTARY INFORMATION  
 ANALYSIS OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN  
 JUNE 30, 2008**

**City Employees**

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)
June 30, 2007	\$ 121,024,346	\$ 142,383,864	\$ 21,359,518	85.0%	\$ 35,317,550	60.5%
June 30, 2006	\$ 106,097,930	\$ 128,345,085	\$ 22,247,155	82.7%	\$ 33,208,954	67.0%
June 30, 2005	\$ 98,906,486	\$ 123,869,651	\$ 24,963,165	79.8%	\$ 31,283,159	79.8%

**Component Unit - School Board Non-Professional Employees**

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)
June 30, 2007	\$ 3,709,263	\$ 3,723,947	\$ 14,684	99.6%	\$ 1,389,211	1.1%
June 30, 2006	\$ 3,272,166	\$ 3,308,571	\$ 36,405	98.9%	\$ 1,364,503	2.7%
June 30, 2005	\$ 3,073,833	\$ 3,248,857	\$ 175,024	94.6%	\$ 1,287,079	13.6%

# OTHER SUPPLEMENTARY INFORMATION

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**CITY OF SALEM, VIRGINIA**  
**COMBINING STATEMENT OF NET ASSETS**  
**NONMAJOR PROPRIETARY FUNDS**  
**JUNE 30, 2008**

	Business-type Activities - Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
<b>ASSETS</b>			
<i>Current assets:</i>			
Cash and cash equivalents	\$ 3,332	\$ 225,958	\$ 229,290
Receivables, net	164,523	77,466	241,989
Due from other funds	-	15,000	15,000
Inventories	-	19,997	19,997
Prepaid items	78,237	-	78,237
Total current assets	<u>246,092</u>	<u>338,421</u>	<u>584,513</u>
<i>Noncurrent assets:</i>			
Capital assets, net	2,933,487	46,793	2,980,280
Total noncurrent assets	<u>2,933,487</u>	<u>46,793</u>	<u>2,980,280</u>
Total assets	<u>3,179,579</u>	<u>385,214</u>	<u>3,564,793</u>
<b>LIABILITIES</b>			
<i>Current liabilities:</i>			
Accounts payable and accrued liabilities	154,971	74,379	229,350
Accrued payroll and related liabilities	65,565	30,800	96,365
Self insurance claims liability	7,812	1,953	9,765
Due to other funds	15,000	-	15,000
Unearned revenue	147,452	500	147,952
Compensated absences	59,462	11,480	70,942
Total current liabilities	<u>450,262</u>	<u>119,112</u>	<u>569,374</u>
<i>Noncurrent liabilities:</i>			
Compensated absences	4,055	18,320	22,375
Total noncurrent liabilities	<u>4,055</u>	<u>18,320</u>	<u>22,375</u>
Total liabilities	<u>454,317</u>	<u>137,432</u>	<u>591,749</u>
<b>NET ASSETS (DEFICIT)</b>			
Invested in capital assets, net of related debt	2,933,487	46,793	2,980,280
Unrestricted	(208,225)	200,989	(7,236)
Total net assets	<u>\$ 2,725,262</u>	<u>\$ 247,782</u>	<u>\$ 2,973,044</u>

**CITY OF SALEM, VIRGINIA**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**NONMAJOR PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2008**

	Business-type Activities - Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
<b>OPERATING REVENUES</b>			
Charges for services	\$ 894,012	\$ 1,027,540	\$ 1,921,552
Commissions	17,611	-	17,611
Other	25,897	21,454	47,351
Total operating revenues	<u>937,520</u>	<u>1,048,994</u>	<u>1,986,514</u>
<b>OPERATING EXPENSES</b>			
Salaries	1,010,779	378,082	1,388,861
Fringe benefits	373,840	107,010	480,850
Show expenses	145,015	-	145,015
Maintenance	256,367	3,165	259,532
Professional services	5,486	20,955	26,441
Insurance	13,474	-	13,474
Administration	21,545	9,181	30,726
Travel and training	14,036	6,454	20,490
Materials and supplies	48,293	303,580	351,873
Utilities	248,897	325	249,222
Miscellaneous	110	3,716	3,826
Depreciation	296,565	13,380	309,945
Commissions	-	235,680	235,680
Total operating expenses	<u>2,434,407</u>	<u>1,081,528</u>	<u>3,515,935</u>
Operating loss	<u>(1,496,887)</u>	<u>(32,534)</u>	<u>(1,529,421)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	640	-	640
Loss on sale of capital assets	(976)	-	(976)
Net nonoperating revenue (expenses)	<u>(336)</u>	<u>-</u>	<u>(336)</u>
Loss before transfers	<u>(1,497,223)</u>	<u>(32,534)</u>	<u>(1,529,757)</u>
<b>CAPITAL CONTRIBUTIONS IN TRANSFERS IN</b>			
	3,000	-	3,000
Change in net assets	<u>1,126,761</u>	<u>-</u>	<u>1,126,761</u>
	<u>(367,462)</u>	<u>(32,534)</u>	<u>(399,996)</u>
<b>NET ASSETS AT JULY 1</b>	<u>3,092,724</u>	<u>280,316</u>	<u>3,373,040</u>
<b>NET ASSETS AT JUNE 30</b>	<u>\$ 2,725,262</u>	<u>\$ 247,782</u>	<u>\$ 2,973,044</u>

**CITY OF SALEM, VIRGINIA  
COMBINING STATEMENT OF CASH FLOWS  
NONMAJOR PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2008**

	Business-type Activities - Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
<b>OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 940,777	\$ 1,011,651	\$ 1,952,428
Payments to suppliers	(741,154)	(549,278)	(1,290,432)
Payments to employees	(1,397,573)	(477,810)	(1,875,383)
Other receipts	43,508	21,454	64,962
Net cash provided by (used in) operating activities	(1,154,442)	6,017	(1,148,425)
<b>NONCAPITAL FINANCING ACTIVITIES</b>			
Interfund transfers	1,141,761	(15,000)	1,126,761
Net cash provided by (used in) noncapital financing activities	1,141,761	(15,000)	1,126,761
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchases of capital assets	(73,787)	(15,206)	(88,993)
Net cash used in capital and related financing activities	(73,787)	(15,206)	(88,993)
<b>INVESTING ACTIVITIES</b>			
Interest received	640	-	640
Net cash provided by investing activities	640	-	640
Net decrease in cash and cash equivalents	(85,828)	(24,189)	(110,017)
<b>CASH AND CASH EQUIVALENTS</b>			
Beginning at July 1	89,160	250,147	339,307
Ending at June 30	\$ 3,332	\$ 225,958	\$ 229,290
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>			
Operating loss	\$ (1,496,887)	\$ (32,534)	\$ (1,529,421)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities			
Depreciation	296,565	13,380	309,945
Change in assets and liabilities			
(Increase) decrease in:			
Receivables, net	904	(16,389)	(15,485)
Inventories	-	(95)	(95)
Prepaid items	19,578	-	19,578
(Decrease) increase in:			
Accounts payable and accrued liabilities	(9,710)	33,394	23,684
Accrued payroll and related liabilities	(12,954)	7,282	(5,672)
Self insurance claims liability	2,201	479	2,680
Unearned revenue	45,861	500	46,361
Net cash provided by (used in) operating activities	\$ (1,154,442)	\$ 6,017	\$ (1,148,425)

**CITY OF SALEM, VIRGINIA  
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS  
JUNE 30, 2008**

	<b>Cardinal Criminal Justice Academy</b>	<b>Court- Community Corrections Program</b>	<b>Total Agency Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 427,411	\$ 327,097	\$ 754,508
Receivables, net	-	118,907	118,907
Grant receivable	-	975	975
Due from Commonwealth of Virginia	-	70,017	70,017
Total assets	<u>\$ 427,411</u>	<u>\$ 516,996</u>	<u>\$ 944,407</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 5,675	\$ 72,306	\$ 77,981
Liability to agency	421,736	444,690	866,426
Total liabilities	<u>\$ 427,411</u>	<u>\$ 516,996</u>	<u>\$ 944,407</u>

**CITY OF SALEM, VIRGINIA**  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**YEAR ENDED JUNE 30, 2008**

<i><b>Cardinal Criminal Justice Academy</b></i>	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 324,623	\$ 614,585	\$ 511,797	\$ 427,411
Grant receivable	1,485	226	1,711	-
Total assets	<u>\$ 326,108</u>	<u>\$ 614,811</u>	<u>\$ 513,508</u>	<u>\$ 427,411</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 1,539	\$ 8,398	\$ 4,262	\$ 5,675
Liability to agency	324,569	606,413	509,246	421,736
Total liabilities	<u>\$ 326,108</u>	<u>\$ 614,811</u>	<u>\$ 513,508</u>	<u>\$ 427,411</u>
<i><b>Court-Community Corrections Program</b></i>	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 185,139	\$ 2,295,653	\$ 2,153,695	\$ 327,097
Receivables, net	-	118,907	-	118,907
Grant receivable	1,006	975	1,006	975
Due from Commonwealth of Virginia	104,575	70,017	104,575	70,017
Total assets	<u>\$ 290,720</u>	<u>\$ 2,485,552</u>	<u>\$ 2,259,276</u>	<u>\$ 516,996</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 71,598	\$ 76,869	\$ 76,161	\$ 72,306
Liability to agency	219,122	2,408,683	2,183,115	444,690
Total liabilities	<u>\$ 290,720</u>	<u>\$ 2,485,552</u>	<u>\$ 2,259,276</u>	<u>\$ 516,996</u>
<i><b>Total Agency Funds</b></i>	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 509,762	\$ 2,910,238	\$ 2,665,492	\$ 754,508
Receivables, net	-	118,907	-	118,907
Grant receivable	2,491	1,201	2,717	975
Due from Commonwealth of Virginia	104,575	70,017	104,575	70,017
Total assets	<u>\$ 616,828</u>	<u>\$ 3,100,363</u>	<u>\$ 2,772,784</u>	<u>\$ 944,407</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 73,137	\$ 85,267	\$ 80,423	\$ 77,981
Liability to agency	543,691	3,015,096	2,692,361	866,426
Total liabilities	<u>\$ 616,828</u>	<u>\$ 3,100,363</u>	<u>\$ 2,772,784</u>	<u>\$ 944,407</u>

# STATISTICAL SECTION

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This part of the City of Salem, Virginia's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall health.

<b>Contents</b>	<b>Page</b>
Financial Trends.....	71
<i>These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>	
Revenue Capacity.....	76
<i>These schedules contain information to help the reader assess the government's most significant local revenue sources, the property tax and sale of electricity.</i>	
Debt Capacity.....	80
<i>These schedules present information to help the reader assess the affordability of the government's current level of outstanding debt and the government's ability to issue additional debt in the future.</i>	
Demographic and Economic Information.....	82
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.</i>	
Operating Information.....	85
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.</i>	

**TABLE 1  
UNAUDITED**

**CITY OF SALEM, VIRGINIA  
NET ASSETS BY COMPONENT  
LAST SIX FISCAL YEARS**

	<u>2008</u>	<u>2007</u>	<u>2006 <sup>(1)</sup></u>	<u>2005 <sup>(1)</sup></u>	<u>2004 <sup>(1)</sup></u>	<u>2003 <sup>(1)</sup></u>
<b>Governmental Activities</b>						
Invested in capital assets, net of related debt	\$ 88,463,741	\$ 85,853,628	\$ 88,112,343	\$ 89,479,130	\$ 88,551,933	\$ 76,959,696
Restricted	-	-	-	-	2,313,457	2,473,586
Unrestricted	(9,598,627)	(9,132,365)	(12,509,444)	(12,674,607)	(15,644,583)	(3,239,660)
Total governmental net assets	<u>\$ 78,865,114</u>	<u>\$ 76,721,263</u>	<u>\$ 75,602,899</u>	<u>\$ 76,804,523</u>	<u>\$ 75,220,807</u>	<u>\$ 76,193,622</u>
<b>Business-type activities</b>						
Invested in capital assets, net of related debt	\$ 39,787,750	\$ 41,636,232	\$ 36,954,684	\$ 36,501,799	\$ 31,689,583	\$ 23,078,380
Unrestricted	25,278,681	20,760,143 <sup>(2)</sup>	21,804,567	21,839,306	24,685,946	31,038,458
Total business-type activities net assets	<u>\$ 65,066,431</u>	<u>\$ 62,396,375</u>	<u>\$ 58,759,251</u>	<u>\$ 58,341,105</u>	<u>\$ 56,375,529</u>	<u>\$ 54,116,838</u>
<b>Primary government</b>						
Invested in capital assets, net of related debt	\$ 128,251,491	\$ 127,489,860	\$ 125,067,027	\$ 125,980,929	\$ 120,241,516	\$ 100,038,076
Restricted	-	-	-	-	2,313,457	2,473,586
Unrestricted	15,680,054	11,627,778	9,295,123	9,164,699	9,041,363	27,798,798
Total primary government net assets	<u>\$ 143,931,545</u>	<u>\$ 139,117,638</u>	<u>\$ 134,362,150</u>	<u>\$ 135,145,628</u>	<u>\$ 131,596,336</u>	<u>\$ 130,310,460</u>

Notes:

Information is presented beginning with the year the City implemented GASB 34.

<sup>(1)</sup> Invested in capital assets, net of related debt and unrestricted net assets of governmental activities were restated to properly classify School Division debt.

<sup>(2)</sup> As restated.

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

Expenses	2008	2007	2006	2005	2004	2003
<i>Governmental activities</i>						
General government administration	\$ 5,031,352	\$ 4,803,246	\$ 5,107,268	\$ 4,283,754	\$ 4,402,755	\$ 4,156,677
Judicial administration	1,687,507	1,540,762	1,457,720	1,292,722	1,224,425	1,190,643
Public safety	15,048,715	13,869,676	13,547,191	11,535,321	10,574,969	10,409,689
Public works	14,067,674	13,476,019	12,443,334	10,789,008	9,603,482	9,471,217
Health and welfare	2,450,245	2,193,126	2,055,166	1,823,783	1,419,802	1,217,958
Education	17,995,000	17,095,000	16,266,005	15,618,081	29,340,564 <sup>(1)</sup>	14,747,635
Parks, recreation and cultural	5,721,997	5,796,220	5,239,517	3,851,575	4,257,005	3,697,241
Community development	1,122,221	1,022,096	933,002	513,272	842,963	1,290,922
Nondepartmental	-	-	-	2,424,022	1,788,744	2,253,821
Interest on long-term debt	1,263,858	1,202,201	1,267,296	1,478,103	1,339,037	1,045,306
Total governmental activities	<u>64,388,569</u>	<u>60,998,346</u>	<u>58,316,499</u>	<u>53,609,641</u>	<u>64,793,746</u>	<u>49,481,109</u>
<i>Business-type activities</i>						
Electric	26,505,160	24,308,309 <sup>(2)</sup>	24,692,031	16,311,434	15,116,855	16,810,659
Water and sewage	11,150,046	10,991,783 <sup>(2)</sup>	10,836,280	9,502,885	7,305,334	7,427,270
Civic Center	2,435,383	2,563,090	2,364,891	2,199,589	2,096,344	1,856,562
Catering and concessions	1,081,528	1,103,860	1,036,737	960,320	953,609	932,823
Total business-type activities expense	<u>41,172,117</u>	<u>38,967,042</u>	<u>38,929,939</u>	<u>28,974,228</u>	<u>25,472,142</u>	<u>27,027,314</u>
Total primary government expenses	<u>\$ 105,560,686</u>	<u>\$ 99,965,388</u>	<u>\$ 97,246,438</u>	<u>\$ 82,583,869</u>	<u>\$ 90,265,888</u>	<u>\$ 76,508,423</u>
<b>Program Revenues</b>						
<i>Governmental activities</i>						
Charges for services						
Public safety	\$ 1,048,587	\$ 1,148,627	\$ 1,315,417	\$ 1,083,694	\$ 532,717	\$ 553,437
Public works	3,203,179	2,892,913	1,799,284	1,821,717	1,805,400	1,781,202
Other activities	566,814	535,125	471,137	415,225	508,282	426,281
Operating grants and contributions	6,613,064	7,024,034	6,038,168	5,979,520	5,359,113	5,557,143
Capital grants and contributions	1,359,606	1,168,709	6,392,874	314,789	3,260,581	300,000
Total governmental activities program revenues	<u>12,791,250</u>	<u>12,769,408</u>	<u>16,016,880</u>	<u>9,614,945</u>	<u>11,466,093</u>	<u>8,618,063</u>
<i>Business-type activities</i>						
Charges for services						
Electric	31,000,915	29,300,625	27,699,386	20,192,965	20,092,111	19,640,717
Water and sewage	11,569,453	10,740,194	9,529,125	8,510,106	8,368,156	7,663,093
Civic Center	937,520	1,006,344	793,716	887,312	862,129	716,643
Catering and concessions	1,048,994	1,097,172	991,208	967,446	975,666	995,280
Total business-type activities program revenues	<u>44,556,882</u>	<u>42,144,335</u>	<u>39,013,435</u>	<u>30,557,829</u>	<u>30,298,062</u>	<u>29,015,733</u>
Total primary government program revenues	<u>\$ 57,348,132</u>	<u>\$ 54,913,743</u>	<u>\$ 55,030,315</u>	<u>\$ 40,172,774</u>	<u>\$ 41,764,155</u>	<u>\$ 37,633,796</u>
<b>Net (expense) revenue</b>						
Governmental activities	\$ (51,597,319)	\$ (48,228,938)	\$ (42,299,619)	\$ (43,994,696)	\$ (53,327,653)	\$ (40,863,046)
Business-type activities	3,384,765	3,177,293	83,496	1,583,601	4,825,920	1,988,419
Total primary government net expense	<u>\$ (48,212,554)</u>	<u>\$ (45,051,645)</u>	<u>\$ (42,216,123)</u>	<u>\$ (42,411,095)</u>	<u>\$ (48,501,733)</u>	<u>\$ (38,874,627)</u>

(Continued)

Source: City of Salem Finance Department

**TABLE 2  
CONTINUED**

**CITY OF SALEM, VIRGINIA  
CHANGES IN NET ASSETS  
LAST SIX FISCAL YEARS  
(accrual basis of accounting)**

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>General Revenues and Other Changes in Net Assets</b>						
<i>Governmental activities:</i>						
Taxes						
Property taxes	\$ 30,082,026	\$ 27,606,560	\$ 27,161,942	\$ 25,062,245	\$ 24,868,585	\$ 23,353,997
Meals tax	2,546,104	2,397,412	2,351,010	2,190,099	2,091,998	2,055,706
Local sales and use taxes	5,908,920	5,711,940	5,634,585	5,601,846	5,397,710	4,996,579
Utility taxes	1,156,775	1,228,975	1,372,250	1,339,238	1,122,167	1,141,696
Business license tax	4,714,965	4,258,059	3,866,585	4,032,843	3,647,786	3,496,933
Other taxes	2,362,788	2,700,657	2,625,066	2,486,633	2,484,614	2,233,301
Intergovernmental revenue not restricted	4,030,210	3,878,955	3,523,634	3,597,191	3,213,462	3,243,932
Unrestricted investment earnings	568,689	789,526	556,039	501,808	394,977	319,062
Gain on sale of property	5,715	-	402,089	571,311	-	-
Other	812,702	279,223	218,274	266,019	285,750	302,877
Transfers	1,552,276	495,995	975,685	(70,821)	236,756	226,527
Total governmental activities	<u>53,741,170</u>	<u>49,347,302</u>	<u>48,687,159</u>	<u>45,578,412</u>	<u>43,743,805</u>	<u>41,370,610</u>
<i>Business-type activities:</i>						
Unrestricted investment earnings	706,658	928,710	271,303	311,154	110,832	369,743
Gain on sale of property	-	6,967	-	-	-	-
Other	130,909	20,149	-	-	-	-
Transfers	(1,552,276)	(495,995)	(975,685)	70,821	(236,756)	(226,527)
Total business-type activities	<u>(714,709)</u>	<u>459,831</u>	<u>(704,382)</u>	<u>381,975</u>	<u>(125,924)</u>	<u>143,216</u>
Total primary government	<u>\$ 53,026,461</u>	<u>\$ 49,807,133</u>	<u>\$ 47,982,777</u>	<u>\$ 45,960,387</u>	<u>\$ 43,617,881</u>	<u>\$ 41,513,826</u>
<b>Changes in Net Assets</b>						
Governmental activities	\$ 2,143,851	\$ 1,118,364	\$ 6,387,540	\$ 1,965,576	\$ 4,699,996	\$ 2,131,635
Business-type activities	2,670,056	3,637,124	(620,886)	1,583,716	(9,583,848)	507,564
Total primary government	<u>\$ 4,813,907</u>	<u>\$ 4,755,488</u>	<u>\$ 5,766,654</u>	<u>\$ 3,549,292</u>	<u>\$ (4,883,852)</u>	<u>\$ 2,639,199</u>

Notes:

Information is presented beginning with the year the City implemented GASB 34.

(1) This amount includes \$14,000,000 of bond funds transferred to the School Division to fund capital projects.

(2) As restated.

Source: City of Salem Finance Department

**TABLE 3  
UNAUDITED**

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
<b>General Fund</b>										
Reserved	\$ 893,623	\$ 1,357,034	\$ 1,431,926	\$ 1,179,343	\$ 1,009,767	\$ 745,321	\$ 811,145	\$ 967,680	\$ 857,533	\$ 839,548
Unreserved	7,086,974	6,547,440	6,419,834	10,534,365	11,124,617	10,319,757	7,785,113	8,494,384	8,290,010	5,540,300
Total general fund	<u>\$ 7,980,597</u>	<u>\$ 7,904,474</u>	<u>\$ 7,851,760</u>	<u>\$ 11,713,708</u>	<u>\$ 12,134,384</u>	<u>\$ 11,065,078</u>	<u>\$ 8,596,258</u>	<u>\$ 9,462,064</u>	<u>\$ 9,147,543</u>	<u>\$ 6,379,848</u>
 <b>All Other Governmental Funds</b>										
Reserved	\$ 3,388,893	\$ 1,083,915	\$ 1,251,705	\$ 3,777,959	\$ 7,434,079	\$ 2,920,546	\$ 2,639,011	\$ 702,166	\$ 980,723	\$ 1,569,842
<i>Unreserved, reported in:</i>										
Capital projects fund	(3,152,261)	(189,129)	(463,348)	(1,691,345)	2,914,998	(305,531)	-	-	-	-
Total all other governmental funds	<u>\$ 236,632</u>	<u>\$ 894,786</u>	<u>\$ 788,357</u>	<u>\$ 2,086,614</u>	<u>\$ 10,349,077</u>	<u>\$ 2,615,015</u>	<u>\$ 2,639,011</u>	<u>\$ 702,166</u>	<u>\$ 980,723</u>	<u>\$ 1,569,842</u>

Source: City of Salem Finance Department

**TABLE 4  
UNAUDITED**

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
<b>Revenue</b>										
Taxes	\$ 47,254,766	\$ 44,555,391	\$ 44,037,357	\$ 41,593,054	\$ 40,747,374	\$ 38,137,448	\$ 36,436,995	\$ 35,323,279	\$ 35,547,144	\$ 34,505,383
Permits, privilege fees, and regulatory licenses	303,958	293,004	294,314	286,150	308,511	257,796	269,237	237,722	268,517	244,810
Fines and forfeitures	159,489	159,363	150,860	162,207	197,297	170,922	156,128	159,404	162,188	117,048
Revenue from use of money and property	786,455	1,434,893	1,385,122	1,861,432	579,303	482,878	928,857	1,197,369	1,103,489	712,303
Charges for services	4,154,836	3,915,569	2,959,842	2,749,670	2,186,113	2,168,506	1,967,128	1,950,211	2,146,002	1,955,586
Other	152,478	47,673	32,544	43,796	53,590	385,733	1,385,165	1,142,483	1,099,482	917,618
Intergovernmental	10,859,986	10,336,870	8,720,129	8,765,664	7,764,376	8,562,593	8,400,270	7,663,260	7,146,529	4,612,946
Total revenues	<u>63,671,968</u>	<u>60,742,763</u>	<u>57,580,168</u>	<u>55,461,973</u>	<u>51,836,564</u>	<u>50,165,876</u>	<u>49,543,780</u>	<u>47,673,728</u>	<u>47,473,351</u>	<u>43,065,694</u>
<b>Expenditures</b>										
General government administration	4,891,569	4,694,442	4,994,542	4,386,061	4,005,851	3,555,873	3,330,674	3,511,823	3,145,638	2,876,123
Judicial administration	1,649,871	1,506,395	1,321,052	1,256,107	1,207,990	1,172,370	1,185,883	1,152,094	1,090,282	1,036,931
Public safety	14,397,297	13,358,739	12,707,985	11,670,171	10,740,352	10,103,738	9,706,080	9,058,667	8,610,382	8,215,706
Public works	12,156,138	11,434,040	9,400,116	9,777,021	8,879,090	8,514,725	9,491,691	8,036,110	7,791,651	7,957,248
Health and welfare	2,410,340	2,163,687	1,918,490	1,823,783	1,419,802	1,217,958	1,858,199	1,541,957	1,455,984	1,324,350
Education	17,995,000	17,095,000	16,266,005	15,618,081	15,340,564	14,747,635	14,851,000	15,552,599	15,005,469	14,274,284
Parks, recreation, and cultural	4,464,456	4,354,144	4,316,920	4,037,410	3,696,621	3,336,510	3,549,487	3,238,115	3,136,048	2,831,101
Community development	469,835	639,535	815,991	513,272	842,963	1,290,922	843,615	662,157	508,435	337,914
Non-departmental	1,976,756	1,769,127	3,610,694	2,424,022	1,788,744	2,253,821	1,669,551	1,163,257	2,002,046	1,343,146
Capital projects	1,397,376	2,750,335	4,325,562	5,519,655	14,604,233	76,230	819,507	1,379,692	589,119	459,386
<i>Debt service:</i>										
Principal retirement	2,612,403	2,607,365	2,863,024	5,616,505 <sup>(1)</sup>	1,055,518	1,628,985	1,969,433	903,164	944,572	900,553
Interest and fiscal charges	1,171,197	1,119,793	1,185,708	1,432,203	1,150,476	1,063,168	1,160,076	430,350	481,247	447,130
Total expenditures	<u>65,592,238</u>	<u>63,492,602</u>	<u>63,726,089</u>	<u>64,074,291</u>	<u>64,732,204</u>	<u>48,961,935</u>	<u>50,435,196</u>	<u>46,629,985</u>	<u>44,760,873</u>	<u>42,003,872</u>
Excess (deficiency) of revenues over expenditures	(1,920,270)	(2,749,839)	(6,145,921)	(8,612,318)	(12,895,640)	1,203,941	(891,416)	1,043,743	2,712,478	1,061,822
<b>Other Financing Sources (Uses)</b>										
Proceeds from borrowing	-	-	-	-	31,970,540	-	-	-	-	2,000,000
Payments to bond escrow agents	-	-	-	-	(10,508,287)	-	-	-	-	-
Transfers in	6,474,312	7,536,323	8,235,360	5,417,206	4,252,823	3,993,355	2,862,517	2,189,014	1,825,819	1,443,662
Transfers out	(5,136,073)	(4,627,341)	(7,249,644)	(5,488,027)	(4,016,067)	(3,766,828)	(3,875,163)	(3,196,793)	(2,359,721)	(2,307,343)
Total other financing sources (uses)	<u>1,338,239</u>	<u>2,908,982</u>	<u>985,716</u>	<u>(70,821)</u>	<u>21,699,009</u>	<u>226,527</u>	<u>(1,012,646)</u>	<u>(1,007,779)</u>	<u>(533,902)</u>	<u>1,136,319</u>
Net change in fund balances	\$ (582,031)	\$ 159,143	\$ (5,160,205)	\$ (8,683,139)	\$ 8,803,369	\$ 1,430,468	\$ (1,904,062)	\$ 35,964	\$ 2,178,576	\$ 2,198,141
Debt service as a percentage of noncapital expenditures	6.43%	6.68%	7.06%	12.35% <sup>(2)</sup>	4.60%	5.68%	6.51%	3.09%	3.36%	3.36%

Notes:

<sup>(1)</sup> Includes one-time balloon payment of \$2,715,000.

<sup>(2)</sup> Net of balloon payment, percentage equals 7.59%.

Source: City of Salem Finance Department

**TABLE 5  
UNAUDITED**

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

<b>Fiscal Year Ended June 30,</b>	<b>Real Estate</b>	<b>Personal Property</b>	<b>Machinery and Tools</b>	<b>Public Service Corporation</b>	<b>Mobile Homes</b>	<b>Total Taxable Assessed Value</b>	<b>Total Direct Tax Rate</b>
2008	\$ 1,805,483,900	\$ 264,048,483	\$ 82,535,751	\$ 36,468,242	\$ 1,780,273	\$ 2,190,316,649	1.50
2007	1,601,239,600	254,765,656	86,685,532	36,451,099	1,632,022	1,980,773,909	1.52
2006	1,572,732,200	262,141,563	86,409,864	34,992,259	1,855,348	1,958,131,234	1.54
2005	1,414,891,600	253,619,878	82,714,938	33,586,047	2,186,076	1,786,998,539	1.55
2004	1,386,790,100	250,218,290	88,317,031	35,032,203	2,092,797	1,762,450,421	1.56
2003	1,276,162,600	262,415,563	75,075,156	35,658,160	2,257,457	1,651,568,936	1.60
2002	1,260,133,200	257,336,535	81,289,685	36,825,471	2,573,480	1,638,158,371	1.60
2001	1,159,955,100	291,662,164	79,003,832	35,119,042	2,782,250	1,568,522,388	1.66
2000	1,132,465,500	252,607,101	87,609,659	33,842,393	3,311,164	1,509,835,817	1.65
1999	1,035,946,400	234,113,024	83,530,905	30,630,006	3,508,695	1,387,729,030	1.64

Source: City of Salem Finance Department

**TABLE 6  
UNAUDITED**

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

Taxpayer	2008			1999		
	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	\$ 60,051,400	1	3.14%	\$ 19,729,200	2 <sup>(1)</sup>	1.90%
Yokohama Industries	16,167,800	2	0.85%	13,811,500	3	1.33%
General Electric	10,598,700	3	0.55%	10,700,700	4	1.03%
U.S. Food Service, Inc.	10,571,000	4	0.55%	5,302,200	9	0.51%
Chateau Riviera Apartments/C.S.W. Associates	8,943,200	5	0.47%	6,962,900	7	0.67%
Spartan Square	8,495,100	6	0.44%			
Carthy Corporation/Carter Machinery	7,443,100	7	0.39%			
Wal-Mart, Inc.	6,603,200	8	0.35%	5,680,500	8	0.55%
Lakeside Plaza	6,370,100	9	0.33%			
Salem Pavilion Medical Center	6,035,600	10	0.32%			
Lewis Gale Building Corporation				19,786,600	1 <sup>(1)</sup>	1.91%
Home Shopping/Stuart McGuire				8,662,400	5	0.84%
Rowe Furniture/Salem Frame				7,766,400	6	0.75%
Willow River Associates				5,256,000	10	0.51%

Note:

<sup>(1)</sup> In 2005, Lewis-Gale Hospital HCA acquired the assets of Lewis-Gale Building Corporation.

Source: City of Salem Real Estate Valuation Department

**TABLE 7  
UNAUDITED**

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

<b>Customer</b>	<b>2008</b>			<b>1999</b>		
	<b>Services Billed</b>	<b>Rank</b>	<b>Percentage of Total Services Billed</b>	<b>Services Billed</b>	<b>Rank</b>	<b>Percentage of Total Services Billed</b>
Lewis-Gale Hospital HCA	\$ 1,373,766	1	4.51%	\$ 736,527	1	3.89%
Old Virginia Brick	517,059	2	1.70%	202,516	9	1.07%
Rowe Furniture/Salem Frame	495,289	3	1.63%	673,754	2	3.56%
U.S. Food Service, Inc.	473,951	4	1.56%			
Roanoke College	459,078	5	1.51%	490,374	4	2.59%
Kroger	428,353	6	1.41%	501,931	3	2.65%
Carter Machinery	356,800	7	1.17%	325,746	6	1.72%
Sewell Products	326,020	8	1.07%	118,466	10	0.63%
Graham White	313,398	9	1.03%	417,545	5	2.21%
Wal-Mart, Inc.	282,759	10	0.93%	220,550	8	1.17%
Valleydale				323,918	7	1.71%

Source: City of Salem Finance Department

**TABLE 8  
UNAUDITED**

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

<b>Fiscal Year</b>	<b>Taxes Levied for the Fiscal Year</b>	<b>Collected within the Fiscal Year of the Levy</b>		<b>Collections in Subsequent Year</b>	<b>Total Collections to Date</b>	
		<b>Amount <sup>(1)</sup></b>	<b>Percentage of Levy</b>		<b>Amount</b>	<b>Percentage of Levy</b>
2008	\$ 32,390,886	\$ 31,874,752	98.41%	\$ 695,159	\$ 32,569,911	100.55%
2007	30,693,167	29,241,660	97.27%	455,608	30,310,987	98.75%
2006	30,146,687	26,870,788	97.46%	273,850	29,653,540	98.36%
2005	27,797,041	27,074,619	97.40%	294,662	27,369,281	98.46%
2004	27,635,328	26,861,320	97.20%	364,687	27,226,007	98.52%
2003	26,305,825	25,829,614	98.19%	253,199	26,082,813	99.15%
2002	25,816,066	25,015,942	96.90%	259,718	25,275,660	97.91%
2001	24,642,171	24,300,445	98.61%	255,210	24,555,655	99.65%
2000	24,340,279	24,089,227	98.97%	239,461	24,328,688	99.95%
1999	22,512,879	22,294,549	99.03%	236,974	22,531,523	100.08%

Note:

<sup>(1)</sup> Includes state share of personal property taxes.

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 <sup>(1)</sup>			Total	Percentage of Estimated Actual Value of Taxable Property	Net Bonded Debt Per Capita
	General Obligation Bonds	Other Long-term Debt	Less: Amounts Restricted to Repaying Principal			
2008	\$ 29,028,442	\$ 375,000	\$ -	\$ 29,403,442	1.34%	\$ 1,169.45
2007	31,515,845	500,000	-	32,015,845	1.62%	1,273.35
2006	31,498,210	625,000	-	32,123,210	1.64%	1,279.81
2005	34,236,234	750,000	-	34,986,234	1.96%	1,393.87
2004	39,727,739	875,000	2,988,308	37,614,431	2.13%	1,520.39
2003	18,362,717	1,000,000	2,673,586	16,689,131	1.01%	675.67
2002	19,866,702	1,125,000	2,621,352	18,370,350	1.12%	740.05
2001	21,368,934	1,592,200	2,737,447	20,223,687	1.29%	817.22
2000	22,829,000	2,059,400	2,769,188	22,119,212	1.47%	897.08
1999	24,369,864	2,538,200	2,759,842	24,148,222	1.74%	980.68

Fiscal Year	Business-Type Activities			Total Primary Government
	General Obligation Bonds	Revenue Bonds <sup>(2)</sup>	Total	
2008	\$ 51,626,558	\$ 10,627,872	\$ 62,254,430	\$ 91,657,872
2007	54,149,155	10,801,961	64,951,116	96,966,961
2006	58,826,790	8,028,942	66,855,732	98,978,942
2005	36,033,766	4,461,586	40,495,352	75,481,586
2004	39,347,261	432,388	39,779,649	77,394,080
2003	42,047,283	-	42,047,283	58,736,414
2002	45,158,298	-	45,158,298	63,528,648
2001	24,726,065	-	24,726,065	44,949,752
2000	27,190,998	-	27,190,998	49,310,210
1999	29,540,134	-	29,540,134	53,688,356

Notes:

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

See Table 11 for personal income and population data.

<sup>(1)</sup> Outstanding debt for School Division is included with Governmental Activities.

<sup>(2)</sup> Represents bonds issued through Virginia Resource Authority for regional sewer improvements.

Source: City of Salem Finance Department

**TABLE 10  
UNAUDITED**

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

	<b>2008 <sup>(1)</sup></b>	<b>2007 <sup>(2)</sup></b>	<b>2006 <sup>(3)</sup></b>	<b>2005 <sup>(4)</sup></b>	<b>2004 <sup>(5)</sup></b>	<b>2003 <sup>(6)</sup></b>
Assessed Value of Real Property	\$ 1,841,952,142	\$ 1,637,690,699	\$ 1,607,724,459	\$ 1,448,477,647	\$ 1,421,822,303	\$ 1,311,820,760
Debt Limit, 10% of Assessed Value	184,195,214	163,769,070	160,772,446	144,847,765	142,182,230	131,182,076
Amount of Debt Applicable to Limit						
General Obligation Bonds	80,655,000	85,665,000	90,325,000	70,270,000	79,075,000	60,410,000
Other Long Term Debt	11,002,872	11,301,961	8,653,942	5,211,586	1,307,388	1,000,000
Less: Enterprise Fund Bonds <sup>(7)</sup>	(62,254,430)	(64,951,116)	(66,855,732)	(40,495,352)	(39,347,261)	(42,047,283)
Less: Resources Restricted to Paying Principal	-	-	-	-	(2,313,457)	(2,673,586)
Total net debt applicable to limit <sup>(8)</sup>	29,403,442	32,015,845	32,123,210	34,986,234	38,721,670	16,689,131
<b>Legal Debt Margin</b>	<b>\$ 154,791,772</b>	<b>\$ 131,753,225</b>	<b>\$ 128,649,236</b>	<b>\$ 109,861,531</b>	<b>\$ 103,460,560</b>	<b>\$ 114,492,945</b>
Total net debt applicable to the limit as a percentage of debt limit	15.96%	19.55%	19.98%	24.15%	27.23%	12.72%

Notes:

- <sup>(1)</sup> Includes \$1,805,483,900 in General Real Estate and \$36,468,242 in Public Service Corporation Real Estate.  
<sup>(2)</sup> Includes \$1,601,239,600 in General Real Estate and \$36,451,099 in Public Service Corporation Real Estate.  
<sup>(3)</sup> Includes \$1,572,732,200 in General Real Estate and \$34,992,259 in Public Service Corporation Real Estate.  
<sup>(4)</sup> Includes \$1,414,891,600 in General Real Estate and \$33,586,047 in Public Service Corporation Real Estate.  
<sup>(5)</sup> Includes \$1,386,790,100 in General Real Estate and \$35,032,203 in Public Service Corporation Real Estate.  
<sup>(6)</sup> Includes \$1,276,162,600 in General Real Estate and \$35,658,160 in Public Service Corporation Real Estate.  
<sup>(7)</sup> 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.  
<sup>(8)</sup> School debt is included in the amount of debt applicable to limit

Source: City of Salem Finance Department

**TABLE 11  
UNAUDITED**

**CITY OF SALEM, VIRGINIA  
DEMOGRAPHIC AND ECONOMIC INFORMATION  
LAST TEN FISCAL YEARS**

<b>Fiscal Year Ended June 30, <sup>(1)</sup></b>	<b>Population <sup>(2)</sup></b>	<b>Total Personal Income <sup>(3)</sup></b> (In Thousands)	<b>Per Capita Personal Income <sup>(4)</sup></b>	<b>Public School Enrollment</b>	<b>Unemployment Rate <sup>(5)</sup></b>
2008	25,143	\$ 4,128,137 (est.)	\$ 35,978 (est.)	3,906	3.60%
2007	25,143	3,986,137 (est.)	35,140 (est.)	3,946	3.00%
2006	25,100	3,986,137 (est.)	34,632	3,908	2.90%
2005	25,100	3,986,137	34,632	3,882	2.50%
2004	24,740	3,853,327	33,998	3,888	2.70%
2003	24,700	3,669,268	32,703	3,910	3.80%
2002	24,823	3,654,128	32,795	3,981	3.10%
2001	24,747	3,577,363	32,070	3,889	2.20%
2000	24,657	3,362,886	30,451	3,957	1.60%
1999	24,624	3,215,891	29,688	3,912	1.70%

Notes:

<sup>(1)</sup> Population, school enrollment and unemployment figures are based on fiscal years ending June 30. Per Capita Income is as of December 31.

<sup>(2)</sup> Population is based on figures available from the Weldon Cooper Center, University of Virginia

<sup>(3)</sup> Total personal income reported is for Roanoke County and the City of Salem. No data is available for the City of Salem only.

<sup>(4)</sup> Source: City Planning Department

<sup>(5)</sup> Virginia Employment Commission

**TABLE 12  
UNAUDITED**

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

<b>Employer</b>	<b>2008</b>			<b>1999</b>		
	<b>Employees</b>	<b>Rank</b>	<b>Percentage of Total City Employment <sup>(1)</sup></b>	<b>Employees</b>	<b>Rank</b>	<b>Percentage of Total City Employment <sup>(1)</sup></b>
Veterans Administration Medical Center	1,500	1	6.69%	1,458	2	5.90%
Lewis-Gale Hospital HCA	1,375	2	6.13%	1,400	3	5.67%
General Electric	1,100	3	4.91%	1,464	1	5.93%
Virginia Department of Transportation	940	4	4.19%			
Yokohama Industries	900	5	4.01%	1,108	5	4.49%
City of Salem Schools	586	6	2.61%	521	8	2.11%
City of Salem	549	7	2.45%	485	9	1.96%
Roanoke College	464	8	2.07%	450	10	1.82%
U.S. Food Service, Inc.	422	9	1.88%			
Cater Machinery	352	10	1.57%			
Lewis-Gale Clinic				1,190	4	4.82%
Home Shopping Network Virginia Division				850	6	3.44%
Rowe Furniture				835	7	3.38%

Note:

<sup>(1)</sup> Calculated using data provided by Virginia Employment Commission

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

**TABLE 13  
UNAUDITED**

**CITY OF SALEM, VIRGINIA  
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM  
LAST SIX FISCAL YEARS**

<b>Program/Function</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
General government	76	74	72	72	71	70
Judicial administration	20	20	19	19	19	19
Public safety	165	164	162	159	154	154
Public works	113	111	115	115	114	115
Parks, recreation and cultural	26	25	25	20	22	22
Community development	3	3	4	2	2	2
Electric	29	29	28	29	29	28
Water and sewage	58	59	58	60	63	63
Civic Center	20	19	19	20	20	19
Catering and concessions	5	5	5	5	5	5
<b>Total</b>	<b>515</b>	<b>509</b>	<b>507</b>	<b>501</b>	<b>499</b>	<b>497</b>

Note:

Information is presented beginning with the year the City implemented GASB 34.

Source: City of Salem Finance Department

Table 14  
UNAUDITED

CITY OF SALEM, VIRGINIA  
OPERATING INDICATORS BY FUNCTION/PROGRAM  
LAST SIX FISCAL YEARS

Program/Function	2008	2007	2006	2005	2004	2003
General government						
Finance						
Accounts payable checks issued	13,991	14,617	15,638	16,307	16,836	16,183
Human resources						
Positions filled (full-time and temporary)	244	201	246	233	219	246
Registrar						
Number of registered voters	15,897	15,524	14,995	15,652	15,146	14,442
Fleet						
Pieces of equipment maintained	600	558	527	517	510	498
Judicial administration						
Sheriff						
Inmates housed	1,294	1,296	1,125	1,067	1,497	1,708
Inmate transports	1,545	1,427	1,391	1,315	1,471	1,292
Courts worked	624	639	611	593	588	580
Public safety						
Police						
Calls for service	34,526	33,776	30,163	30,442	31,566	30,396
Accidents	1,300	1,329	1,221	1,263	1,258	1,221
DUI Arrests	146	176	159	124	196	254
Fire						
Emergency responses - fire	3,083	2,715	3,006	2,537	2,182	2,106
Emergency responses - medic units	3,085	2,982	3,289	2,934	2,281	2,007
Hazardous materials responses	182	146	82	101	72	79
Building inspections						
Residential construction permits issued	169	336	309	319	272	599
Commercial construction permits issued	103	93	92	139	163	53
Public works						
Refuse collection						
Refuse collected (tons per year)	77,027	90,405	81,379	84,270	92,665	90,762
Tons recycled	4,623	4,724	2,154	3,594	3,550	3,559
Other public works						
Tons of asphalt used in resurfacing	6,958	14,510	9,111	11,966	8,005	7,088
Square yards of milling completed	68,091	84,386	58,605	25,480	17,973	15,990
Tons of salt used	170	277	901	705	1,350	1,574
Leaves collected (loads)	290	421	422	604	375	400
Parks, recreation and cultural						
Parks and recreation						
Tournaments hosted	54	57	59	54	51	54
Special events held	24	25	21	18	18	18
Youth sports teams	252	186	184	219	219	214
Adult sports teams	59	48	40	40	40	42
Library						
Circulation	264,184	241,816	233,852	232,892	224,712	230,848
Children's program attendance	7,647	4,591	3,580	4,164	2,622	3,324
Patron visits to the library	233,524	234,379	228,560	217,477	220,571	214,911
New patrons	1,694	1,694	1,510	1,537	1,492	1,553
Internet sessions	62,650	55,689	32,650	25,834	27,973	25,845
Electric						
Number of customer accounts	13,130	13,032	12,968	12,856	12,883	12,678
Water						
Number of customer accounts	9,256	9,170	9,107	9,055	9,035	8,916
Million gallons sold to customers	1,066.6	1,043.4	1,089.5	1,097.3	1,097.7	1,066.3
Sewage						
Number of customer accounts	8,664	8,561	8,513	8,461	8,446	8,339
Waste/water treated (million gallons per day)	5.7	8.1	6.8	9.2	7.3	7.8
Civic Center						
Concerts	9	13	6	8	12	16
Meetings	1,295	1,081	1,209	1,282	1,259	1,282
Tickets sold	99,581	147,491	163,972	129,248	150,801	162,263
Arena utilization days	219	201	175	203	180	175

Note:

Information is presented beginning with the year the City implemented GASB 34.

Source: Various City Departments

TABLE 15  
UNAUDITED

CITY OF SALEM, VIRGINIA  
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM  
LAST FIVE FISCAL YEARS

Program/Function	2008	2007	2006	2005	2004
Public safety					
Police stations	1	1	1	1	1
Law enforcement vehicles	50	48	45	42	56
Fire stations	3	3	3	3	3
Fire trucks	7	6	5	5	5
Ambulance	5	5	4	3	3
Public works					
Primary streets (lane miles)	67.5	67.5	64.8	64.8	64.3
Secondary streets (lane miles)	272	269.8	224.8	224.8	222.8
Alley (lane miles)	12	12	10.8	10.8	10.8
Number of garbage trucks	13	13	10	11	12
Parks, recreation and cultural					
Community centers/Senior center	1	1	3	3	3
Parks/athletic fields	15	15	15	15	15
Acres of parks maintained	495	495	495	495	495
Libraries	1	1	1	1	1
Golf courses	1	1	1	1	1
Electric					
Substations	11	11	7	7	7
Miles of distribution lines					
Overhead	158	158	159	161	161
Underground	33	33	33	31	31
Miles of transmission lines	17	17	23	23	23
Water and sewage					
Water treatment plants	1	1	1	2	2
Miles of distribution lines	182	181	181	180	155
Miles of sanitary sewers	176	176	174	174	144

Note:

Information is presented beginning with the year the City implemented GASB 34.

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# COMPLIANCE SECTION

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**CITY OF SALEM, VIRGINIA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2008**

<u>Federal Grantor/Pass-through Grantor</u> <i>(Commonwealth of Virginia)/Program Title</i>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
<b><u>Department of Agriculture</u></b>		
<b><i>Department of Agriculture and Consumer Services</i></b>		
Food Distribution – Commodities – Pass-through Payments	10.555	\$ 128,183
<b><i>Department of Education</i></b>		
National School Breakfast Program	10.553	83,700
National School Lunch Program	10.555	384,555
<b><u>Department of Justice</u></b>		
<b><i>Direct Payments</i></b>		
Drug Enforcement Task Force	16.000	78,008
Bulletproof Vest Partnership Program	16.607	3,671
<b><u>Department of Transportation</u></b>		
Highway Planning and Construction	20.205	125,989
<b><i>Division of Motor Vehicles</i></b>		
State and Community Safety Program	20.600	4,393
Alcohol Traffic Safety and Drunk Driving Prevention	20.601	21,480
<b><u>Federal Emergency Management Agency</u></b>		
<b><i>Department of Emergency Services</i></b>		
Emergency Management Assistance	83.503	2,557
<b><u>Department of Education</u></b>		
<b><i>Department of Education</i></b>		
Education Consolidation Improvement Act of 1981:		
Title I: Grants to Local Educational Agencies	84.010	298,079
Title I: State Grants for Innovation Programs	84.298	2,497
Title II: Part A, Improving Teacher Quality	84.367	136,449
Title II: Education for Economic Security	84.048	44,024
Elementary and Secondary Education Act (ESEA):		
Special Education – Grants to States	84.027	697,475
Special Education – Preschool Grants	84.173	24,329
Teaching American History Grant	84.215	15,398
Vocational Education:		
Education Technology	84.318	5,990
Adult Education	84.002	68,692
Special Projects:		
English Language Acquisition	84.365	7,879
Safe and Drug Free Schools and Communities	84.186	8,486
<b>Total Expenditures of Federal Awards</b>		<b><u>\$ 2,141,834</u></b>

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, 2008, the Component Unit – School Division had food commodities in inventory of \$50,504.

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

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

We have audited the 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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Items 08-1 and 08-2, to be significant deficiencies in internal control over financial reporting.

### **Internal Control Over Financial Reporting (Continued)**

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are not material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including certain provisions of the compliance matters described in the Summary of Compliance Matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Item 08-4.**

We noted certain matters that we reported to management of the City in a separate letter dated November 25, 2008.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 25, 2008

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
*OMB CIRCULAR A-133***

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

**Compliance**

We have audited the compliance of the City of Salem, Virginia (the "City"), with the types of compliance requirements described in the U.S. Office of Management and Budget (*OMB Circular A-133 Compliance Supplement*) that are applicable to each of its major federal programs for the year ended June 30, 2008. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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 *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* 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. Our audit does not provide a legal determination on the City's compliance with those requirements.

**In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with *OMB Circular A-133* and which is described in the accompanying schedule of findings and questioned costs as Item 08-3.**

## Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 25, 2008

**CITY OF SALEM, VIRGINIA**  
**SUMMARY OF COMPLIANCE MATTERS**  
**June 30, 2008**

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

**STATE COMPLIANCE MATTERS**

Code of Virginia:

Budget and Appropriation Laws  
Cash and Investment Laws  
Conflicts of Interest Act  
Debt Provisions  
Local Retirement Systems  
Procurement Laws  
Uniform Disposition of Unclaimed Property Act  
Sheriff Internal Controls

State Agency Requirements:

Education  
Comprehensive Services Act

**FEDERAL COMPLIANCE MATTERS**

U.S. Office of Management and Budget (OMB A-133) Compliance Supplement:

Provisions and conditions of agreements related to federal programs selected for testing.

CITY OF SALEM, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2008

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unqualified opinion** on the basic financial statements.
2. **Two significant deficiencies** related to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. The identified significant deficiencies are not considered material weaknesses.
3. **No instances of noncompliance** material to the basic financial statements were disclosed during the audit.
4. **No significant deficiencies** are disclosed in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with *OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs expresses an **unqualified opinion**.
6. The audit disclosed **one audit finding** relating to major programs.
7. The programs tested as major programs include:

Title I: Grants to Local Educational Agencies	84.010
Special Education – Grants to States	84.027
Special Education – Preschool Grants	84.173
8. The threshold for distinguishing Types A and B programs was **\$300,000**.
9. The School Board was **determined to be a low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

**08-1: Closing Process (Significant Deficiency)**

*Condition:*

We noted errors in the year ending closing process related to unrecorded retainage liabilities, accounts payable, over-accrued prior year federal reimbursement receivables, capitalized interest, and prior year accrued interest expense.

*Recommendation:*

During the year ending closing process, management should implement review procedures to ensure the adequacy and reasonableness of year ending balances.

*Management's Response:*

*The City of Salem Finance Department has revised year end procedures for recognition of construction retainage and accounts payable to ensure year end balances are correct. Additional levels of review will be performed to verify the calculation of accrued and capitalized interest. The school division concurs that there was an overaccrual in the Flow Through Grant in a prior year and has reviewed accrual procedures to ensure that the current accrual process results in an accurate accrual.*

**CITY OF SALEM, VIRGINIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2008**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)**

**08-2: Unrecorded Cash (Significant Deficiency)**

*Condition:*

We noted approximately \$150,000 of unrecorded cash on hand that the Treasurer had previously collected for surety bond deposits that had not been recorded by the City.

*Recommendation:*

Procedures should be designed and implemented, including all departments involved in issuing, collecting, recording, and tracking these deposits, to ensure all such deposits are properly recorded.

*Management's Response:*

*The City of Salem has implemented procedures for departments to provide assurance that all amounts received as surety from private contractors are recorded and properly accounted for.*

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS**

**08-3: Title I Employee Time and Effort (CFDA 84.010)**

*Condition:*

Through discussions with City management, we noted that the required semi-annual employee time and effort certifications are not currently being filed for Title I teachers.

*Recommendation:*

Management should implement procedures to ensure timely and complete filing of the semi-annual employee time and effort certifications for Title I teachers.

*Management's Response:*

*The time and effort certifications have now been obtained from Title I teachers and will be maintained on a semi-annual basis.*

**D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA**

**08-4: Timely Disclosure Statement Submission**

*Condition:*

We noted one out of five School Board officials did not file the official disclosure statement by the January 15<sup>th</sup> required submission deadline as set forth by the *Code of Virginia*.

*Recommendation:*

Steps should be taken to ensure that these statements are filed in a timely manner.

*Management's Response:*

*The school division concurs with the comment and has noted it for future reference.*

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

Frank P. Turk  
Angela A. Sellers

Director of Finance  
Assistant Director of Finance

**Accounting/Accounts Payable/Purchasing**

Vickie L. Akers  
Christina M. Brannan  
Heather F. Duncan, CPA  
Rowena W. Epperly  
Mary Ann Penney, CPA  
Susan L. Peterson, CPA  
Tammy H. Todd, CPA  
Karen M. Vaught  
Kathryn B. Williams

Accounting Assistant  
Accountant  
Senior Accountant  
Buyer  
Senior Accountant  
Senior Accountant  
Accounting Supervisor  
Accounting Technician  
Accounting Assistant

**Administrative**

Alyson R. Chaisson

Finance Administrative  
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