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CITY OF SALEM, VIRGINIA

Comprehensive Annual Financial Report

Year Ended June 30, 2010

CITY OF SALEM, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2010

DEPARTMENT OF FINANCE

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INTRODUCTORY SECTION

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November 23, 2010

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

In accordance with Section 8.9 of the Salem City Charter, we are pleased to present the City of Salem (the City) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2010. 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.

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

Management's discussion and analysis (MD&A) 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 190 miles west of Richmond and 250 miles southwest of Washington, DC. Its position in the southeastern United States gives the City ready access, within a 500-mile radius, to nearly two-thirds of the total population of the United States. In addition, the City lies at the region's crossroads of major rail and highway systems, making it a part of the principal trade, industrial, transportation, medical and cultural center of western Virginia.

Chartered by the Commonwealth of Virginia as a town in 1806 and as a city in 1968, Salem encompasses a land area of 14.4 square miles. The City's 2010 estimated population, 25,462, accounts for approximately 8.5% of the population in its metropolitan statistical area (MSA), which includes the neighboring City of Roanoke and Counties of Botetourt, Craig, Franklin and Roanoke.

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

The financial reporting entity reflected in the CAFR, which is more fully described in Note 1 to the basic financial statements, conforms to the requirements of 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, the City of Salem School Division. A component unit is a legally separate entity, which meets one of three conditions: the governing board is appointed by the primary government, the entity is fiscally dependent on the primary government, or excluding the entity could potentially result in misleading financial reporting. A five-member School Board appointed by City Council supervises operations for the School Division. The School Division receives significant financial support from the City. Given these conditions, the School Division is presented in a separate column in the government-wide financial statements to emphasize that it is legally separate from the primary government and to differentiate its financial position and results of operations from that of the primary government.

Local Economic Condition and Outlook

Salem has a large and diverse economic base that has enabled the City to fare better than many other localities during the current recessionary times. 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. Included in the manufacturing process are hi-tech electronics, medical equipment, tires, furniture, steel, tool and die and railroad equipment, just to name a few. Salem is home to two of the largest medical facilities in the area, Lewis Gale Medical Center and the Veteran's Administration Medical Center. General Electric and Yokohama Industries are Salem's largest manufacturing employers, providing 1,600 jobs. Roanoke College, with a student population of 2,000, is located in Salem. The top employers in Salem provide over 8,400 jobs to Salem's citizens and those of the surrounding valley.

Given current economic conditions, Salem is proud to have growth continuing in the community. A new Lowe's Home Improvement Store opened in April 2010, bringing new jobs and tax dollars to the City. The store has 117,000 square feet of retail space with a 31,600 square foot garden center. A store of this size represents an average investment in the community of approximately $18.5 million. Lowe's Companies, Inc. is the second-largest home improvement store in the world and a Fortune 500 company with over 1,700 stores in the United States, Canada and Mexico.

Yokohama, Salem's largest manufacturer, announced a $13 million expansion of their Salem operations. The expansion will add at least 50 jobs and include new tire-making machinery and upgrades to existing machines. The expansion should be completed by August 2011. Yokohama currently employs approximately 850 people.

Construction was nearing completion on Salem Terrace, an apartment-style assisted living facility. Salem Terrace offers 76 units and represents an investment of $7.6 million. Several businesses relocated to newly constructed offices in the City. Member One Credit Union opened their new office at the site of the former Snuggery Restaurant on West Main Street. A new Invision optical office was built. Construction began on the Veteran's Administration Credit Union located on Main Street and is expected to be completed by the end of calendar year 2010. A Kroger Fueling Center was constructed at Spartan Square. O'Reilly Auto Parts, an auto parts supply company with 3,400 stores in 38 states, opened a new location on Main Street. Carilion OB/GYN opened on Spartan Drive. Nancy's Candy Company opened a store at Lakeside Plaza Shopping Center. ITT Technical Institute, a private college system focused on technology-oriented programs of study, opened on Apperson Drive. Several restaurants opened in Salem, including IHOP, Dairy Queen, Hibachi Express, Mamma's Pizza and Salem House Restaurant.

Construction of new homes has slowed compared to prior years, but 37 new homes and townhouses with an assessed value of $7.57 million were constructed in the City during fiscal year 2010. Construction continued in several different subdivisions in the City.

Lower consumer spending, higher unemployment rates, a slight decrease in new home construction and increases in energy costs continued to affect the nation and our city during fiscal year 2010. Despite financial challenges during fiscal year 2010, Salem continued to provide an atmosphere and quality of life conducive to families and businesses. Over the years, Salem has been able to maintain stable property tax rates. Salem's unemployment rate of 7.2% is higher than previous years, but well below the national unemployment rate of 9.6%. 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.

In fiscal year 2010, general fund revenues declined $1.5 million or 2.3%. Property taxes comprised approximately 49.7% of general fund revenues and remained level with the prior year. Many localities faced major declines in real estate assessments. However, Salem's real estate assessments rose 1.5% in fiscal year 2010, resulting in an increase in tax revenue of $180,000. Collections during the 60 day availability period were lower compared to the prior year causing a larger amount of real estate tax revenue to be deferred. The number of foreclosures remained level with the 2009 figures. However, the 2009 figures reflected a substantial increase from 2008 numbers. Personal property tax revenue declined $105,000 or 1.3% due to lower NADA values and a decline in the number of new vehicles purchased. The exemption for idle equipment resulted in a decline of 4.2% or $109,000 in machinery and tools tax revenue.

Other local tax revenue declined approximately $700,000 or 4.1%. These revenue streams were very reflective of economic conditions. Sales tax revenue was down $76,000 or 1.4%. Recordation, meals, lodging and cigarette tax revenues all declined from the previous fiscal year. Business license taxes, which are based on gross receipts, declined $406,000 or 8.4% from fiscal year 2009.

Charges for services revenue decreased $320,000 or 7.0% largely due to reduced costs for waste collection and disposal, offset by a corresponding decrease in transportation and disposal costs. Intergovernmental revenues decreased $340,000 or 3.2% due to the receipt of federal grant monies totaling $623,000 received in the prior year to purchase several residential structures located in flood plain areas. Only one property was purchased in fiscal year 2010 and reimbursement of $137,000 was received.

In addition to a decline in some local tax revenues resulting from the current recession, funding from the Commonwealth of Virginia was again reduced by $152,797 to alleviate budget issues at the

state level. Funding for the police department, constitutional offices, registrar, library and Comprehensive Services for At Risk Youth and Families were areas included in these cuts. For fiscal year 2010, state cuts in school funding were partially alleviated with funding received from the American Recovery and Reinvestment Act. However, this funding source is not available after fiscal year 2011.

In fiscal year 2010, the City instituted measures to decrease expenditures to a sustainable level while continuing to maintain the high service levels to which our citizens are accustomed. Due to the budgetary challenges that the City faced, a hiring freeze continued and limited capital equipment purchases were made. As a result of these and other cost saving measures, general fund expenditures declined $4 million or 6.3%. Cuts were made in virtually all departments. General government expenditures were less because $1.2 million was spent in the prior year to equip the new data center. Public works costs were down $1 million or 8.4% largely due to reduced waste disposal costs. Expenditures in the parks, recreation and cultural area declined because costs for golf course improvements and signage for Salem Memorial Park were purchased in the previous year. Community development expenditures were higher in the previous year due to the purchase of properties located in the flood plain. Salem was able to maintain funding for education at the same level as the previous year.

Salem offers health insurance benefits to its retirees, which were funded on a “pay as you go” basis until fiscal year 2009 when new GASB reporting requirements became effective. Changes to the City’s postemployment benefit program were adopted in June 2010, which greatly reduced the annual required contribution for other postemployment benefits. This was reflected in nondepartmental expenditure reductions. In fiscal year 2010, Salem was able to fully fund the annual required contribution for other postemployment benefits and also made a contribution of $100,000 to reduce the liability incurred in the previous year.

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. Each of Salem’s six schools and the division as a whole have met or exceeded the adequate yearly progress benchmarks under the *No Child Left Behind Act* for the 2009-2010 school year. Salem is one of just seven school divisions in the entire state to reach this goal. Andrew Lewis Middle School earned the 2010 Governor’s Award for Educational Excellence. The school was one of only 16 middle schools in Virginia to earn this prestigious honor. The Virginia Board of Education recognized South Salem Elementary, West Salem Elementary, G.W. Carver Elementary and the Salem City School Division with its Board of Excellence Award. G.W. Carver Elementary and East Salem Elementary were recognized for the sixth consecutive year as Distinguished Title I schools by the Virginia Department of Education.

Salem continues to be active in tourism development as a means of economic development. The City participates with the Roanoke Valley Convention and Visitors Bureau to promote conventions and events in the region. The annual Salem Fair was held at the Salem Civic Center and was the second largest fair in the state. Nearly 300,000 people attended the Salem Fair held in July 2009, an increase of approximately 10% from the previous year. The Salem Red Sox played their second season at Salem Memorial Stadium with approximately 225,000 fans in attendance. Events such as Stagg Bowl, Roanoke Valley Horse Show, Olde Salem Days, NCAA Championship events and many other events bring hundreds of thousands of participants, spectators and tourists to Salem and the surrounding area.

The NCAA awarded Salem and the Old Dominion Athletic Conference approval to serve as co-hosts for the Amos Alonzo Stagg Bowl and the Men's Division III Basketball championship through 2013. The Stagg Bowl football contract is for an unprecedented three years. Besides football and basketball, the City was awarded women's softball through 2013. In 2011, the Division II and Division III championships will be played back-to-back weeks at the James I. Moyer Complex. In 2012, Division III will return, while Division II softball comes back to town in 2013. These events bring thousands of visitors to the region.

The City continued work on several major projects during fiscal year 2010. Construction of the new electric department service center and administration building was completed in the spring of 2010. Located at the corner of West Main and Fourth Street, the building has more than 30,000 feet of space for offices, storage and a warehouse and includes 16 truck bays. The City's new data center, which centralizes all technology-related operations for both the City and School Division, is also housed at this facility.

The Colorado Street Bridge replacement project continued in fiscal year 2010. This project is funded by federal, state and local monies and is anticipated to cost $3.5 million. Construction is expected to be completed in December 2010. In fiscal year 2010, construction of Phase II of the Roanoke River Greenway project was completed. Phase II was funded with Transportation Enhancement funds and connects the trail from the new Colorado Street Bridge to Rotary Park on Virginia Route 419. Rotary Park represents the second step in more than 10 miles of planned trails in the City between the Roanoke River Greenway and Mason Creek Greenway. Funds from the American Recovery and Reinvestment Act were awarded to construct Phase III of the Roanoke River Greenway which will extend the greenway approximately 1.3 miles from Eddy Street to Mill Lane. Design work began on Phase III in fiscal year 2010 with construction anticipated to begin in the summer of 2011.

A new amphitheatre was constructed at Longwood Park with funds generously provided by the Salem Jaycees. The facility lends itself to hosting music and other performing arts events and adds a new dimension to Longwood Park. The amphitheatre was built by the City's Streets and Maintenance Department and dedicated in July 2010.

Construction continued on a new water line on Red Lane to replace a line that was over 70 years old and located under Interstate 81, making it inaccessible for maintenance. The new line will run under the bridge on Red Lane and will be easily accessible for maintenance and repairs. Improvements were completed on Penguin Lane to connect homes and businesses served by an aging booster station to Western Virginia Water Authority lines. The old system was not reliable and could cause major problems in the event of station failure as several hotels and other businesses are served by this line. Phase I of a five-phase sewer rehabilitation project was completed. The project included slip lining of sewer pipes, manhole replacement, manhole frame and cover replacement and manhole rehabilitation.

Financial Policies and Financial Planning

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

The budget function is used as a management tool, including performance objectives, goals and long-range planning, as well as maintaining budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Activities of the general fund and debt service fund are included in the annual budgetary control established at the fund level (that is, the level at which expenditures cannot legally exceed the appropriated amount.) 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.

The City prepares a five-year capital improvement plan, which identifies and prioritizes major City projects. Cost estimates and potential funding sources are also identified. The City will closely monitor availability of funding and proceed with capital purchases only as funds become available.

It is the City's policy to maintain healthy reserves in all funds, but 2010 was a struggle. Fund balance in the general fund was reduced by $180,983. In past years when revenues performed well, it was the City's goal to increase fund balance reserves as a safeguard in times of need. Given the revenue declines experienced in the past two fiscal years, the City felt it was appropriate to use some of these reserves instead of eliminating services to our citizens. Cost cutting measures remain in place for fiscal year 2011 to prevent further decreases in fund balance. Employee raises were not budgeted and a hiring freeze remains in place. Capital spending will be closely monitored and approved as funds are available.

Enterprise funds also saw decreases in net assets in fiscal year 2010. However, a rate study was completed to determine the appropriate rates for water and sewer services. Effective July 1, 2010, a new rate structure and fee schedule for water and sewer services was instituted. The City purchases electricity for consumption and resale to City residents through an agreement with American Electric Power Service Corporation. Effective September 2009, the City increased electric rates charged to customers to offset increasing electricity costs. For fiscal year 2010 electric costs increased 10.2%. The City anticipates an increase in wholesale electricity rates of 8% in fiscal year 2011.

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 2009. This represents the twenty-second 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 you bring to this City and the strong commitment you have made to its fiscal integrity and financial leadership. Lastly, we would like to express our appreciation to our independent auditing firm, Brown, Edwards & Company, L.L.P., for their cooperation and input in our efforts.

Respectfully submitted,

Kevin S. Boggess
City Manager

Frank P. Turk
Director of Finance

CITY OF SALEM, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
JUNE 30, 2010

MEMBERS OF CITY COUNCIL

Byron R. Foley ..... Mayor
John C. Givens ..... Vice-Mayor
Lisa D. Garst ..... 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 ..... Treasurer
Linda M. Carroll ..... Commissioner of the Revenue
Thomas E. Bowers ..... Commonwealth's Attorney
Gary Chance Crawford ..... Clerk of Circuit Court
Eric A. Atkins. ..... City Sheriff
Carolyn H. Barrett ..... Director of Human Resources
Mark R. Waldron ..... Director of Management Information Systems
Angela A. Sellers ..... Director of Technology Systems
Jeff Dudley ..... Police Chief
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 and Transfer Station
Melinda J. Payne. ..... Director of Planning and Economic Development
R. Carey Harveycutter, Jr. ..... Director of Civic Facilities
Mike Stevens ..... Director of Communications

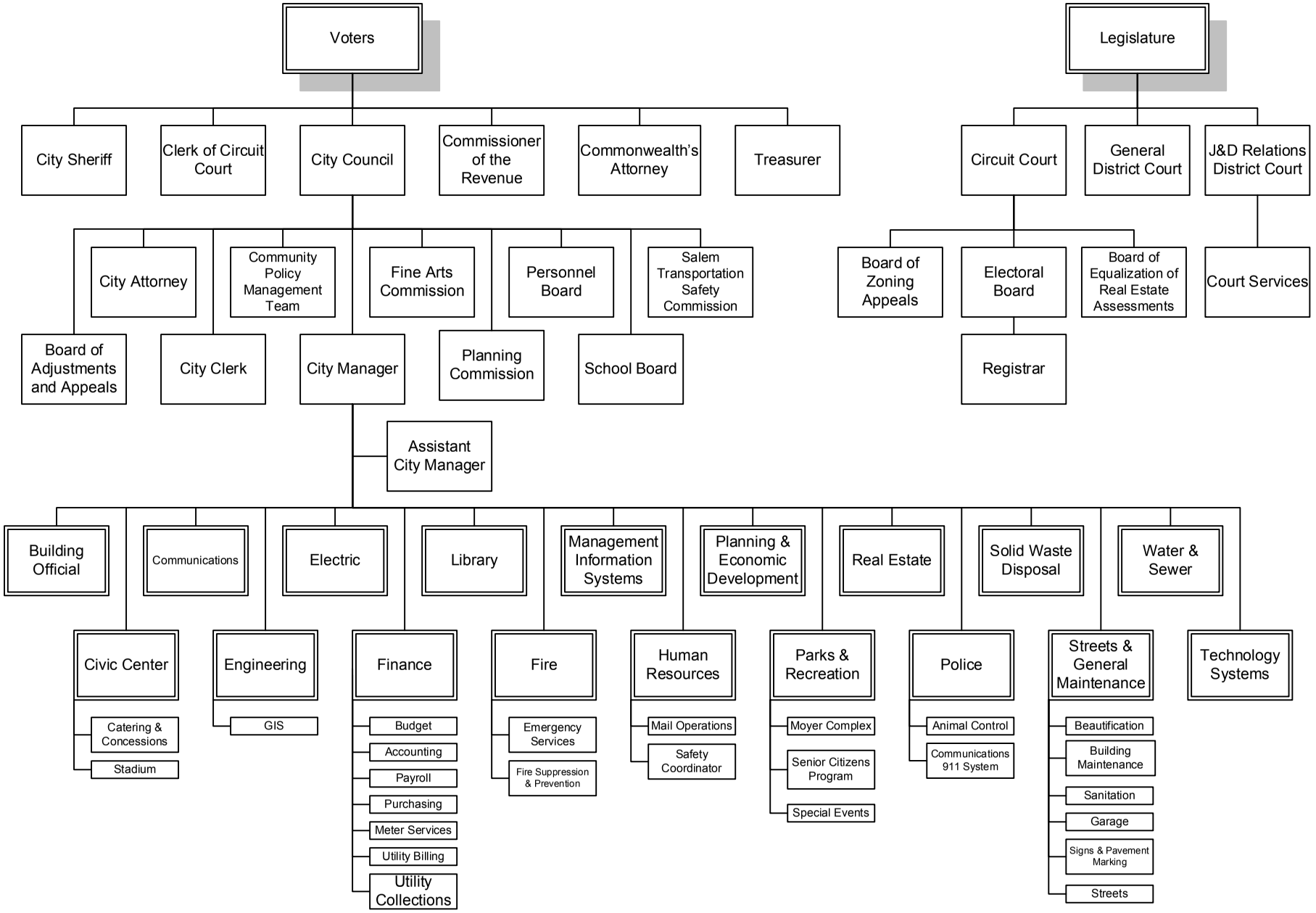
MEMBERS OF SCHOOL BOARD

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

SCHOOL ADMINISTRATION

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

CITY OF SALEM, VIRGINIA
ORGANIZATIONAL CHART
JUNE 30, 2010



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, 2009

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.

President

Executive Director

BROWN,
EDWARDS&
COMPANY, L.L.P.
Certified Public Accountants

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

Providing Professional Business Advisory & Consulting Services

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 19 through 31, the Analysis of Funding Progress for Defined Benefit Pension Plan and the Analysis of Funding Progress for Other Postemployment Benefits on pages 69 through 70 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-profit Organizations*, and is also not a required part of the financial statements of the City. The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 23, 2010

The following discussion and analysis of the City of Salem, Virginia's (the City's) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2010. It should be read in conjunction with the transmittal letter and the City's basic financial statements.

FINANCIAL HIGHLIGHTS

- As of June 30, 2010, the City of Salem's primary government had $144.5 million in total net assets, which increased $1.2 million from prior year. Unrestricted net assets available to fund future expenses were $11 million or 7.6% of total net assets and decreased $1.6 million from prior year.

- As of June 30, 2010, the governmental activities had $80.9 million in total net assets, which increased $1.7 million from prior year. Unrestricted net assets available to fund future expenses were $(9.4) million or (11.6)% of total net assets and increased by $1.3 million from prior year.

- As of June 30, 2010, the business-type activities had $63.6 million in total net assets, which decreased $496,690 from prior year. Unrestricted net assets available to fund future expenses were $20.4 million or 32.1% of total net assets and decreased $2.9 million from prior year.

- As of June 30, 2010, the general fund had $6.2 million in total fund balance, which decreased by $180,983 from prior year. This was primarily a reduction of unreserved fund balances available to fund future expenditures which were $5.2 million or 83.9% of total fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The government-wide financial statements begin on page 33 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, which is 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. Property taxes, other local taxes and federal and state grants finance most of these activities.

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

Component unit – The City includes a discretely presented component unit in this report, the City of Salem School Division (School Division). 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 35 and provide detailed information about the most significant funds, rather than the City as a whole. The City has three types of funds.

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

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-term and long-term financial information.

The City's enterprise funds, one type of proprietary fund, are accounted for in the same manner as the government-wide business-type activities; however, the fund financial statements provide more detail and additional information, such as cash flows. The City's enterprise funds include the electric fund, water and sewage fund, Civic Center and catering and concessions.

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

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
(In Millions)

	Governmental Activities		Business-type Activities		**Total Primary Government**		**Component Unit**	
	2010	2009	2010	2009	2010	2009	2010	2009
Current and other assets	$11.0	$10.7	$27.7	$30.1	$ 38.7	$ 40.8	$ 9.8	$ 8.8
Capital assets, net	100.3	101.0	100.5	101.1	200.8	202.1	38.4	38.5
Total assets	111.3	111.7	128.2	131.2	239.5	242.9	48.2	47.3
Current and other liabilities	3.7	3.3	7.8	7.4	11.5	10.7	4.7	4.4
Long-term liabilities	26.7	29.2	56.8	59.7	83.5	88.9	0.9	0.9
Total liabilities	30.4	32.5	64.6	67.1	95.0	99.6	5.6	5.3
Invested in capital assets, net of related debt	90.3	89.9	43.2	40.8	133.5	130.7	38.4	38.5
Unrestricted	(9.4)	(10.7)	20.4	23.3	11.0	12.6	4.2	3.5
Total net assets	$80.9	$79.2	$63.6	$64.1	$144.5	$143.3	$42.6	$42.0

The primary government net assets increased from $143.3 million to $144.5 million. Net assets of governmental activities increased $1.7 million offset by a decrease of $496,690 in business-type activities. A detailed description of the changes in revenues and expenses that create the differences in net assets is discussed in the next section.

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

The primary government's unrestricted net assets, the portion of net assets that can be used to finance the daily operations of the City was $11 million, which decreased by $1.6 million from prior year. The City assumes all debt issued for school improvements, while the School Division records the related asset. As such, the City included $14.1 million of School Division bonds and other debt in governmental activities long-term liabilities which directly reduces unrestricted net assets.

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. The City had no restricted net assets as of June 30, 2010.

As of June 30, 2010, the component unit had $42.6 million in total net assets, which increased $600,176 from prior year. Unrestricted net assets available to fund future expenses were $4.2 million or 9.9% of total net assets and increased by $683,394 from prior year.

Summary of Changes in Net Assets

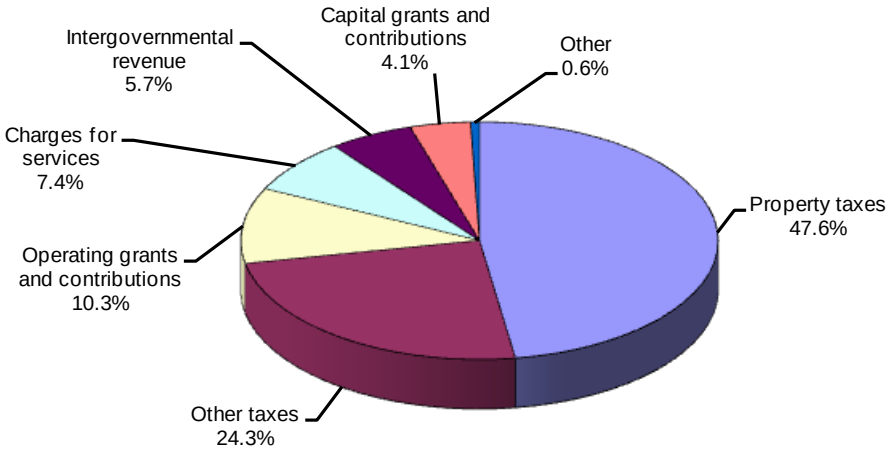
The following table presents a condensed summary of changes in net assets.

Summary of Changes in Net Assets
(In Millions)

	Governmental Activities		Business-type Activities		**Total Primary Government**		**Component Unit**	
Revenues	2010	2009	2010	2009	2010	2009	2010	2009
Program Revenues:								
Charges for services	$ 4.9	$ 5.3	$ 45.1	$ 43.8	$ 50.0	$ 49.1	$ 1.7	$ 1.6
Operating grants and contributions	6.8	6.8	-	-	6.8	6.8	8.7	6.7
Capital grants and contributions	2.7	2.1	-	-	2.7	2.1	-	-
General Revenues:								
Property taxes	31.5	31.3	-	-	31.5	31.3	-	-
Local sales and use tax	5.5	5.6	-	-	5.5	5.6	-	-
Business license tax	4.4	4.8	-	-	4.4	4.8	-	-
Meals tax	2.4	2.4	-	-	2.4	2.4	-	-
Utility taxes	1.1	1.1	-	-	1.1	1.1	-	-
Other taxes	2.7	2.9	-	-	2.7	2.9	-	-
Intergovernmental revenue	3.8	3.9	-	-	3.8	3.9	-	-
Investment earnings	0.1	0.2	-	0.2	0.1	0.4	-	-
Gain on sale of property	-	-	-	0.2	-	0.2	-	-
Payments from City of Salem	-	-	-	-	-	-	18.4	18.4
State aid	-	-	-	-	-	-	13.7	16.0
Other	0.3	0.4	0.3	-	0.6	0.4	0.4	0.4
Total revenues	$ 66.2	$ 66.8	$ 45.4	$ 44.2	$ 111.6	$ 111.0	$ 42.9	$ 43.1
Expenses								
General government	$ 5.4	$ 6.0	$ -	$ -	$ 5.4	$ 6.0	$ -	$ -
Judicial administration	1.8	1.9	-	-	1.8	1.9	-	-
Public safety	15.3	15.9	-	-	15.3	15.9	-	-
Public works	14.0	14.9	-	-	14.0	14.9	-	-
Health and welfare	2.3	2.4	-	-	2.3	2.4	-	-
Education	18.4	18.4	-	-	18.4	18.4	42.3	43.0
Parks, recreation and cultural	5.1	5.6	-	-	5.1	5.6	-	-
Community development	1.7	1.8	-	-	1.7	1.8	-	-
Interest on long-term debt	1.1	1.2	-	-	1.1	1.2	-	-
Electric	-	-	31.0	$ 28.8	31.0	28.8	-	-
Water and sewage	-	-	11.0	11.3	11.0	11.3	-	-
Civic center	-	-	2.3	2.4	2.3	2.4	-	-
Catering and concessions	-	-	1.0	1.0	1.0	1.0	-	-
Total expenses	65.1	68.1	45.3	43.5	110.4	111.6	42.3	43.0
Excess (deficiency) before transfers	1.1	(1.3)	0.1	0.7	1.2	(0.6)	0.6	0.1
Transfers	0.6	1.6	(0.6)	(1.6)	-	-	-	-
Increase (decrease) in net assets	1.7	0.3	(0.5)	(0.9)	1.2	(0.6)	0.6	0.1
Net assets, beginning	79.2	78.9	64.1	65.0	143.3	143.9	42.0	41.9
Net assets, ending	$ 80.9	$ 79.2	$ 63.6	$ 64.1	$ 144.5	$ 143.3	$ 42.6	$ 42.0

Governmental Activities – Revenues

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



Property taxes, which were 47.6% of total governmental activities revenue, include real estate tax, the local portion of personal property tax, machinery and tools tax and public service corporation taxes. These revenues increased $141,604 from prior year primarily due to an increase in real estate tax revenue. Assessments increased approximately 1.5%. The exemption for idle equipment adopted by the state caused a decline of $109,000 in machinery and tools tax revenue.

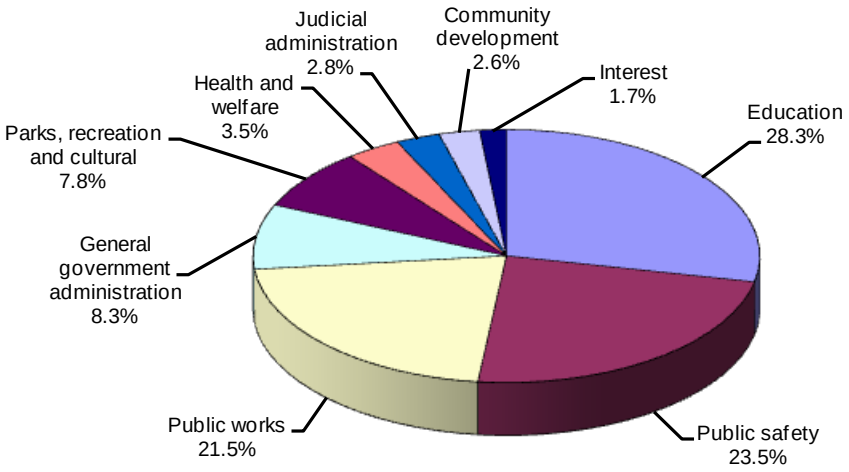
Other taxes, which were 24.3% of total governmental activities revenues, include sales and use taxes, business and professional occupational license taxes, meals tax, utility taxes, lodging taxes, motor vehicle taxes, cigarette taxes and other taxes. These revenues decreased $690,951 from prior year primarily due to reductions in business license tax, local recordation tax and sales and use tax. Performance of these revenues was reflective of current economic conditions.

Operating grants and contributions, which were 10.3% of total governmental activities revenues, include social service programs, street maintenance funds, reimbursement for constitutional officers, funding received under House Bill 599 for law enforcement and other grants and contributions. These revenues increased $64,576 from prior year primarily due to an increase in revenue received under the Comprehensive Services Act for social services offset by state cuts in 599 funding and reimbursement for constitutional officers.

Charges for services, which were 7.4% of total governmental activities revenues, include fines, court fees, inspection fees, garbage collection fees, recreation fees and other program-based fees. These revenues decreased $457,155 from prior year primarily due to a decline in solid waste disposal and container fees. The reduction in remodeling and construction activity related to current economic conditions resulted in lower amounts of solid waste. A corresponding decrease was reflected in public works expenses due to lower transportation and disposal costs. Fees charged for ambulance transports under the revenue recovery program also declined.

Capital grants and contributions, which were 4.1% of total governmental activities revenue, include grants received from federal and state agencies to fund capital purchases. These revenues increased $589,989 due to the receipt of $290,799 more funding for the Colorado Street bridge project. Additional funding of $210,390 was received for the Mason Creek and Roanoke River greenway projects. In addition, infrastructure donations from contractors were higher in fiscal year 2010. These increases were partially offset by a decline in funding received from FEMA to purchase homes located in the flood plain.

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



In the prior year, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which was effective July 1, 2008. The City fully funded its actuarially determined annual required contribution of $452,323 and paid an additional $100,000 to reduce the OPEB liability incurred in fiscal year 2009. OPEB expense was allocated based on full-time equivalent City government employees by functional area. Due to policy changes adopted in June 2010, the annual required contribution was significantly lower than the prior year.

Education expenses totaling $18.4 million or 28.3% of governmental activities, represents the largest allocation of resources. These expenses remained at the same level as the prior year.

Public safety expenses, which were 23.5% of total governmental activities expenses, include operations of the labor-intensive police and fire departments, along with expense of emergency medical services, communications (E-911 call center) and the cost of juvenile justice programs. These expenses decreased $601,944 from prior year primarily due to a lower annual required contribution for OPEB in the current year. Depreciation expense also decreased.

Public works expenses, which were 21.5% of total governmental activities expenses, include engineering, solid waste management, building maintenance, street paving, traffic engineering and street maintenance. These expenses decreased $887,565 from prior year primarily due to a reduction in solid waste transportation and disposal costs and a reduction in the annual required contribution for OPEB.

General government expenses, which were 8.3% of total governmental activities expenses, include charges for administrative departments. These expenses decreased $608,826 from prior year primarily due to a reduction in the annual required contribution for OPEB, partially offset by an increase in depreciation expense. The new data center was completed in fiscal year 2010, increasing depreciation expense.

Parks, recreation and cultural expenses, which were 7.8% of total governmental activities expenses, include maintenance of city parks, the library and costs for citywide recreational and athletic programs and events. These expenses decreased $556,779 from prior year primarily due to a reduction in the annual required contribution for OPEB. Depreciation expense also decreased.

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

Component Unit – School Division Activities
The School Division incurred total expenses of $42,393,446 for the year ended June 30, 2010 a decrease of $610,139 or 1.4% from prior year. Cost control measures were instituted to offset the reduction of $2.3 million in state aid. State aid includes basic aid and lottery proceeds, which decreased from the previous year due to actions taken at the state level. Sales tax was also included in this category and was adversely affected by current economic conditions. Funding received under the American Recovery and Reinvestment Act partially offset the reductions in State Aid and was reflected as an increase in operating grants and contributions.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds
As of June 30, 2010, the governmental funds had $6 million in total fund balance, which decreased by $546,802 from prior year. Unreserved fund balances available to fund future expenditures were $4.1 million or 68.3% of total fund balance and increased by $677,371 from prior year. Unreserved fund balance is available to purchase capital equipment, pay self-insured healthcare claims, pay for future years' capital projects expenditures and provide for unforeseen circumstances. The remainder of fund balance is reserved for inventory, prepaid items and encumbrances because it has already been committed to liquidate contracts and purchase orders outstanding at year-end.

General Fund
The general fund is the chief operating fund of the City. As of June 30, 2010, the general fund had $6.2 million in total fund balance, which decreased by $180,983 million from prior year. Unreserved fund balances available to fund future expenditures were $5.2 million or 83.9% of total fund balance and decreased by $303,103 from prior year. As a measure of the general fund's liquidity, it may be useful to compare both total fund balance and unreserved fund balance to total fund expenditures. Total fund balance to total fund expenditures is 10.3% for 2010, which is up from 9.9% in the prior year. Unreserved fund balance to total fund expenditures is 8.6% for 2010, which is up from 8.5% in the prior year.

City Council has stated its intent to increase the undesignated general fund balance to a minimum of 15% of general fund revenues. Undesignated fund balance to total fund revenues is 5.8%, which decreased from 6.8% in the prior year, short of City Council's goal. The state of the economy and the implementation of GASB 45 related to other postemployment benefits have adversely affected progress towards this goal.

Property taxes, which were 49.7% of total general fund revenue, increased $10,674 from the prior year. While real estate assessments increased slightly, collections were down, increasing the amount of deferred revenue.

Other local taxes, which were 25.5% of total general fund revenue, decreased by $690,951 from the prior year. This category of revenue was reflective of local economic conditions. Lower consumer spending adversely affected sales tax, which declined 1.4%. Business and occupational license taxes, calculated based on businesses' gross receipts, decreased $406,219 or 8.4%. Bank stock, meals, lodging and cigarette taxes also declined.

Intergovernmental revenue, which is 16.5% of total general fund revenue, decreased $338,933 from the prior year. In fiscal year 2009, FEMA grant money totaling $622,879 was received to acquire five properties in the flood plain. In fiscal year 2010, one property was acquired and reimbursement of $136,959 was received. Funding for the constitutional officers was cut by $118,657 or 6%. Funding received under the Comprehensive Services Act increased as more children required assistance and the types of services needed resulted in higher costs.

Charges for services, which were 6.8% of total general fund revenue, decreased $320,195 from prior year due to lower waste collection and disposal charges. A corresponding decrease in transportation and disposal costs is reflected in public works expenditures. The number of remodeling and construction projects was down, reducing the amount of waste delivered to the transfer station. In addition, efforts to emphasize recycling increased the amount of waste recycled and generated $32,608 more in recycling revenue.

Education expenditures, which represents operating support provided to the School Division, remained level with the prior year.

Public works expenditures, which were 18.3% of total general fund expenditures, decreased by $1 million from the prior year. As previously discussed, waste transportation and disposal costs decreased by almost $400,000. Eight positions were vacant in fiscal year 2010, reducing salary and fringe costs. Snow removal costs increased due to the higher than normal snowfall experienced during the winter, while paving, mowing and storm drain repair expenditures declined resulting in a net decrease of $180,523 in highway maintenance costs.

General government expenditures, which were 8.6% of total general fund expenditures, declined $1.1 from the prior year. In fiscal year 2009, $1.2 million was expended to purchase equipment for the new data center.

Parks, recreation and cultural expenditures, which were 6.9% of total general fund expenditures, decreased by $512,062 primarily due to baseball stadium improvements done in fiscal year 2009 to welcome the Red Sox. $83,000 was spent in the previous year for waterproofing at the Salem Stadium. Golf course costs were approximately $40,000 less due to costs incurred in the prior year to replace artificial turf greens with original sand greens. Spending for special events was also reduced.

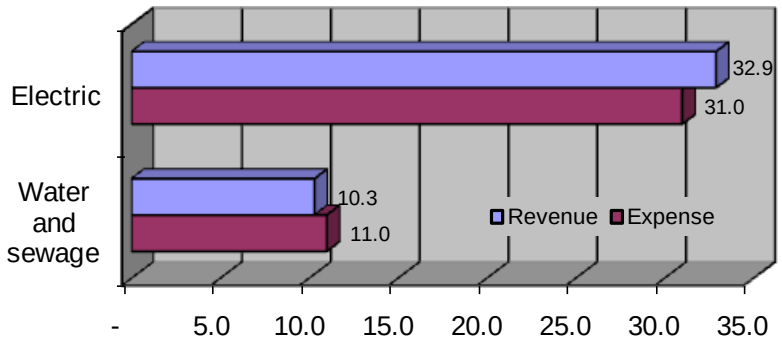
Non-departmental expenditures, which were 4.3% of total general fund expenditures, decreased $769,887 primarily due to a reduction in OPEB expenditures. Plan changes were adopted in June 2010 which greatly reduced the annual required contribution for OPEB. Contributions to civic and community organizations also declined.

Capital Projects Fund

During fiscal year 2010, the capital projects fund total fund balance decreased by $365,819. The negative unreserved fund balance of $1 million will be offset by future funding from the Commonwealth for current projects. Construction costs of $1.5 million were incurred for the Colorado Street Bridge project. Expenditures of $584,047 were incurred for the continued design and construction of the Roanoke River Greenway project. Revenue from the state totaling $1.8 million helped support these projects.

Proprietary Funds

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



Electric Fund

As of June 30, 2010, the electric fund had $33.8 million in total net assets, which decreased by $2.2 million from prior year. Net assets invested in capital assets, net of related debt were $15.1 million or 44.7% of total net assets and increased $2.5 million from prior year. Unrestricted net assets available to fund future expenses were $18.7 million or 55.3% of total net assets and decreased by $4.7 million from prior year.

For fiscal year 2010, operating revenue was $32.9 million and increased by $2.1 million from the prior year primarily due to a rate increase instituted to cover rising purchased power costs. Operating expenses were $30.7 million and increased by $2.1 million from prior year primarily due to increases in purchased power rates, partially offset by a decrease in expendable equipment. In the previous year, expendable equipment and small tools were purchased to furnish the new electric department building. Net nonoperating expense was $223,660, an increase in net expense of $338,525 from prior year primarily due to a decrease in interest income from depleting bond proceeds and an increase in interest expense. Transfers to the general fund were $1,542,417 and represent a payment in lieu of taxes of $1.5 million and $42,417 in funding assistance for telephone purchases. Transfers totaling $1.9 million and $600,000 were made to the water and sewage and civic center funds, respectively. Transfers to the water and sewage fund include a one-time conveyance of cash to cover prior year's reductions in net assets due to the former water and sewage rates. Although the 15% rate increases for both water and sewage services go into effect July 1, they are designed to cover future expenses and not recover past losses. Transfers to the civic center fund subsidized operating expenses.

Water and Sewage Fund

As of June 30, 2010, the water and sewage fund had $27.3 million in total net assets. Net assets invested in capital assets, net of related debt were $25.6 million or 93.8% of total net assets and increased $166,469 from prior year. Unrestricted net assets available to fund future expenses were $1.6 million or 6.2% of total net assets and increased by $1.3 million from prior year.

For fiscal year 2010, operating revenue was $10.3 million and decreased by $652,150 from prior year primarily due to a decline in consumption levels. Operating expenses were $9.5 million and decreased by $151,080 from prior year. Salary and fringe benefit costs declined as there were several positions vacant during fiscal year 2010. In addition, the annual required contribution for OPEB was significantly lower than the previous year, reducing fringe benefit costs. Water line maintenance costs declined. Labor and equipment rental credits, which were segregated in the previous year, are included in maintenance costs in fiscal year 2010, reducing maintenance expenses. Treatment of sewage costs were higher due to higher precipitation amounts during winter months. Net nonoperating expenses were $1.5 million and increased by $168,582 from prior year primarily due to a loss on sale of assets. Capital contributions received were $346,520 and increased by $338,045 because there were no contractor donations in the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

Budgetary Highlights for 2010
(In Millions)

	Original Budget	Budget As Amended	Actual
Revenues/transfers in	$ 65.8	$ 65.6	$ 64.8
Expenditures	(61.4)	(61.5)	(60.5)
Transfers out	(4.4)	(4.5)	(4.5)
Use of fund balance	$ -	$ (0.4)	$ (0.2)

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

- To re-appropriate monies for encumbrances established prior to June 30, 2009.
- To re-appropriate grants, donations and other revenues authorized in fiscal year 2009 or earlier, but not expended or encumbered as of June 30, 2009.
- To appropriate grants, donations and other revenues accepted or adjusted in fiscal year 2010 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.

CAPITAL ASSETS

The City's total primary government capital assets, net of accumulated depreciation, decreased .6% from $202.1 million to $200.8 million. This investment includes land, construction in progress, machinery and equipment, buildings and improvements, public domain infrastructure, distribution and transmission, utility plant and sewage treatment contract. The following table presents a summary of capital asset balances at the end of the year. The changes in each category of capital assets, along with other important information regarding capital assets, are presented in Note 6 of the financial statements.

Capital Assets, Net of Depreciation
(In Millions)

	Governmental Activities		Business-type Activities		**Total Primary Government**		**Component Unit**	
	2010	2009	2010	2009	2010	2009	2010	2009
Land	$ 5.7	$ 5.5	$ 1.4	$ 1.4	$ 7.1	$ 6.9	$ 1.1	$ 1.1
Construction in progress	5.2	4.0	2.8	16.2	8.0	20.2	0.6	0.2
Machinery and equipment	5.4	4.9	2.1	2.5	7.5	7.4	2.3	35.1
Buildings and improvements	26.5	27.6	18.2	3.4	44.7	31.0	34.4	2.1
Public domain infrastructure	57.5	59.0	-	-	57.5	59.0	-	-
Distribution and transmission	-	-	17.2	17.3	17.2	17.3	-	-
Utility plant	-	-	34.3	35.0	34.3	35.0	-	-
Sewage treatment contract	-	-	24.5	25.3	24.5	25.3	-	-
Total	$100.3	$101.0	$100.5	$101.1	$200.8	$202.1	$ 38.4	$ 38.5

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

- $1.5 million was spent for the continuation of the Colorado Street Bridge replacement. This project is expected to cost almost $3.5 million and will be funded by federal, state and local monies. It is expected to be completed in December 2010.
- $768,525 was spent making improvements to various sections of the Mason Creek and Roanoke River Greenways.
- $475,524 was spent on equipment upgrades to overhaul the City's technology backbone. The City's new data center was completed in fiscal year 2010 at a total cost of $1.7 million. The data center centralizes all technology-related operations for the City and School Division, providing upgrades to both system and communication infrastructure allowing for greater efficiency and redundancy.
- $310,648 was spent to replace one traffic signal and upgrade 14 other traffic signals throughout the City. All traffic loops are being replaced with cameras to improve traffic flow.
- As part of the Severe Repetitive Loss Program funded by FEMA, $152,293 was spent to acquire a property located in the flood plain. The house will be razed to create open land for better flood management.
- $83,581 was spent to replace aging storm drain infrastructure at three locations throughout the City. These improvements will improve water flow and reduce flooding.
- $42,244 was spent to reinforce the storm drain infrastructure at the corner of Main and Broad Streets.

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

- Construction of the new electric department building was substantially completed at a cost of $15.8 million. The project was funded through general obligation public improvement bonds issued in fiscal year 2006. The building has more than 30,000 square feet of space for offices, storage and a warehouse.
- Underground conduit was installed and underground conductors were replaced in the Woodbridge and Karen Hills subdivisions at a cost of $126,953. As part of this project, transformers were moved to more favorable locations.
- $18,640 was expended in the current year to complete the Penguin Lane water line project. The Penguin Lane water line will provide fire protection and a secondary reliable source of water to the neighborhood. Total project costs were $470,126.
- $107,139 was expended to install a 12" interconnection to enable Western Virginia Water Authority (WVWA) to provide water service to Lewis Gale Medical Center in the event there is a failure or breakage in the City's system. The interconnection also allows the City to feed water to the WVWA in the event of a drought.
- $256,676 was spent on the general rehabilitation of the City's sewage system by replacing sewer manholes and lines.
- $67,000 was spent developing plans to rehabilitate the downtown and Roanoke River sewer sheds, which will eliminate sewer overflows and stop infiltration into the sewage system.

LONG-TERM DEBT

At June 30, 2010, the City's long-term liabilities, excluding compensated absences, other postemployment benefit liabilities, bond discounts and bond costs, totaled $80.7 million. This amount was comprised of $24.2 million related to governmental activities (including $14.1 million for debt held on behalf of the School Division) and $56.5 million related to business-type activities. The City made $5.5 million in principal payments and amortized $142,631 in bond issuance costs, discounts and premiums.

Moody's Investor Service recalibrated its ratings of U.S. municipal bond issues and issuers to its global rating scale in April 2010. As a result of this recalibration, the City maintained a GSR rating of Aa2 as of June 30, 2010. The City issued bonds subsequent to year-end through the VML/VACo pool and received 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 certain long-term liabilities of proprietary funds. The City considers long-term debt of its electric, water and sewage funds to be self-supporting. The City's tax-supported debt of $24.2 million is below the legal debt limit of $197.8 million. Table 10 of the statistical section provides additional information related to the legal debt margin.

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

Interest charges for fiscal year 2010 were $1.1 million or 1.7% of total governmental activities expenses.

FACTORS INFLUENCING FUTURE BUDGETS

Most economists agree that our nation is now slowly recovering from the recession. Salem's unemployment rate, while higher than previous years at 7.2%, is comparable to the state unemployment rate and well below the national unemployment rate of 9.6% (Virginia Employment Commission). Salem is experiencing the highest rates of unemployment in the construction industry, but is fortunate to have a large number of people employed in the health care industry, which is less affected by recessionary conditions than other industries (Virginia Employment Commission).

Salem continued to face financial challenges in fiscal year 2010 and anticipates that fiscal year 2011 will be difficult as well. The general fund revenue and expenditure budgets for fiscal year 2011 remain relatively level with fiscal year 2010 results. Property taxes comprise approximately 37% of the general fund revenue budget. Real estate and personal property tax revenues are expected to show slight increases from fiscal year 2010 amounts. Other local tax revenues are also expected to show slight recovery, with a 1.7% increase budgeted. Categorical aid from the State is budgeted 22% lower than fiscal year 2010 as the State continues to reduce funding provided to localities. A hiring freeze will continue in fiscal year 2011 and no employee raises have been budgeted. Funding for education comprises approximately 47.7% of the general fund expenditure budget. The City has been able to avoid cuts in education funding, which will remain level funded again in fiscal year 2011.

The City is in the fifth year of a twenty-year contract to purchase electricity. The rate the City pays for wholesale electricity varies based on the supplier's actual costs, which are affected by fuel and environmental costs. In fiscal year 2010, the cost to purchase electricity increased approximately $2.4 million or 10.2% from the previous year. To offset the rising costs of wholesale electricity, the City increased rates charged to customers by approximately 10% in September 2009. The City anticipates an 8% increase in wholesale electricity rates in fiscal year 2011.

A rate study was completed in fiscal year 2010 which analyzed the City's water and sewer rate structure, user rates and other fees and reviewed the current and projected revenue and expenses over the upcoming five-year period. Effective July 1, 2010, a new rate structure and several new fees were instituted. The monthly bills will now include a monthly base service fee and also a volume charge based on metered water usage. Rate increases necessary to produce sufficient system revenue to sustain long-term water and sewer systems will be phased incrementally over a four-year period. New fees, including non-user fees, fire suppression service fees and facility fees, were adopted effective July 1, 2010.

Salem School Division will receive a lower amount of American Recovery and Reinvestment Act funding in fiscal year 2011. In fiscal year 2010, $2.6 million was received. In fiscal year 2011, only $945,500 is anticipated. These funds will be used to pay for salary and fringe costs for six teachers. To accommodate cuts in state and federal revenue in fiscal year 2011, the school eliminated teacher

positions, reorganized administrative and clerical areas and implemented conservation measures to reduce utility budgets. In addition, lower VRS and life insurance rates will reduce fringe benefits costs.

REQUESTS FOR INFORMATION

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

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

BASIC FINANCIAL STATEMENTS

EXHIBIT 1

CITY OF SALEM, VIRGINIA
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Primary Government			
	Governmental Activities	Business-type Activities	Total	**Component Unit**
ASSETS				
Cash and cash equivalents	$ 2,962,287	$ 18,373,887	$ 21,336,174	$ 8,450,964
Investments	-	1,398,709	1,398,709	-
Receivables, net	2,731,392	5,601,843	8,333,235	3,740
Due from other governmental units	5,383,701	-	5,383,701	1,247,232
Internal balances	(700,000)	700,000	-	-
Inventories	506,700	1,575,317	2,082,017	40,753
Prepaid items	31,859	92,807	124,666	14,083
Restricted assets:				
Cash and cash equivalents	55,630	-	55,630	-
Capital assets:				
Nondepreciable	10,918,567	4,151,388	15,069,955	1,664,354
Depreciable, net	89,391,798	96,391,619	185,783,417	36,750,145
Total assets	111,281,934	128,285,570	239,567,504	48,171,271
LIABILITIES				
Accounts payable and accrued liabilities	2,056,717	5,895,678	7,952,395	749,822
Accrued payroll and related liabilities	1,065,436	309,633	1,375,069	3,595,489
Accrued interest	234,610	886,030	1,120,640	-
Self insurance claims liability	286,383	73,746	360,129	303,347
Unearned revenue	93,410	161,775	255,185	19,521
Customer security deposits	-	517,258	517,258	-
Long-term liabilities due in less than one year:				
Bonds payable	2,442,415	2,951,589	5,394,004	-
Other debt	125,000	-	125,000	-
Compensated absences	1,639,282	452,505	2,091,787	374,665
Long-term liabilities due in more than one year:				
Bonds payable	21,322,488	53,052,460	74,374,948	-
Compensated absences	290,317	141,378	431,695	531,081
Other postemployment benefits	840,643	225,247	1,065,890	-
Total liabilities	30,396,701	64,667,299	95,064,000	5,573,925
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	90,258,361	43,180,397	133,438,758	38,414,499
Unrestricted	(9,373,128)	20,437,874	11,064,746	4,182,847
Total net assets	$ 80,885,233	$ 63,618,271	$ 144,503,504	$ 42,597,346

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

EXHIBIT 2

CITY OF SALEM, VIRGINIA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
					Primary Government			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	*Governmental Activities*	*Business-type Activities*	Total	**Component Unit**
Primary Government								
Governmental activities:								
General government	$ 5,328,382	$ 153,190	$ 521,898	$ 44,295	$ (4,608,999)		$ (4,608,999)	
Judicial administration	1,779,072	297,460	976,071	-	(505,541)		(505,541)	
Public safety	15,330,477	900,837	1,163,966	15,275	(13,250,399)		(13,250,399)	
Public works	14,019,163	3,248,138	3,309,653	1,853,106	(5,608,266)		(5,608,266)	
Health and welfare	2,333,736	-	693,802	-	(1,639,934)		(1,639,934)	
Education	18,420,000	-	-	-	(18,420,000)		(18,420,000)	
Parks, recreation and cultural	5,064,065	231,794	162,538	659,746	(4,009,987)		(4,009,987)	
Community development	1,725,528	33,804	-	136,959	(1,554,765)		(1,554,765)	
Interest on long-term debt	1,137,667	-	-	-	(1,137,667)		(1,137,667)	
Total governmental activities	65,138,090	4,865,223	6,827,928	2,709,381	(50,735,558)		(50,735,558)	
Business-type activities:								
Electric	30,978,370	32,915,660	-	-		$ 1,937,290	1,937,290	
Water and sewage	11,065,592	10,329,200	-	-		(736,392)	(736,392)	
Civic Center	2,332,330	865,314	-	-		(1,467,016)	(1,467,016)	
Catering and concessions	965,556	940,834	-	-		(24,722)	(24,722)	
Total business-type activities	45,341,848	45,051,008	-	-		(290,840)	(290,840)	
Total primary government	$ 110,479,938	$ 49,916,231	$ 6,827,928	$ 2,709,381	$ (50,735,558)	$ (290,840)	$ (51,026,398)	
Component Unit	$ 42,393,446	$ 1,716,362	$ 8,728,103	$ -				$ (31,948,981)
		General revenues:						
		Property taxes			31,477,369	-	31,477,369	-
		Local sales and use taxes			5,492,934	-	5,492,934	-
		Business license tax			4,421,129	-	4,421,129	-
		Meals tax			2,429,239	-	2,429,239	-
		Utility taxes			1,105,818	-	1,105,818	-
		Other taxes			2,684,054	-	2,684,054	-
		Intergovernmental revenue not restricted			3,735,738	-	3,735,738	-
		Unrestricted investment earnings			132,522	23,297	155,819	-
		Payments from City of Salem			-	-	-	18,420,000
		State aid			-	-	-	13,691,655
		Other			324,136	346,520	670,656	437,502
		Transfers			575,667	(575,667)	-	-
		Total general revenues and transfers			52,378,606	(205,850)	52,172,756	32,549,157
		Change in net assets			1,643,048	(496,690)	1,146,358	600,176
		Net assets, beginning			79,242,185	64,114,961	143,357,146	41,997,170
		Net assets, ending			$ 80,885,233	$ 63,618,271	$ 144,503,504	$ 42,597,346

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

EXHIBIT 3

CITY OF SALEM, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 2,962,287	$ -	$ -	$ 2,962,287
Cash and cash equivalents, restricted	2,500	-	53,130	55,630
Receivables, net	2,731,392	-	-	2,731,392
Due from other governmental units	4,362,130	-	1,021,571	5,383,701
Due from other funds	350,000	-	-	350,000
Inventories	506,700	-	-	506,700
Prepaid items	31,859	-	-	31,859
Total assets	$ 10,946,868	$ -	$ 1,074,701	$ 12,021,569
LIABILITIES				
Accounts payable and accrued liabilities	$ 1,948,716	$ -	$ 108,001	$ 2,056,717
Accrued payroll and related liabilities	1,065,436	-	-	1,065,436
Self insurance claims liability	286,383	-	-	286,383
Due to other funds	-	-	1,050,000	1,050,000
Deferred revenue	1,424,552	-	183,836	1,608,388
Total liabilities	4,725,087	-	1,341,837	6,066,924
FUND BALANCES				
Reserved for:				
Inventories	506,700	-	-	506,700
Prepaid items	31,859	-	-	31,859
Encumbrances	499,788	-	784,005	1,283,793
Unreserved:				
Designated for uninsured claims	1,530,589	-	-	1,530,589
Undesignated	3,652,845	-	(1,051,141)	2,601,704
Total fund balances	6,221,781	-	(267,136)	5,954,645
Total liabilities and fund balances	$ 10,946,868	$ -	$ 1,074,701	

RECONCILIATION TO THE STATEMENT OF NET ASSETS

Capital assets used in governmental activities are not considered current financial resources and, therefore, are not reported in the governmental funds.	100,310,365
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	1,514,978
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable	(24,066,428)
Other debt	(125,000)
Bond discounts	10,679
Bond issuance costs	290,846
Accrued interest	(234,610)
Compensated absences	(1,929,599)
Other postemployment benefits	(840,643)
Net assets of governmental activities	$ 80,885,233

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

EXHIBIT 4

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	General	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Property taxes	$ 31,459,445	$ -	$ -	$ 31,459,445
Other local taxes	16,133,175	-	-	16,133,175
Permits, fees and licenses	243,035	-	-	243,035
Fines and forfeitures	159,179	-	-	159,179
Revenue from use of money and property	465,564	-	-	465,564
Charges for services	4,282,550	-	-	4,282,550
Other	113,639	-	59,233	172,872
Intergovernmental	10,420,134	250,000	1,854,899	12,525,033
Total revenues	63,276,721	250,000	1,914,132	65,440,853
EXPENDITURES				
Current:				
General government	5,232,405	-	-	5,232,405
Judicial administration	1,695,531	-	-	1,695,531
Public safety	14,358,932	-	-	14,358,932
Public works	11,101,013	-	-	11,101,013
Health and welfare	2,293,464	-	-	2,293,464
Education	18,420,000	-	-	18,420,000
Parks, recreation and cultural	4,204,705	-	-	4,204,705
Community development	618,217	-	-	618,217
Non-departmental	2,579,752	-	-	2,579,752
Capital projects	-	-	2,350,384	2,350,384
Debt service:				
Principal retirement	-	2,593,118	-	2,593,118
Interest	-	1,029,641	-	1,029,641
Total expenditures	60,504,019	3,622,759	2,350,384	66,477,162
Excess (deficiency) of revenues over expenditures	2,772,702	(3,372,759)	(436,252)	(1,036,309)
OTHER FINANCING SOURCES (USES)				
Transfers in	1,542,417	3,372,759	70,433	4,985,609
Transfers out	(4,496,102)	-	-	(4,496,102)
Total other financing sources (uses)	(2,953,685)	3,372,759	70,433	489,507
Net change in fund balances	(180,983)	-	(365,819)	(546,802)
Fund balances, beginning	6,402,764	-	98,683	
Fund balances, ending	$ 6,221,781	$ -	$ (267,136)	

RECONCILIATION TO THE STATEMENT OF ACTIVITIES

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate the cost of those assets over the life of the assets.	
Capital outlay	3,600,800
Capital donated	381,784
Depreciation expense	(4,216,622)
Net capital transfer from proprietary fund	130,455
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	(37,426)
Loss from sale of assets	(516,365)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as fund revenues.	351,078
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	2,593,118
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	(7,740)
Change in compensated absences	(75,527)
Change in other postemployment benefits	78,195
Changes in net assets of governmental activities	$ 1,643,048

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

EXHIBIT 5

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual Amounts	(Negative)
REVENUES				
Property taxes	$ 31,464,414	$ 32,289,414	$ 31,459,445	$ (829,969)
Other local taxes	17,084,632	16,214,632	16,133,175	(81,457)
Permits, fees and licenses	239,500	239,500	243,035	3,535
Fines and forfeitures	160,000	160,000	159,179	(821)
Revenue from use of money and property	616,000	436,500	465,564	29,064
Charges for services	5,312,550	4,354,550	4,282,550	(72,000)
Other	29,500	84,775	113,639	28,864
Intergovernmental	9,421,004	10,337,754	10,420,134	82,380
Total revenues	64,327,600	64,117,125	63,276,721	(840,404)
EXPENDITURES				
General government	5,517,728	5,357,698	5,232,405	125,293
Judicial administration	1,693,661	1,707,941	1,695,531	12,410
Public safety	14,406,699	14,457,314	14,358,932	98,382
Public works	11,921,907	11,572,977	11,101,013	471,964
Health and welfare	1,594,321	2,294,646	2,293,464	1,182
Education	18,420,000	18,420,000	18,420,000	-
Parks, recreation and cultural	4,727,628	4,269,664	4,204,705	64,959
Community development	541,600	623,725	618,217	5,508
Non-departmental	2,624,139	2,833,944	2,579,752	254,192
Total expenditures	61,447,683	61,537,909	60,504,019	1,033,890
Excess of revenues over expenditures	2,879,917	2,579,216	2,772,702	193,486
OTHER FINANCING SOURCES (USES)				
Transfers in	1,500,000	1,543,000	1,542,417	(583)
Transfers out	(4,379,917)	(4,496,102)	(4,496,102)	-
Total other financing uses	(2,879,917)	(2,953,102)	(2,953,685)	(583)
Net change in fund balances	$ -	$ (373,886)	$ (180,983)	$ 192,903

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

EXHIBIT 6

CITY OF SALEM, VIRGINIA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010

	Business-type Activities - Enterprise Funds			
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total Proprietary Funds
ASSETS				
Current assets:				
Cash and cash equivalents	$ 17,802,210	$ 69,741	$ 501,936	$ 18,373,887
Investments	1,398,709	-	-	1,398,709
Receivables, net	4,071,138	1,434,673	96,032	5,601,843
Due from other funds	700,000	-	-	700,000
Inventories	1,303,384	254,378	17,555	1,575,317
Prepaid items	-	1,151	91,656	92,807
Total current assets	25,275,441	1,759,943	707,179	27,742,563
Capital assets:				
Nondepreciable	1,285,733	2,689,002	176,653	4,151,388
Depreciable, net	34,095,108	60,048,273	2,248,238	96,391,619
Total capital assets	35,380,841	62,737,275	2,424,891	100,543,007
Total assets	60,656,282	64,497,218	3,132,070	128,285,570
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	5,550,016	211,890	133,772	5,895,678
Accrued payroll and related liabilities	99,878	119,910	89,845	309,633
Accrued interest	224,080	661,950	-	886,030
Self insurance claims liability	20,759	37,963	15,024	73,746
Unearned revenue	-	-	161,775	161,775
Customer security deposits	517,258	-	-	517,258
Bonds payable	605,670	2,345,919	-	2,951,589
Compensated absences	200,315	165,339	86,851	452,505
Total current liabilities	7,217,976	3,542,971	487,267	11,248,214
Long-term liabilities:				
Bonds payable	19,503,815	33,548,645	-	53,052,460
Compensated absences	80,845	14,542	45,991	141,378
Other postemployment benefits	59,368	117,006	48,873	225,247
Total long-term liabilities	19,644,028	33,680,193	94,864	53,419,085
Total liabilities	26,862,004	37,223,164	582,131	64,667,299
NET ASSETS				
Invested in capital assets, net of related debt	15,120,598	25,634,908	2,424,891	43,180,397
Unrestricted	18,673,680	1,639,146	125,048	20,437,874
Total net assets	$ 33,794,278	$ 27,274,054	$ 2,549,939	$ 63,618,271

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

EXHIBIT 7

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	Business-type Activities - Enterprise Funds			
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total Proprietary Funds
OPERATING REVENUES				
Charges for services	$ 32,657,597	$ 10,014,491	$ 1,743,483	$ 44,415,571
Connections and transfers	11,692	93,373	-	105,065
Penalties	89,763	178,833	-	268,596
Pole rentals	153,593	-	-	153,593
Commissions	-	-	22,135	22,135
Other	3,015	42,503	40,530	86,048
Total operating revenues	32,915,660	10,329,200	1,806,148	45,051,008
OPERATING EXPENSES				
Salaries	-	1,777,409	1,377,324	3,154,733
Fringe benefits	-	733,668	464,067	1,197,735
Show expenses	-	-	103,567	103,567
Maintenance	-	461,985	184,455	646,440
Billing and collection	349,274	497,404	-	846,678
Professional services	39,557	4,887	41,626	86,070
Insurance	41,013	51,822	12,918	105,753
Purchased power	25,618,485	-	-	25,618,485
Distribution - operations	1,158,819	-	-	1,158,819
Distribution - maintenance	1,030,122	-	-	1,030,122
Administration	753,233	225,959	26,362	1,005,554
Travel and training	-	8,469	9,137	17,606
Materials and supplies	-	388,175	302,484	690,659
Expendable equipment and small tools	164,618	17,611	-	182,229
Utilities	-	350,629	249,824	600,453
Miscellaneous	192,430	2,668	2,283	197,381
Depreciation	1,377,578	2,868,672	313,718	4,559,968
Amortization	7,266	92,868	-	100,134
Treatment of sewage	-	2,037,814	-	2,037,814
Commissions	-	-	209,057	209,057
Total operating expenses	30,732,395	9,520,040	3,296,822	43,549,257
Operating income (loss)	2,183,265	809,160	(1,490,674)	1,501,751
NONOPERATING REVENUES (EXPENSES)				
Interest income	22,315	-	982	23,297
Interest expense	(219,568)	(1,499,569)	-	(1,719,137)
Net decrease in fair value of investments	(4,129)	-	-	(4,129)
Loss on sale of capital assets	(22,278)	(45,983)	(1,064)	(69,325)
Net nonoperating revenue (expenses)	(223,660)	(1,545,552)	(82)	(1,769,294)
Income (loss) before contributions and transfers	1,959,605	(736,392)	(1,490,756)	(267,543)
Capital contributions in	-	346,520	-	346,520
Capital contributions out	(86,160)	-	-	(86,160)
Transfers in	-	1,900,000	1,660,618	3,560,618
Transfers out	(4,050,125)	-	-	(4,050,125)
Change in net assets	(2,176,680)	1,510,128	169,862	(496,690)
Net assets, beginning	35,970,958	25,763,926	2,380,077	64,114,961
Net assets, ending	$ 33,794,278	$ 27,274,054	$ 2,549,939	$ 63,618,271

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

EXHIBIT 8

CITY OF SALEM, VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	Business-type Activities - Enterprise Funds			
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total Proprietary Funds
OPERATING ACTIVITIES				
Receipts from customers	$ 32,265,017	$ 10,085,814	$ 1,896,764	$ 44,247,595
Payments to suppliers	(26,400,296)	(4,292,448)	(1,184,432)	(31,877,176)
Payments to employees	(1,686,402)	(2,538,064)	(1,842,367)	(6,066,833)
Other receipts	3,015	42,503	62,665	108,183
Net cash provided by (used in) operating activities	4,181,334	3,297,805	(1,067,370)	6,411,769
NONCAPITAL FINANCING ACTIVITIES				
Transfers in	235,000	1,900,000	1,652,911	3,787,911
Transfers out	(4,042,418)	(650,000)	(285,000)	(4,977,418)
Net cash provided by (used in) noncapital financing activities	(3,807,418)	1,250,000	1,367,911	(1,189,507)
CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of capital assets	(2,960,764)	(832,177)	-	(3,792,941)
Principal paid on capital debt	(583,238)	(2,314,035)	-	(2,897,273)
Interest paid on capital debt	(919,659)	(1,576,780)	-	(2,496,439)
Capital contributions	-	201,670	-	201,670
Net cash used in capital and related financing activities	(4,463,661)	(4,521,322)	-	(8,984,983)
INVESTING ACTIVITIES				
Proceeds from the sale of investments	2,724,338	-	-	2,724,338
Interest received	22,315	-	982	23,297
Net cash provided by investing activities	2,746,653	-	982	2,747,635
Net increase (decrease) in cash and cash equivalents	(1,343,092)	26,483	301,523	(1,015,086)
Cash and cash equivalents, beginning	19,145,302	43,258	200,413	19,388,973
Cash and cash equivalents, ending	$ 17,802,210	$ 69,741	$ 501,936	$ 18,373,887

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

Operating income (loss)	$ 2,183,265	$ 809,160	$ (1,490,674)	$ 1,501,751
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation and amortization	1,384,844	2,961,540	313,718	4,660,102
Decrease (increase) in assets:				
Receivables, net	(677,966)	(200,883)	93,373	(785,476)
Inventories	91,956	29,924	5,995	127,875
Prepaid items	194	(646)	(24,017)	(24,469)
Increase (decrease) in liabilities:				
Accounts payable and accrued liabilities	1,154,874	(273,527)	(24,358)	856,989
Accrued payroll and related liabilities	6,974	5,367	(902)	11,439
Self insurance claims liability	1,372	(776)	(339)	257
Unearned revenue	-	-	59,908	59,908
Customer security deposits payable	30,338	-	-	30,338
Compensated absences	11,288	(19,130)	2,702	(5,140)
Other postemployment benefits	(5,805)	(13,224)	(2,776)	(21,805)
Net cash provided by (used in) operating activities	$ 4,181,334	$ 3,297,805	$ (1,067,370)	$ 6,411,769
Noncash investing, capital, and financing activities				
Capital assets financed with accounts payable	$ 532,746	$ 16,249	$ -	$ 548,995
Capital asset donations received	$ -	$ 144,850	$ 7,707	$ 152,557
Unrealized gain on investments	$ (4,129)	$ -	$ -	$ (4,129)

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

EXHIBIT 9

CITY OF SALEM, VIRGINIA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010

	OPEB Trust	Agency Funds
ASSETS		
Cash and cash equivalents	$ -	$ 839,741
Investments held by trustee, fair value	1,600,169	-
Receivables, net	-	95,135
Due from Commonwealth of Virginia	-	64,346
Prepaid items		2,160
Total assets	1,600,169	1,001,382
LIABILITIES		
Accounts payable	-	93,256
Liability to agency	-	908,126
Total liabilities	-	1,001,382
NET ASSETS		
Held in trust for other postemployment benefits	$ 1,600,169	$ -

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

EXHIBIT 10

CITY OF SALEM, VIRGINIA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010

	OPEB Trust
ADDITIONS	
Employer contributions	$ 552,323
Investment Income	
Increase in fair value of investments	112,480
Interest and dividends	32
Less investment expenses	(1,578)
Total additions	663,257
Net increase in plan net assets	663,257
Net assets held in trust for other postemployment benefits, beginning	936,912
Net assets held in trust for other postemployment benefits, ending	$ 1,600,169

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

1. Summary of Significant Accounting Policies

The Financial Reporting Entity

The Town of Salem was established by act of the Virginia General Assembly in 1806. The City of Salem, Virginia (City) was established by act of the Virginia General Assembly in 1968. It is a political subdivision of the Commonwealth of Virginia, operating under the council-manager form of government. The City Council consists of a mayor and four other council members elected at large. The City is not part of a county and has taxing powers subject to statewide 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 administration, education, parks and recreation, library, electric, civic center, water and sewage services.

Discretely Presented Component Unit

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

During the current year, the City provided $18,420,000 of operating support to the School Division and made debt service payments of $1,968,061 on behalf of the School Division.

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

1. Summary of Significant Accounting Policies (Continued)

Fund Financial Statements (Continued)

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

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

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

- The *debt service fund* accounts for the accumulation of resources and payments made for principal and interest on long-term general obligation debt not being financed by the proprietary funds.

- The *capital projects fund* accounts for resources to be used for the acquisition or construction of major capital facilities not being financed by the proprietary funds.

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

- The *electric fund* accounts for the activities of the electric distribution operations.

- The *water and sewage fund* accounts for the activities of the water and sewage operations.

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

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

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

Measurement Focus and Basis of Accounting

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

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

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

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

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

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

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

Fiduciary fund financial statements are reported using the *change in net assets and financial position measurement focus* and the *accrual basis of accounting*. It is accounted for in the same manner as a proprietary fund type.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent 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.

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:

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

1. Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (Continued)

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

Amendment – The City Manager is authorized to transfer amounts within and between departments and categories. In addition, City Council may approve budget amendments. During the year, City Council approved $206,411 of additional appropriations primarily for grants, capital outlay, unforeseen operating expenditures and the reappropriation of fund balances for encumbrances.

Integration – Formal budgetary integration is employed as a management control device for the general fund. Formal budgetary integration is not employed for the debt service fund because effective budgetary control is alternatively achieved through budgeted transfers from the general fund to the debt service fund for debt payments.

Legal Compliance – The appropriation ordinance places legal restrictions on expenditures at the department or function level. All appropriations lapse on June 30 except for the capital projects fund, which carry unexpended balances through a project's life.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded in order to reserve the applicable appropriation, is employed as an extension of formal budgetary integration in the general and capital project funds. Encumbrances outstanding at year-end are reported as 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.

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 recorded at fair value.

Allowance for Uncollectible Accounts

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

Property Taxes

The City levies *real estate taxes* on all real estate within its boundaries, except that exempted by statute, each year as of July 1 based on 100% of estimated fair market value of the property. The City reassesses all property annually. Real estate taxes are due in equal semiannual payments on December 5 and June 5 and are considered delinquent after each due date. Real estate taxes become a lien on real property the first day of the levy year. The tax rate for 2010 was $1.18 per $100 of assessed value.

The City levies *personal property taxes* on motor vehicles and business and other tangible personal property each year as of January 1. Personal property taxes are due the following May 31 and are considered delinquent after the due date. Personal property taxes do not create a lien on property; however, City vehicle decals, which are required by law for all vehicles garaged in the City, may not be issued to any individual having outstanding personal property taxes. Personal property transactions during the year are taxed on a prorated basis. The tax rate for 2010 was $3.20 per $100 of assessed value.

1. Summary of Significant Accounting Policies (Continued)

Interfund Receivables and Payables

Outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide statements as internal balances. Outstanding balances between the City and its component unit are reported as due to/from component unit or due to/from primary government.

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 are 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.

Prepaid Items

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

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 belonging to proprietary funds are reported in the applicable fund financial statements. Capital assets are defined by the government as assets with an initial individual cost in excess of $0 for land, $5,000 for machinery and equipment or $10,000 for buildings, plant and infrastructure and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value on the date of donation. The City includes the cost of certain intangible assets with a definite life in the appropriate asset class.

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

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

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

The City capitalizes net interest costs on funds borrowed to finance the construction of proprietary capital assets. Capital asset additions included $663,429 of net capitalized interest for the current year.

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.

1. Summary of Significant Accounting Policies (Continued)

Unearned and Deferred Revenue

In the statement of net assets, unearned revenue arises when assets are received before revenue recognition criteria is satisfied and primarily consists of retiree health insurance premiums billed in advance, advertising, event deposits, rentals and property taxes collected that are not yet due.

In the balance sheet, deferred revenue arises when assets are recognized but are not available to finance expenditures of the current fiscal period or when assets are received before revenue recognition criteria is satisfied. Deferred revenue primarily consists of property taxes and grants not collected within the availability period, retiree health insurance premiums billed in advance, advertising, event deposits, rentals and property taxes collected that are not yet due.

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.

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.

Compensated Absences

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

Other Postemployment Benefits

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

Net Assets

Net assets invested in capital assets, net of related debt for governmental activities excludes $14,128,745 of School Division debt reported by the City because the related assets are reported by the School Division.

1. Summary of Significant Accounting Policies (Continued)

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.

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

2. Deposits and Investments

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

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

	Primary Government	Component Unit
Cash and cash equivalents	$ 21,336,174	$ 8,450,964
Investments	1,398,709	-
Cash and cash equivalents, restricted	55,630	-
	$ 22,790,513	$ 8,450,964

Restricted cash and cash equivalents consist of surety bond payables and the capital projects fund cash balances.

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

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).

All investment activity during the year was in securities of the type held at year-end.

Custodial Credit Risk
Although the City does not have a formal policy addressing custodial credit risk, the City adheres to State guidelines. 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, 2010, all of the City's investments are held in a bank's trust department in the City's name.

2. Deposits and Investments (Continued)

Credit Risk

Although the City does not have a formal policy addressing credit risk, the City adheres to the State guidelines. As required by the *Code of Virginia*, obligations of the Commonwealth of Virginia and its political subdivisions must have a debt rating of at least AA by Standard & Poor's (S&P) or Aa by Moody's Investors Service (Moody's). Repurchase agreements are collateralized by Treasury or Agency obligations of which the market value is at least 102% of the purchase price of the agreement. Commercial paper must be issued by an entity incorporated in the U.S. and rated at least A-1 by S&P or P-1 by Moody's. Corporate notes and bonds have a rating of at least AA by S&P or Aa by Moody's. Money market mutual funds must trade on a constant net asset value and invest solely in securities otherwise eligible for investment under these guidelines. As of June 30, 2010, the portfolio is invested in securities with the following ratings using Moody's rating scale:

Rating	Percentage of Portfolio
Aaa rated money market securities	68%
Aaa rated securities	26%
Aa1 rated securities	2%
Aa2 rated securities	2%
A2 rated securities	2%

Concentration of Credit Risk

Although the intent of the City is to diversify its investment portfolio to avoid incurring unreasonable risks regarding security type, individual financial institution or issuing entity, and maturity, the City places no limit on the amount it may invest in any one issuer. As of June 30, 2010, the portions of the City's investment portfolio with a single issuer that exceed 5% of the total portfolio are as follows:

Issuer	Percentage of Portfolio
U.S. Government Securities Money Market	68%
U.S. Treasury Bills	8%
Federal Home Loan Bank	6%

Interest Rate Risk

Although the City does not have a formal policy addressing interest rate risk, the City manages its exposure to fair value losses arising from increasing interest rates by limiting the length of each investment to achieve a minimal portfolio average maturity. As of June 30, 2010, the fair value and weighted average maturity of the investments are as follows:

Type of Investment	Fair Value	Average Maturity*
U.S. Treasury Bills	$ 363,060	494
U.S. Government Bonds	600,699	89
Municipal Obligations	256,167	124
Corporate Bonds	178,783	172
Total Investments	$ 1,398,709	
Portfolio weighted average maturity		211

* Average maturity is in days.

3. Receivables

Receivables are as follows:

	Governmental Activities	Business-type Activities: Electric	Business-type Activities: Water and Sewage	Business-type Activities: Nonmajor Proprietary	Component Unit
Tax receivables	$ 1,975,372	$ -	$ -	$ -	$ -
Account receivables	-	4,229,228	1,496,127	107,428	-
Other receivables	1,354,147	-	-	-	3,740
Gross receivables	3,329,519	4,229,228	1,496,127	107,428	3,740
Allowance for uncollectibles	(598,127)	(158,090)	(61,454)	(11,396)	-
Receivables, net	$ 2,731,392	$4,071,138	$1,434,673	$ 96,032	$ 3,740

4. Interfund Balances and Transfers

The composition of the interfund balances is as follows:

Due to (fund)	Due from (fund): Capital projects	Due from (fund): Total
General fund	$ 350,000	$ 350,000
Electric	700,000	700,000
Total	$1,050,000	$1,050,000

The amount due to the general fund and electric fund is a short-term loan to capital projects that will be subsequently reimbursed through State funding.

The composition of the interfund transfers is as follows:

Transfer in (fund)	Transfer out (fund): General	Transfer out (fund): Electric	Transfer out (fund): Total
General	$ -	$1,542,417	$1,542,417
Debt service	3,372,759	-	3,372,759
Capital projects	70,433	-	70,433
Water and sewage	-	1,900,000	1,900,000
Nonmajor enterprise	1,052,910	607,708	1,660,618
Total	$4,496,102	$4,050,125	$8,546,227

Transfers to the general fund include a payment in lieu of taxes and funding assistance for telephone equipment. Transfers to the debt service fund include principal and interest payments for general governmental and school debt. Transfers to capital projects include the local match related to several grants for current projects. Transfers to the water and sewage fund include a one-time conveyance of cash to cover prior year's reductions in net assets due to the former water and sewage rates. Although the 15% rate increases for both water and sewage services go into effect July 1, 2010, they are designed to cover future expenses rather recover past losses. Transfers to the nonmajor enterprise fund subsidized operating expenses.

The electric fund transferred capital assets of $86,160 to the general fund, which is a reconciling item for interfund transfers for the governmental funds between Exhibit 2 and Exhibit 4.

5. Due from Other Governmental Units

Amounts due from other governmental units are as follows:

	Governmental Activities	Component Unit
Commonwealth of Virginia		
Personal property tax	$ 2,588,707	$ -
Local sales tax	976,228	-
Colorado Street Bridge funding	793,127	-
State sales tax	-	549,503
Greenway project funding	228,444	-
Comprehensive Services Act	267,869	-
Communications tax	188,854	-
FEMA grant	146,859	-
Constitutional officers reimbursement	96,257	-
Other	97,356	-
Federal government		
School funds	-	697,729
	$ 5,383,701	$ 1,247,232

6. Capital Assets

Capital asset activity for the year is as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	$ 5,511,306	$ 202,553	$ -	$ 5,713,859
Construction in progress	4,007,368	2,454,335	(1,256,995)	5,204,708
Capital assets, nondepreciable	9,518,674	2,656,888	(1,256,995)	10,918,567
Capital assets, depreciable				
Machinery and equipment	16,535,621	1,862,295	(271,663)	18,126,253
Buildings and improvements	38,900,757	207,632	(867,806)	38,240,583
Public domain infrastructure	88,564,196	774,195	(87,762)	89,250,629
Capital assets, depreciable	144,000,574	2,844,122	(1,227,231)	145,617,465
Accumulated depreciation				
Machinery and equipment	(11,661,313)	(1,204,992)	177,433	(12,688,872)
Buildings and improvements	(11,321,609)	(878,854)	428,337	(11,772,126)
Public domain infrastructure	(29,568,587)	(2,227,229)	31,147	(31,764,669)
Accumulated depreciation	(52,551,509)	(4,311,075)	636,917	(56,225,667)
Capital assets, depreciable, net	91,449,065	(1,466,953)	(590,314)	89,391,798
Capital assets, net	$100,967,739	$ 1,189,935	$ (1,847,309)	$100,310,365

6. Capital Assets (Continued)

Business-type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	$ 1,377,952	$ -	$ -	$ 1,377,952
Construction in progress	16,222,824	323,676	(13,773,064)	2,773,436
Capital assets, nondepreciable	17,600,776	323,676	(13,773,064)	4,151,388
Capital assets, depreciable				
Machinery and equipment	6,763,926	75,463	(121,620)	6,717,769
Buildings and improvements	7,460,834	15,335,544	-	22,796,378
Distribution and transmission	33,014,435	764,077	(145,087)	33,633,425
Utility plant	72,133,594	1,373,731	(216,503)	73,290,822
Sewage treatment contract	28,843,397	-	-	28,843,397
Capital assets, depreciable	148,216,186	17,548,815	(483,210)	165,281,791
Accumulated depreciation				
Machinery and equipment	(4,291,347)	(466,104)	94,068	(4,663,383)
Buildings and improvements	(4,087,149)	(421,514)	-	(4,508,663)
Distribution and transmission	(15,626,918)	(922,078)	122,808	(16,426,188)
Utility plant	(37,174,982)	(1,983,418)	170,519	(38,987,881)
Sewage treatment contract	(3,537,203)	(766,854)	-	(4,304,057)
Accumulated depreciation	(64,717,599)	(4,559,968)	387,395	(68,890,172)
Capital assets, depreciable, net	83,498,587	12,988,847	(95,815)	96,391,619
Capital assets, net	$101,099,363	$13,312,523	$ (13,868,879)	$100,543,007

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

Governmental Activities		Business-type Activities	
General government	$ 253,774	Electric	$ 1,377,578
Judicial administration	36,798	Water and sewage	2,868,672
Public safety	639,658	Civic Center	305,390
Public works	2,602,980	Catering	8,328
Parks, recreation and cultural	681,675	Total depreciation expense	$ 4,559,968
Community development	1,737		
Total depreciation expense	$ 4,216,622		

Accumulated depreciation shown in the capital asset activity table for governmental activities exceeds depreciation expense by $94,453 because the table includes accumulated depreciation for machinery and equipment transferred into general government and public works.

6. Capital Assets (Continued)

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

7. Unearned and Deferred Revenue

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

	Governmental Activities	Business-type Activities	Component Unit
Charges for services and fees	$ 66,452	$ 161,775	$ 19,521
Taxes paid for subsequent year	26,958	-	-
Unearned revenue	$ 93,410	$ 161,775	$ 19,521

Deferred revenue reported in the governmental funds is as follows:

	Unavailable	Unearned	Total
Property taxes	$ 1,271,302	$ -	$ 1,271,302
Grant revenue	203,845	-	203,845
Charges for services and fees	39,831	66,452	106,283
Taxes paid for subsequent year	-	26,958	26,958
Deferred revenue	$ 1,514,978	$ 93,410	$ 1,608,388

8. Long-Term Liabilities

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

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. As of June 30, 2010, $23,720,000 of bonds are considered defeased. The deferred costs are being amortized over the life of the new bonds.

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds	$26,534,546	$ -	$(2,468,118)	$24,066,428	$2,442,415
Bond discounts	(12,458)	-	1,779	(10,679)	-
Bond issuance costs	(380,967)	-	90,121	(290,846)	-
Bonds payable	26,141,121	-	(2,376,218)	23,764,903	2,442,415
Other debt	250,000	-	(125,000)	125,000	125,000
Compensated absences	1,854,072	1,714,809	(1,639,282)	1,929,599	1,639,282
Landfill closure liability	10,000	-	(10,000)	-	-
Other postemployment benefits	918,838	1,367,792	(1,445,987)	840,643	-
	$29,174,031	$3,082,601	$(5,596,487)	$26,660,145	$4,206,697
Business-type Activities					
General obligation bonds	$59,416,149	$ -	$(2,897,273)	$56,518,876	$2,951,589
Bond premiums	893,137	-	(49,403)	843,734	-
Bond issuance costs	(1,458,695)	-	100,134	(1,358,561)	-
Bonds payable	58,850,591	-	(2,846,542)	56,004,049	2,951,589
Compensated absences	599,023	447,365	(452,505)	593,883	452,505
Other postemployment benefits	247,052	397,466	(419,271)	225,247	-
	$59,696,666	$ 844,831	$(3,718,318)	$56,823,179	$3,404,094
Component Unit					
Compensated absences	$ 834,928	$ 143,192	$ (72,374)	$ 905,746	$ 374,665
Other postemployment benefits	-	277,617	(277,617)	-	-
	$ 834,928	$ 420,809	$ (349,991)	$ 905,746	$ 374,665

The general fund has been used to liquidate the liabilities for all long-term debt excluding bond and other debt payments in prior years.

8. Long-Term Liabilities (Continued)

Details of long-term indebtedness are as follows:

Issuance	Interest Rates	Issue Date	Maturity Date	Issue Amount	Governmental Activities	Business-type Activities
Bonds payable						
1999 Public Improvement	4.0-4.9%	04/99	04/19	$17,000,000	$ 2,250,000	$ 5,400,000
2002 Public Improvement	4.5-5.0%	01/02	01/12	23,000,000	-	1,475,000
2003 Public Improvement	2.0-4.5%	10/03	10/23	22,000,000	15,400,000	-
2003 Refunding	2.0-3.5%	10/03	12/12	5,700,000	1,780,000	-
2004 Refunding	1.5-3.5%	03/04	04/16	9,640,000	2,327,985	2,927,015
2004 Public Improvement	3.0%	04/04	07/26	11,052,222	-	9,740,304
2006 Public Improvement	4.0-5.0%	05/06	04/31	25,000,000	2,308,443	20,166,557
2007 Refunding	4.0-5.0%	02/07	01/27	17,045,000	-	16,810,000
					24,066,428	56,518,876
			Bond premiums		-	843,734
			Bond discounts		(10,679)	-
			Bond issuance costs		(290,846)	(1,358,561)
					$ 23,764,903	$ 56,004,049
Other debt						
State Literary Fund Loan	4.0%	01/91	02/11	$ 2,500,000	$ 125,000	$ -

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

	Governmental Activities				Business-type Activities	
	Bonds payable		Other debt		Bonds payable	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 2,442,415	$ 941,197	$125,000	$ 5,000	$ 2,951,589	$ 2,389,320
2012	2,421,617	859,844	-	-	3,016,411	2,277,768
2013	2,428,053	772,441	-	-	3,084,424	2,155,141
2014	1,825,573	689,721	-	-	3,141,789	2,036,451
2015	1,824,738	614,009	-	-	3,212,959	1,911,740
2016-2020	7,264,500	2,066,328	-	-	14,750,730	7,552,261
2021-2025	4,977,239	675,583	-	-	14,632,177	4,457,955
2026-2030	717,954	138,364	-	-	10,293,138	1,441,063
2031	164,339	7,475	-	-	1,435,659	65,323
	$24,066,428	$6,764,962	$125,000	$ 5,000	$56,518,876	$24,287,022

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. Any future costs arising from this site are expected to be minimal. The State Department of Environmental Quality issued a release from the requirements of Solid Waste Permit No. 358 for the operation and post-closure maintenance of the City of Salem Sanitary Landfill effective April 16, 2010.

10. Risk Management

The risk management programs of the City and School Division 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 *Code of Virginia* §65.2-100. Premiums are based on covered payroll, job rates and claims experience. Total premiums for the current year were $554,823 and $111,836 for the City and School Division, respectively.

General Liability and Other

The City provides general liability and other insurance through Selective Insurance Company of America. 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. 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 fiscal year were $467,507.

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

Healthcare

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

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

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

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

Other

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

11. Pension Plan

Plan Description

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

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 local law enforcement officers, firefighters and sheriffs) or at age 50 with 30 years of service if elected by the employer (age 50 with 25 years of service for participating local law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.70% of their average final compensation (AFC) for each year of credited service (1.85% for sheriffs and, if the employer elects, other employees in hazardous duty positions receiving enhanced benefits). 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. Sheriffs and participating law enforcement officers and firefighters may also receive a monthly benefit supplement if they retire prior to age 65. The VRS plan also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

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

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. This 5% member contribution has been assumed by 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 School Division's non-professional employee contribution rates for the fiscal year ended June 30, 2010 were 14.85% and 10.70% of the annual covered payroll, respectively (including the employee share of 5% paid by the employer).

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

11. Pension Plan (Continued)

Annual Pension Cost

For the fiscal year ended June 30, 2010, the City's and School Division's annual pension cost of $3,487,206 and $136,108, respectively, for VRS were equal to their required and actual contributions.

Three-Year Trend Information

	Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
City of Salem	June 30, 2010	$ 3,487,206	100%	$ -
	June 30, 2009	$ 3,540,033	100%	$ -
	June 30, 2008	$ 3,529,121	100%	$ -
Component Unit	June 30, 2010	$ 136,108	100%	$ -
Non-Professional Staff	June 30, 2009	$ 162,549	100%	$ -
	June 30, 2008	$ 146,761	100%	$ -

The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters and sheriffs and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%. The actuarial value of the City's and School Division's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City's and School Division's unfunded actuarial accrued liabilities are being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period for the June 30, 2007 actuarial valuation was 20 years.

Funded Status and Funding Progress

As of June 30, 2009, the most recent actuarial valuation date for the City, the plan was 84.50% funded. The actuarial accrued liability for benefits was $153,476,528 and the actuarial value of assets was $129,680,495, resulting in an unfunded actuarial accrued liability (UAAL) of $23,796,033. The covered payroll (annual payroll of active employees covered by the plan) was $24,004,460 and the ratio of the UAAL to the covered payroll was 99.13%.

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

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

12. Other Postemployment Benefits

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

Effective on June 1, 2010, City Council amended the Retiree Health Plan to place limitation on its financial responsibilities. As a result, a new actuarial valuation was performed resulting in a significant decrease in both the accrued actuarial liability and annual required contributions. The specific limitations, which the new actuarial valuation was based on, are outlined under the plan description.

Plan Description

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

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

In addition to the implicit rate subsidy, all pre-65 retirees receive a premium subsidy for 100% of the subscriber-only premium rate. Effective October 1, 2010, the City will contribute 3% of the subscriber-only premium for each year of service up to 95% of the total subscriber-only premium for pre-65 retirees. Effective October 1, 2011, the maximum subsidy will reduce to 90% of the total subscriber-only premium for pre-65 retirees.

When a retiree turns age 65 or otherwise becomes eligible for Medicare, the retiree transfers to a Medicare Health Supplement and Part D Drug plan. These individuals no longer receive the implicit rate subsidy; however, they still receive a premium subsidy for 100% of the subscriber-only premium rate. Effective January 1, 2011, the City will only contribute 3% of the subscriber-only premium for each year of service up to $3,300. Employees hired on or after July 1, 2010 will no longer be eligible to receive the Medicare Health Supplement and Part D Drug plan benefit.

City retirees do not receive a premium subsidy for dependents and are responsible to pay the difference in the actual premium rates above the premium subsidy. School Division retirees do not receive any premium subsidy and are responsible to pay the entire premium rate.

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

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

12. Other Postemployment Benefits (Continued)

Plan Description (Continued)

As of July 1, 2009 and July 1, 2008, the date of the latest actuarial valuation for the City and School Division, respectively, plan participation consisted of:

	City of Salem	Component Unit
Active employees	548	553
Retired participants	206	43
Total participants	754	596

Funding Policy

The Retiree Health Plan is funded through member and employer contributions. City Retirees receiving benefits contributed 22% and 46% of the health insurance premium rate for subscriber + one minor child and family coverage, respectively. School Division Retirees receiving benefits contributed 100% of the health insurance premium rate. Retired City and School Division members contributed $147,185 and $286,860, respectively, of the total premiums through their required contributions of between $75.60 and $1,166, depending on the type of coverage.

Based on the July 1, 2009 actuarial valuation, the City contributed $1,865,258 to the Retiree Health Plan. Included in this amount is a current year contribution of $552,323 to the Virginia Pooled OPEB Trust, which consisted of $452,323 representing 100% of the annual required contribution (ARC) and $100,000 to reduce the net other postemployment benefit (OPEB) obligation. It is the City's intent to reduce this obligation to zero and fully fund the ARC each year.

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

Annual OPEB Cost and Net OPEB Obligation

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

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

	City of Salem	Component Unit
Annual required contribution	$ 1,754,024	$ 277,617
Interest on net OPEB obligation	79,034	-
Adjustment to annual required contribution	(67,800)	-
Annual OPEB cost	1,765,258	277,617
Contributions made	(1,865,258)	(277,617)
Decrease in net OPEB obligation	(100,000)	-
Net OPEB obligation, beginning	1,165,890	-
Net OPEB obligation, ending	$ 1,065,890	$ -

12. Other Postemployment Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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

Two-Year Trend Information

	Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
City of Salem	June 30, 2010	$1,765,258	105.7%	$1,065,890
	June 30, 2009	$3,418,200	65.9%	$1,165,890
Component Unit	June 30, 2010	$ 277,617	100.0%	$ -
	June 30, 2009	$ 277,617	100.0%	$ -

Funded Status and Funding Progress

As of July 1, 2009, the City's most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits was $23,073,994 and the unfunded actuarial accrued liability (UAAL) for benefits was $22,137,084, which was 4.1% funded. The covered payroll (annual payroll of active employees covered by the plan) was $24,004,460 and the ratio of the UAAL to the covered payroll was 92.2%.

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

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

Methods and Assumptions

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

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

12. Other Postemployment Benefits (Continued)

Methods and Assumptions (Continued)

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

	City of Salem	Component Unit
Actuarial valuation date	July 1, 2009	July 1, 2008
Actuarial methods		
Actuarial cost method	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll
Amortization period	Open over 30 years	Open over 30 years
Asset valuation method	Cost basis	Cost basis
Liability valuation method	Closed group	Closed group
Actuarial assumptions		
Investment rate of return	7.00%	7.00%
Projected annual salaries increase	2.50%	2.50%
Healthcare cost trend rate	10% for fiscal year 2009 grading to 5% for fiscal year 2016	10% for fiscal year 2008 grading to 5% for fiscal year 2016

13. Commitments and Contingencies

Construction Commitments

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

	Spent To Date	Remaining Contract
Electric Department Service Center	$11,438,252	$ 9,466
Colorado Street Bridge Replacement	2,542,582	735,854
East Salem and West Salem Classroom Renovations	19,626	301,956
Salem High Physical Education Lockers	20,467	226,933
	$14,020,927	$1,274,209

Operating Leases

The City and School Division entered several non-cancelable operating leases for office space and equipment. Rent expenditures for the current year were $37,531 and $55,464 for the City and School Division, respectively. At the end of the year the future minimum rentals for the next five years are as follows:

Fiscal Year Ending	Governmental Activities	Component Unit
June 30, 2011	$ 70,640	$ 58,762
June 30, 2012	75,944	51,802
June 30, 2013	82,108	20,456
June 30, 2014	65,804	17,202
June 30, 2015	41,616	1,535
	$ 336,112	$ 149,757

13. Commitments and Contingencies (Continued)

Electrical Service

On July 1, 2006, the City entered an agreement with American Electric Power Service Corporation to purchase electricity for consumption and resale to City residents. The rates are recalculated annually based on the supplier's cost. As part of the agreement, an annual cost true-up is required based upon American Electric Power's FERC filing. The City's policy is to recognize the true-up as an expense when it is billed. The true-up for December 31, 2009 expensed in the current fiscal year was $2,358,280. The agreement expires May 31, 2026 with two possible five-year period renewals and may be terminated under certain circumstances.

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

Solid Waste Disposal

On July 1, 2006, the City entered an agreement with Waste Management Inc. for disposal of nonhazardous solid waste. The agreement amended the original contract by extending the expiration date to June 30, 2016.

On January 1, 2008, the City entered an agreement with Botetourt County to accept the County's solid waste at the City's transfer station. The agreement expires June 30, 2016 or upon expiration of the City's agreement with Waste Management, Inc., whichever occurs first.

Water and Wastewater Treatment Contract

On July 1, 1981, the City entered an agreement with Roanoke County, Virginia to sell surplus water at a bulk rate determined by a mutually agreed upon formula. The agreement expires June 30, 2011. The agreement automatically renews for 10-year terms upon expiration and requires a 24-month notification prior to termination.

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

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

Special Services

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

Performance Agreement

On July 30, 2008, the City entered a performance agreement with a company to provide incentive payments for development of property located at 4th Street and Main Street. The City will make maximum annual payments of $500,000 for no more than 10 years not to exceed $3,000,000. As of June 30, 2010, no payment has been required.

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.

13. Commitments and Contingencies (Continued)

Litigation

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

14. Jointly Governed Organizations

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

Blue Ridge Behavioral Healthcare

The Counties of Botetourt, Craig and Roanoke and the Cities of Roanoke and Salem formed Blue Ridge Behavioral Healthcare (BRBH) to provide a system of comprehensive community mental health, mental retardation and substance abuse services. BRBH is governed by a 16-member board; three members are appointed by the City of Salem. 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, 2010, the City remitted $103,500 to BRBH for services. Financial statements may be obtained from Blue Ridge Behavioral Healthcare at 301 Elm Street, Roanoke, Virginia, 24016.

Roanoke Valley Detention Commission

The Counties of Botetourt, Franklin and Roanoke and the Cities of Roanoke and Salem formed the Roanoke Valley Detention Commission (Commission) to renovate, expand and operate a detention facility for juveniles. The Commission is governed by a six-member board; one member is appointed by the City of Salem. 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, 2010, the City remitted $175,087 to the Commission for per diem charges. Financial statements may be obtained from the Roanoke Valley Detention Commission at 498 Coyner Springs Road, Roanoke, Virginia 24012.

Roanoke Valley Regional Board

The Counties of Botetourt, Craig and Franklin, the City of Roanoke and the City of Salem School Division jointly participate in a regional education program for severely disabled students operated by the Roanoke Valley Regional Board (Regional Board). The Regional Board is governed by a five-member board, one from each participating locality. The School Division has control over budget and financing only to the extent of representation by the one board member appointed. Each locality's financial obligation is based on their proportionate share of students attending the regional program. For the year ended June 30, 2010, the School Division remitted $456,657 to the Regional Board for services. Financial statements may be obtained from the Roanoke Valley Regional Board at 12 Barron Drive, Suite 1, Troutville, Virginia 24175.

Roanoke Valley Regional Fire/EMS Training Center

The County of Roanoke, the Cities of Roanoke and Salem and the Town of Vinton jointly operate a fire/EMS training center (Center). The Center is governed by a committee designated by the participating jurisdictions. New fire/EMS recruits are required to take a 17-week training course at the facility before being assigned to a station. After completion of the training, the new recruits are state certified. Each jurisdiction is responsible for a percentage of the annual operating costs of the facility. The City of Salem is responsible for 8% of the annual operating costs. For the year ended June 30, 2010, the City remitted $7,090 for operating costs of the facility. Financial statements may be obtained from the Roanoke Valley Regional Fire/EMS Training Center at 1220 Kessler Mill Road, Salem, Virginia 24153.

14. Jointly Governed Organizations (Continued)

Western Virginia Regional Jail Authority

The Counties of Franklin, Montgomery and Roanoke and the City of Salem formed the Western Virginia Regional Jail Authority (Jail Authority) to develop and operate a regional jail. The Jail Authority is governed by a 12-member board; three from each participating locality. Each locality's financial obligation is based on the number of prisoner days used and a share of the capital costs to build the facility. For the year ended June 30, 2010, the City remitted $490,034 for per diem charges and $352,075 for capital costs to the Jail Authority. Financial statements may be obtained from Western Virginia Regional Jail Authority at 5885 West River Road, Salem, Virginia 24153.

15. Subsequent Event

On September 30, 2010, the City obtained a $3,792,584 loan from the Virginia Resource Authority to fund sewage system rehabilitation projects in compliance with a DEQ Consent Order. In conjunction with this project, subsequent to year-end, the City entered contracts totaling $2.4 million for various phases of these projects.

On October 29, 2010, the City exercised its option to repurchase property previously sold in the development of the Salem Commerce Park.

On November 10, 2010, Bank of America Merrill Lynch issued multiple bonds on behalf of the City of Salem totaling $15,110,000 through participation in the VML/VACo Finance Fall 2010 Bond Pool. The City issued $7,410,000 in general obligation refunding bonds to defease series 1999 general obligation public improvement bonds. The City issued $1,160,000 in general obligation refunding bonds to defease series 2003B general obligation refunding bonds. The City issued $5,530,000 in general obligation tax-exempt bonds to fund civic center and non-judicial public safety building improvements and computer aided dispatch equipment. In conjunction with these projects, subsequent to year-end, the City entered contracts with vendors for $4,700,670. The City issued $1,010,000 in general obligation taxable bonds to fund judicial public safety building improvements. In conjunction with this project, subsequent to year-end, the City entered a vendor contract for $1,326,511.

16. New Accounting Standards

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

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REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT 11

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN
JUNE 30, 2010

City of Salem

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as of Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
June 30, 2009	$ 129,680,495	$ 153,476,528	$ 23,796,033	84.50%	$ 24,004,460	99.13%
June 30, 2008	$ 130,949,044	$ 143,763,718	$ 12,814,674	91.09%	$ 22,986,624	55.75%
June 30, 2007	$ 121,024,346	$ 142,383,864	$ 21,359,518	85.00%	$ 35,317,550	60.48%

Component Unit
School Division (Non-Professional Staff)

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

EXHIBIT 12

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2010

City of Salem

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as of Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
July 1, 2009	$ 936,910	$ 23,073,994	$ 22,137,084	4.1%	$ 24,004,460	92.2%
July 1, 2008	$ -	$ 37,824,191	$ 37,824,191	0.0%	$ 22,986,624	164.5%

Component Unit
School Division

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

EXHIBIT 13

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

City of Salem

Fiscal year	Annual Required Contribution	Percentage Contributed
June 30, 2010	$ 1,754,024	106.3%
June 30, 2009	$ 3,418,200	65.9%

Component Unit
School Division

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

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OTHER SUPPLEMENTARY INFORMATION

EXHIBIT 14

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF NET ASSETS
NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2010

	Business-type Activities - Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
ASSETS			
Current assets:			
Cash and cash equivalents	$ 317,076	$ 184,860	$ 501,936
Receivables, net	61,377	34,655	96,032
Inventories	-	17,555	17,555
Prepaid items	91,656	-	91,656
Total current assets	470,109	237,070	707,179
Capital assets:			
Nondepreciable	176,653	-	176,653
Depreciable, net	2,205,683	42,555	2,248,238
Total capital assets	2,382,336	42,555	2,424,891
Total assets	2,852,445	279,625	3,132,070
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	109,408	24,364	133,772
Accrued payroll and related liabilities	71,858	17,987	89,845
Self insurance claims liability	12,157	2,867	15,024
Unearned revenue	159,675	2,100	161,775
Compensated absences	66,551	20,300	86,851
Total current liabilities	419,649	67,618	487,267
Long-term liabilities:			
Compensated absences	28,331	17,660	45,991
Other postemployment benefits	37,944	10,929	48,873
Total long-term liabilities	66,275	28,589	94,864
Total liabilities	485,924	96,207	582,131
NET ASSETS (DEFICIT)			
Invested in capital assets, net of related debt	2,382,336	42,555	2,424,891
Unrestricted	(15,815)	140,863	125,048
Total net assets	$ 2,366,521	$ 183,418	$ 2,549,939

EXHIBIT 15

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	Business-type Activities - Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
OPERATING REVENUES			
Charges for services	$ 821,603	$ 921,880	$ 1,743,483
Commissions	22,135	-	22,135
Other	21,576	18,954	40,530
Total operating revenues	865,314	940,834	1,806,148
OPERATING EXPENSES			
Salaries	1,024,745	352,579	1,377,324
Fringe benefits	361,890	102,177	464,067
Show expenses	103,567	-	103,567
Maintenance	181,851	2,604	184,455
Professional services	18,769	22,857	41,626
Insurance	12,918	-	12,918
Administration	18,263	8,099	26,362
Travel and training	8,912	225	9,137
Materials and supplies	45,322	257,162	302,484
Utilities	249,218	606	249,824
Miscellaneous	421	1,862	2,283
Depreciation	305,390	8,328	313,718
Commissions	-	209,057	209,057
Total operating expenses	2,331,266	965,556	3,296,822
Operating loss	(1,465,952)	(24,722)	(1,490,674)
NONOPERATING REVENUES (EXPENSES)			
Interest income	982	-	982
Loss on sale of capital assets	(1,064)	-	(1,064)
Net nonoperating revenue (expenses)	(82)	-	(82)
Income (loss) before contributions and transfers	(1,466,034)	(24,722)	(1,490,756)
Transfers in	1,660,618	-	1,660,618
Change in net assets	194,584	(24,722)	169,862
Net assets, beginning	2,171,937	208,140	2,380,077
Net assets, ending	$ 2,366,521	$ 183,418	$ 2,549,939

EXHIBIT 16

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	Business-type Activities - Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
OPERATING ACTIVITIES			
Receipts from customers	$ 958,041	$ 938,723	$ 1,896,764
Payments to suppliers	(683,066)	(501,366)	(1,184,432)
Payments to employees	(1,375,714)	(466,653)	(1,842,367)
Other receipts	43,711	18,954	62,665
Net cash used in operating activities	(1,057,028)	(10,342)	(1,067,370)
NONCAPITAL FINANCING ACTIVITIES			
Transfers in	1,652,911	-	1,652,911
Transfers out	(285,000)	-	(285,000)
Net cash provided by noncapital financing activities	1,367,911	-	1,367,911
INVESTING ACTIVITIES			
Interest received	982	-	982
Net cash provided by investing activities	982	-	982
Net increase (decrease) in cash and cash equivalents	311,865	(10,342)	301,523
Cash and cash equivalents, beginning	5,211	195,202	200,413
Cash and cash equivalents, ending	$ 317,076	$ 184,860	$ 501,936

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES

Operating loss	$ (1,465,952)	$ (24,722)	$ (1,490,674)
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation	305,390	8,328	313,718
Decrease (increase) in assets:			
Receivables, net	76,732	16,641	93,373
Inventories	-	5,995	5,995
Prepaid items	(24,017)	-	(24,017)
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities	(19,931)	(4,427)	(24,358)
Accrued payroll and related liabilities	8,264	(9,166)	(902)
Self insurance claims liability	123	(462)	(339)
Unearned revenue	59,706	202	59,908
Compensated absences	5,169	(2,467)	2,702
Other postemployment benefits	(2,512)	(264)	(2,776)
Net cash used in operating activities	$ (1,057,028)	$ (10,342)	$ (1,067,370)
Noncash investing, capital, and financing activities			
Capital asset donations received	$ 7,707	$ -	$ 7,707

EXHIBIT 17

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2010

	Cardinal Criminal Justice Academy	Court-Community Corrections Program	Total Agency Funds
ASSETS			
Cash and cash equivalents	$ 366,597	$ 473,144	$ 839,741
Receivables, net	95,135	-	95,135
Due from Commonwealth of Virginia	-	64,346	64,346
Prepaid items	600	1,560	2,160
Total assets	$ 462,332	$ 539,050	$ 1,001,382
LIABILITIES			
Accounts payable	$ 3,732	$ 89,524	$ 93,256
Liability to agency	458,600	449,526	908,126
Total liabilities	$ 462,332	$ 539,050	$ 1,001,382

EXHIBIT 18

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
YEAR ENDED JUNE 30, 2010

	Beginning Balance	Additions	Deductions	Ending Balance
CARDINAL CRIMINAL JUSTICE ACADEMY				
ASSETS				
Cash and cash equivalents	$ 438,397	$ 588,829	$ (660,629)	$ 366,597
Receivables, net	136,010	6,965	(47,840)	95,135
Prepaid items	-	600	-	600
Total assets	$ 574,407	$ 596,394	$ (708,469)	$ 462,332
LIABILITIES				
Accounts payable	$ 4,045	$ 3,732	$ (4,045)	$ 3,732
Liability to agency	570,362	592,662	(704,424)	458,600
Total liabilities	$ 574,407	$ 596,394	$ (708,469)	$ 462,332
COURT-COMMUNITY CORRECTIONS PROGRAM				
ASSETS				
Cash and cash equivalents	$ 356,665	$ 2,478,176	$ (2,361,697)	$ 473,144
Due from Commonwealth of Virginia	71,706	64,346	(71,706)	64,346
Prepaid items	-	1,560	-	1,560
Total assets	$ 428,371	$ 2,544,082	$ (2,433,403)	$ 539,050
LIABILITIES				
Accounts payable	$ 66,866	$ 102,393	$ (79,735)	$ 89,524
Liability to agency	361,505	2,441,689	(2,353,668)	449,526
Total liabilities	$ 428,371	$ 2,544,082	$ (2,433,403)	$ 539,050
TOTAL AGENCY FUNDS				
ASSETS				
Cash and cash equivalents	$ 795,062	$ 3,067,005	$ (3,022,326)	$ 839,741
Receivables, net	136,010	6,965	(47,840)	95,135
Due from Commonwealth of Virginia	71,706	64,346	(71,706)	64,346
Prepaid items	-	2,160	-	2,160
Total assets	$ 1,002,778	$ 3,140,476	$ (3,141,872)	$ 1,001,382
LIABILITIES				
Accounts payable	$ 70,911	$ 106,125	$ (83,780)	$ 93,256
Liability to agency	931,867	3,034,351	(3,058,092)	908,126
Total liabilities	$ 1,002,778	$ 3,140,476	$ (3,141,872)	$ 1,001,382

STATISTICAL SECTION

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.

Contents **Page**

Financial Trends 80

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

Revenue Capacity 85

These schedules contain information to help the reader assess the government's most significant local revenue sources, property tax and sale of electricity.

Debt Capacity 87

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.

Demographic and Economic Information 88

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

Operating Information 90

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.

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TABLE 1
UNAUDITED

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

	2010	2009	2008	2007	2006 (1)	2005 (1)	2004 (1)	2003 (1)
Governmental Activities								
Invested in capital assets, net of related debt	$ 90,258,361	$ 89,946,841	$ 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	(9,373,128)	(10,704,656)	(9,598,627)	(9,132,365)	(12,509,444)	(12,674,607)	(15,644,583)	(3,239,660)
Total governmental net assets	$ 80,885,233	$ 79,242,185	$ 78,865,114	$ 76,721,263	$ 75,602,899	$ 76,804,523	$ 75,220,807	$ 76,193,622
Business-type activities								
Invested in capital assets, net of related debt	$ 43,180,397	$ 40,790,077	$ 39,787,750	$ 41,636,232	$ 36,954,684	$ 36,501,799	$ 31,689,583	$ 23,078,380
Unrestricted	20,437,874	23,324,884	25,278,681	20,760,143 (2)	21,804,567	21,839,306	24,685,946	31,038,458
Total business-type activities net assets	$ 63,618,271	$ 64,114,961	$ 65,066,431	$ 62,396,375	$ 58,759,251	$ 58,341,105	$ 56,375,529	$ 54,116,838
Primary government								
Invested in capital assets, net of related debt	$ 133,438,758	$ 130,736,918	$ 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	11,064,746	12,620,228	15,680,054	11,627,778	9,295,123	9,164,699	9,041,363	27,798,798
Total primary government net assets	$ 144,503,504	$ 143,357,146	$ 143,931,545	$ 139,117,638	$ 134,362,150	$ 135,145,628	$ 131,596,336	$ 130,310,460

Notes:
Source: City of Salem Finance Department
Information is presented beginning with the year the City implemented GASB 34.
(1) Invested in capital assets, net of related debt and unrestricted net assets of governmental activities were restated to properly classify School Division debt.
(2) As restated.

TABLE 2
UNAUDITED

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

	2010	2009	2008	2007	2006	2005	2004	2003
Expenses								
Governmental activities								
General government	$ 5,328,382	$ 5,937,208	$ 5,031,352	$ 4,803,246	$ 5,107,268	$ 4,283,754	$ 4,402,755	$ 4,156,677
Judicial administration	1,779,072	1,897,961	1,687,507	1,540,762	1,457,720	1,292,722	1,224,425	1,190,643
Public safety	15,330,477	15,932,421	15,048,715	13,869,676	13,547,191	11,535,321	10,574,969	10,409,689
Public works	14,019,163	14,906,728	14,067,674	13,476,019	12,443,334	10,789,008	9,603,482	9,471,217
Health and welfare	2,333,736	2,354,803	2,450,245	2,193,126	2,055,166	1,823,783	1,419,802	1,217,958
Education	18,420,000	18,420,000	17,995,000	17,095,000	16,266,005	15,618,081	29,340,564 (1)	14,747,635
Parks, recreation and cultural	5,064,065	5,620,844	5,721,997	5,796,220	5,239,517	3,851,575	4,257,005	3,697,241
Community development	1,725,528	1,830,327	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	1,137,667	1,188,350	1,263,858	1,202,201	1,267,296	1,478,103	1,339,037	1,045,306
Total governmental activities	65,138,090	68,088,642	64,388,569	60,998,346	58,316,499	53,609,641	64,793,746	49,481,109
Business-type activities								
Electric	30,978,370	28,763,182	26,505,160	24,308,309 (2)	24,692,031	16,311,434	15,116,855	16,810,659
Water and sewage	11,065,592	11,253,172	11,150,046	10,991,783 (2)	10,836,280	9,502,885	7,305,334	7,427,270
Civic Center	2,332,330	2,440,459	2,435,383	2,563,090	2,364,891	2,199,589	2,096,344	1,856,562
Catering and concessions	965,556	1,033,658	1,081,528	1,103,860	1,036,737	960,320	953,609	932,823
Total business-type activities expenses	45,341,848	43,490,471	41,172,117	38,967,042	38,929,939	28,974,228	25,472,142	27,027,314
Total primary government expenses	$ 110,479,938	$ 111,579,113	$ 105,560,686	$ 99,965,388	$ 97,246,438	$ 82,583,869	$ 90,265,888	$ 76,508,423
Program revenues								
Governmental activities								
Charges for services								
Public safety	$ 900,837	$ 1,107,794	$ 1,048,587	$ 1,148,627	$ 1,315,417	$ 1,083,694	$ 532,717	$ 553,437
Public works	3,248,138	3,627,290	3,203,179	2,892,913	1,799,284	1,821,717	1,805,400	1,781,202
Other activities	716,248	587,294	566,814	535,125	471,137	415,225	508,282	426,281
Operating grants and contributions	6,827,928	6,763,352	6,613,064	7,024,034	6,038,168	5,979,520	5,359,113	5,557,143
Capital grants and contributions	2,709,381	2,119,392	1,359,606	1,168,709	6,392,874	314,789	3,260,581	300,000
Total governmental activities program revenues	14,402,532	14,205,122	12,791,250	12,769,408	16,016,880	9,614,945	11,466,093	8,618,063
Business-type activities								
Charges for services								
Electric	32,915,660	30,863,283	31,000,915	29,300,625	27,699,386	20,192,965	20,092,111	19,640,717
Water and sewage	10,329,200	10,981,350	11,569,453	10,740,194	9,529,125	8,510,106	8,368,156	7,663,093
Civic Center	865,314	919,781	937,520	1,006,344	793,716	887,312	862,129	716,643
Catering and concessions	940,834	994,016	1,048,994	1,097,172	991,208	967,446	975,666	995,280
Total business-type activities program revenues	45,051,008	43,758,430	44,556,882	42,144,335	39,013,435	30,557,829	30,298,062	29,015,733
Total primary government program revenues	$ 59,453,540	$ 57,963,552	$ 57,348,132	$ 54,913,743	$ 55,030,315	$ 40,172,774	$ 41,764,155	$ 37,633,796

	2010	2009	2008	2007	2006	2005	2004	2003
Net (expense) revenue								
Governmental activities	$ (50,735,558)	$ (53,883,520)	$ (51,597,319)	$ (48,228,938)	$ (42,299,619)	$ (43,994,696)	$ (53,327,653)	$ (40,863,046)
Business-type activities	(290,840)	267,959	3,384,765	3,177,293	83,496	1,583,601	4,825,920	1,988,419
Total primary government net expense	$ (51,026,398)	$ (53,615,561)	$ (48,212,554)	$ (45,051,645)	$ (42,216,123)	$ (42,411,095)	$ (48,501,733)	$ (38,874,627)
General Revenues and Other Changes in Net Assets								
Governmental activities:								
Taxes								
Property taxes	$ 31,477,369	$ 31,335,765	$ 30,082,026	$ 27,606,560	$ 27,161,942	$ 25,062,245	$ 24,868,585	$ 23,353,997
Local sales and use taxes	5,492,934	5,568,978	5,908,920	5,711,940	5,634,585	5,601,846	5,397,710	4,996,579
Business license tax	4,421,129	4,827,348	4,714,965	4,258,059	3,866,585	4,032,843	3,647,786	3,496,933
Meals tax	2,429,239	2,448,064	2,546,104	2,397,412	2,351,010	2,190,099	2,091,998	2,055,706
Utility taxes	1,105,818	1,123,616	1,156,775	1,228,975	1,372,250	1,339,238	1,122,167	1,141,696
Other taxes	2,684,054	2,856,119	2,362,788	2,700,657	2,625,066	2,486,633	2,484,614	2,233,301
Intergovernmental revenue not restricted	3,735,738	3,860,269	4,030,210	3,878,955	3,523,634	3,597,191	3,213,462	3,243,932
Unrestricted investment earnings	132,522	213,671	568,689	789,526	556,039	501,808	394,977	319,062
Gain on sale of property	-	24,624	5,715	-	402,089	571,311	-	-
Other	324,136	375,139	812,702	279,223	218,274	266,019	285,750	302,877
Transfers	575,667	1,626,999	1,552,276	495,995	975,685	(70,821)	236,756	226,527
Total governmental activities	52,378,606	54,260,592	53,741,170	49,347,302	48,687,159	45,578,412	43,743,805	41,370,610
Business-type activities:								
Unrestricted investment earnings	23,297	179,714	706,658	928,710	271,303	311,154	110,832	369,743
Gain on sale of property	-	205,932	-	6,967	-	-	-	-
Other	346,520	21,924	130,909	20,149	-	-	-	-
Transfers	(575,667)	(1,626,999)	(1,552,276)	(495,995)	(975,685)	70,821	(236,756)	(226,527)
Total business-type activities	(205,850)	(1,219,429)	(714,709)	459,831	(704,382)	381,975	(125,924)	143,216
Total primary government	$ 52,172,756	$ 53,041,163	$ 53,026,461	$ 49,807,133	$ 47,982,777	$ 45,960,387	$ 43,617,881	$ 41,513,826
Changes in Net Assets								
Governmental activities	$ 1,643,048	$ 377,071	$ 2,143,851	$ 1,118,364	$ 6,387,540	$ 1,583,716	$ (9,583,848)	$ 507,564
Business-type activities	(496,690)	(951,470)	2,670,056	3,637,124	(620,886)	1,965,576	4,699,996	2,131,635
Total primary government	$ 1,146,358	$ (574,399)	$ 4,813,907	$ 4,755,488	$ 5,766,654	$ 3,549,292	$ (4,883,852)	$ 2,639,199

Notes:
Source: City of Salem Finance Department
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.

TABLE 3
UNAUDITED

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

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
General Fund										
Reserved	$ 1,038,347	$ 916,227	$ 893,623	$ 1,357,034	$ 1,431,926	$ 1,179,343	$ 1,009,767	$ 745,321	$ 811,145	$ 967,680
Unreserved	5,183,434	5,486,537	7,086,974	6,547,440	6,419,834	10,534,365	11,124,617	10,319,757	7,785,113	8,494,384
Total general fund	$ 6,221,781	$ 6,402,764	$ 7,980,597	$ 7,904,474	$ 7,851,760	$ 11,713,708	$ 12,134,384	$ 11,065,078	$ 8,596,258	$ 9,462,064
All Other Governmental Funds										
Reserved	$ 784,005	$ 2,130,298	$ 3,388,893	$ 1,083,915	$ 1,251,705	$ 3,777,959	$ 7,434,079	$ 2,920,546	$ 2,639,011	$ 702,166
Unreserved, reported in:										
Capital projects fund	(1,051,141)	(2,031,615)	(3,152,261)	(189,129)	(463,348)	(1,691,345)	2,914,998	(305,531)	-	-
Total all other governmental funds	$ (267,136)	$ 98,683	$ 236,632	$ 894,786	$ 788,357	$ 2,086,614	$ 10,349,077	$ 2,615,015	$ 2,639,011	$ 702,166

Note:
Source: City of Salem Finance Department

TABLE 4
UNAUDITED

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

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Revenues										
Taxes	$ 47,592,620	$ 48,272,897	$ 47,254,766	$ 44,555,391	$ 44,037,357	$ 41,593,054	$ 40,747,374	$ 38,137,448	$ 36,436,995	$ 35,323,279
Permits, fees and licenses	243,035	228,687	303,958	293,004	294,314	286,150	308,511	257,796	269,237	237,722
Fines and forfeitures	159,179	171,056	159,489	159,363	150,860	162,207	197,297	170,922	156,128	159,404
Revenue from use of money and property	465,564	539,930	786,455	1,434,893	1,385,122	1,861,432	579,303	482,878	928,857	1,197,369
Charges for services	4,282,550	4,602,745	4,154,836	3,915,569	2,959,842	2,749,670	2,186,113	2,168,506	1,967,128	1,950,211
Other	172,872	195,505	152,478	47,673	32,544	43,796	53,590	385,733	1,385,165	1,142,483
Intergovernmental	12,525,033	12,526,047	10,859,986	10,336,870	8,720,129	8,765,664	7,764,376	8,562,593	8,400,270	7,663,260
Total revenues	65,440,853	66,536,867	63,671,968	60,742,763	57,580,168	55,461,973	51,836,564	50,165,876	49,543,780	47,673,728
Expenditures										
General government	5,232,405	6,380,771	4,891,569	4,694,442	4,994,542	4,386,061	4,005,851	3,555,873	3,330,674	3,511,823
Judicial administration	1,695,531	1,723,427	1,649,871	1,506,395	1,321,052	1,256,107	1,207,990	1,172,370	1,185,883	1,152,094
Public safety	14,358,932	14,371,192	14,397,297	13,358,739	12,707,985	11,670,171	10,740,352	10,103,738	9,706,080	9,058,667
Public works	11,101,013	12,113,469	12,156,138	11,434,040	9,400,116	9,777,021	8,879,090	8,514,725	9,491,691	8,036,110
Health and welfare	2,293,464	2,315,841	2,410,340	2,163,687	1,918,490	1,823,783	1,419,802	1,217,958	1,858,199	1,541,957
Education	18,420,000	18,420,000	17,995,000	17,095,000	16,266,005	15,618,081	15,340,564	14,747,635	14,851,000	15,552,599
Parks, recreation and cultural	4,204,705	4,716,767	4,464,456	4,354,144	4,316,920	4,037,410	3,696,621	3,336,510	3,549,487	3,238,115
Community development	618,217	1,148,291	469,835	639,535	815,991	513,272	842,963	1,290,922	843,615	662,157
Non-departmental	2,579,752	3,349,639	1,976,756	1,769,127	3,610,694	2,424,022	1,788,744	2,253,821	1,669,551	1,163,257
Capital projects	2,350,384	1,624,611	1,397,376	2,750,335	4,325,562	5,519,655	14,604,233	76,230	819,507	1,379,692
Debt service:										
Principal retirement	2,593,118	2,618,896	2,612,403	2,607,365	2,863,024	5,616,505 (2)	1,055,518	1,628,985	1,969,433	903,164
Interest	1,029,641	1,105,218	1,171,197	1,119,793	1,185,708	1,432,203	1,150,476	1,063,168	1,160,076	430,350
Total expenditures	66,477,162	69,888,122	65,592,238	63,492,602	63,726,089	64,074,291	64,732,204	48,961,935	50,435,196	46,629,985
Excess (deficiency) of revenues over expenditures	(1,036,309)	(3,351,255)	(1,920,270)	(2,749,839)	(6,145,921)	(8,612,318)	(12,895,640)	1,203,941	(891,416)	1,043,743
Other Financing Sources (Uses)										
Proceeds from borrowing	-	-	-	-	-	-	31,970,540	-	-	-
Payments to bond escrow agents	-	-	-	-	-	-	(10,508,287)	-	-	-
Transfers in	4,985,609	6,043,796	6,474,312	7,536,323	8,235,360	5,417,206	4,252,823	3,993,355	2,862,517	2,189,014
Transfers out	(4,496,102)	(4,408,322)	(5,136,073)	(4,627,341)	(7,249,644)	(5,488,027)	(4,016,067)	(3,766,828)	(3,875,163)	(3,196,793)
Total other financing sources (uses)	489,507	1,635,474	1,338,239	2,908,982	985,716	(70,821)	21,699,009	226,527	(1,012,646)	(1,007,779)
Net change in fund balances	$ (546,802)	$ (1,715,781)	$ (582,031)	$ 159,143	$ (5,160,205)	$ (8,683,139)	$ 8,803,369	$ 1,430,468	$ (1,904,062)	$ 35,964
Debt service as a percentage of noncapital expenditures (1)	5.76%	5.73%	6.04%	6.26%	7.06%	12.35% (3)	4.60%	5.68%	6.51%	3.09%

Notes:
Source: City of Salem Finance Department
(1) Debt service as a percentage of noncapital expenditures is the sum of debt service divided by total expenditures less capital outlay presented as a reconciling item from the Statement of Revenues Expenditures, and Changes in Fund Balance to the Statement of Activities.
(2) Includes one-time balloon payment of $2,715,000.
(3) Net of balloon payment, percentage equals 7.59%.

TABLE 5
UNAUDITED

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

Fiscal Year Ended June 30,	Real Estate	Personal Property	Machinery and Tools	Public Service Corporation	Mobile Homes	Total Taxable Assessed Value	Total Direct Tax Rate
2010	$ 1,940,941,700	$ 262,153,501	$ 79,120,695	$ 36,874,789	$ 1,543,032	$ 2,320,633,717	1.48
2009	1,912,957,600	263,305,279	80,517,625	36,468,242	1,655,642	2,294,904,388	1.48
2008	1,805,483,900	263,662,393	82,535,751	36,451,099	1,780,273	2,189,913,416	1.50
2007	1,601,239,600	254,765,656	86,685,532	34,992,259	1,632,022	1,979,315,069	1.52
2006	1,572,732,200	262,141,563	86,409,864	33,586,047	1,855,348	1,956,725,022	1.54
2005	1,414,891,600	253,619,878	82,714,938	35,032,203	2,186,076	1,788,444,695	1.55
2004	1,386,790,100	250,218,290	88,317,031	35,658,160	2,092,797	1,763,076,378	1.56
2003	1,276,162,600	262,415,563	75,075,156	36,825,471	2,257,457	1,652,736,247	1.60
2002	1,260,133,200	257,336,535	81,289,685	35,119,042	2,573,480	1,636,451,942	1.60
2001	1,159,955,100	291,662,164	79,003,832	33,842,393	2,782,250	1,567,245,739	1.66

Note:
Source: City of Salem Finance Department

TABLE 6
UNAUDITED

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

Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Year	Total Collections to Date	
		Amount (1)	Percentage of Levy		Amount	Percentage of Levy
2010	$ 33,854,434	$ 33,408,027	98.68%	$ 613,188	$ 34,021,215	100.49%
2009	33,756,735	33,390,692	98.92%	558,168	33,948,860	100.57%
2008	32,390,886	32,114,303	99.15%	455,608	32,569,911	100.55%
2007	30,693,167	30,037,137	97.86%	273,850	30,310,987	98.75%
2006	30,146,687	29,358,878	97.39%	294,662	29,653,540	98.36%
2005	27,797,041	27,004,594	97.15%	364,687	27,369,281	98.46%
2004	27,635,328	26,972,808	97.60%	253,199	27,226,007	98.52%
2003	26,305,825	25,823,095	98.16%	259,718	26,082,813	99.15%
2002	25,816,066	25,020,450	96.92%	255,210	25,275,660	97.91%
2001	24,642,171	24,316,194	98.68%	239,461	24,555,655	99.65%

Note:
Source: City of Salem Finance Department
(1) Includes state share of personal property taxes.

TABLE 7
UNAUDITED

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

	2010			2001		
Taxpayer	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	$ 36,118,600	1	1.85%	$ 20,731,800	2	1.81%
HRT of Roanoke, Inc.	21,895,600	2	1.12%	25,540,500	1	2.23%
Yokohama Industries	16,142,400	3	0.83%	16,234,000	3	1.41%
BET/Lowe's	12,462,800	4	0.64%			
General Electric	10,655,700	5	0.55%	10,689,700	4	0.93%
U.S. Food Service, Inc.	10,524,500	6	0.54%	6,482,100	8	0.56%
Chateau Riviera Apartments /C.S.W. Associates	9,190,500	7	0.47%	7,090,100	7	0.62%
Spartan Square	8,754,300	8	0.45%	5,121,300	10	0.45%
Carthy Corporation/Carter Machinery	7,586,000	9	0.39%			
Wal-Mart, Inc.	6,750,000	10	0.35%	5,876,400	9	0.51%
Home Shopping Network Virginia Division				8,535,400	5	0.74%
Rowe Furniture/Salem Frame				7,703,300	6	0.67%

Note:
Source: City of Salem Real Estate Valuation Department

TABLE 8
UNAUDITED

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

	2010			2001		
Customer	Services Billed	Rank	Percentage of Total Services Billed	Services Billed	Rank	Percentage of Total Services Billed
Lewis-Gale Hospital HCA	$ 1,371,229	1	4.18%	$ 746,924	1	3.97%
Roanoke College	1,017,379	2	3.10%	505,288	2	2.69%
Graham White	610,979	3	1.86%	442,490	3	2.35%
Rowe Furniture/Salem Frame	589,350	4	1.80%	416,583	4	2.22%
U.S. Food Service, Inc.	556,055	5	1.70%	278,886	7	1.48%
Kroger	425,347	6	1.30%	312,656	6	1.66%
Carthy Corporation/Carter Machinery	385,588	7	1.18%	222,963	9	1.19%
Sewell Products	354,812	8	1.08%			
Old Virginia Brick Company	288,697	9	0.88%	245,749	8	1.31%
Wal-Mart, Inc.	270,549	10	0.83%	206,103	10	1.10%
Valleydale Foods				361,964	5	1.93%

Note:
Source: City of Salem Finance Department

TABLE 9
UNAUDITED

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

	Governmental Activities				Business-Type Activities			
Fiscal Year	General Obligation Bonds (1)	Other Long-term Debt (1)	Amounts Restricted to Repaying Principal	Total	General Obligation Bonds	Total Primary Government	Percentage of Estimated Actual Value of Taxable Property (2)	Net Bonded Debt Per Capita (3)
2010	$ 24,066,428	$ 125,000	$ -	$ 24,191,428	$ 56,518,876	$ 80,710,304	3.48%	$ 3,169.83
2009	26,534,546	250,000	-	26,784,546	59,416,149	86,200,695	3.76%	3,419.44
2008	29,028,442	375,000	-	29,403,442	62,254,430	91,657,872	4.19%	3,645.46
2007	31,515,845	500,000	-	32,015,845	64,951,116	96,966,961	4.90%	3,856.62
2006	31,498,210	625,000	-	32,123,210	66,855,732	98,978,942	5.06%	3,943.38
2005	34,236,234	750,000	-	34,986,234	40,495,352	75,481,586	4.22%	3,007.23
2004	39,727,739	875,000	(2,988,308)	37,614,431	39,779,649	77,394,080	4.39%	3,128.30
2003	18,362,717	1,000,000	(2,673,586)	16,689,131	42,047,283	58,736,414	3.55%	2,377.99
2002	19,866,702	1,125,000	(2,621,352)	18,370,350	45,158,298	63,528,648	3.88%	2,559.27
2001	21,368,934	1,592,200	(2,737,447)	20,223,687	24,726,065	44,949,752	2.87%	1,816.37

Notes:
Source: City of Salem Finance Department
Details regarding the City's outstanding debt can be found in the notes to the financial statements.
(1) Outstanding debt for School Division is included with Governmental Activities.
(2) See Table 5 for actual value of taxable property.
(3) See Table 11 for population data.

TABLE 10
UNAUDITED

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

			Amount of Debt Applicable to Limit					
Fiscal Year	Assessed Value of Real Property (1)	Debt Limit 10% of Assessed Value	Total General Obligation Bonds	Total Other Long-term Debt	Enterprise Bonds (2)	Amounts Restricted to Repaying Principal	Net Debt Applicable to Limit (3)	Legal Debt Margin
2010	$ 1,977,816,489	$ 197,781,649	$ 80,585,304	$ 125,000	$ (56,518,876)	$ -	$ 24,191,428	12.23%
2009	1,949,425,842	194,942,584	85,950,695	250,000	(59,416,149)	-	26,784,546	13.74%
2008	1,841,934,999	184,193,500	91,282,872	375,000	(62,254,430)	-	29,403,442	15.96%
2007	1,636,231,859	163,623,186	96,466,961	500,000	(64,951,116)	-	32,015,845	19.57%
2006	1,606,318,247	160,631,825	98,353,942	625,000	(66,855,732)	-	32,123,210	20.00%
2005	1,449,923,803	144,992,380	74,731,586	750,000	(40,495,352)	-	34,986,234	24.13%
2004	1,422,448,260	142,244,826	79,507,388	875,000	(39,779,649)	(2,988,308)	37,614,431	26.44%
2003	1,312,988,071	131,298,807	60,410,000	1,000,000	(42,047,283)	(2,673,586)	16,689,131	12.71%
2002	1,295,252,242	129,525,224	65,025,000	1,125,000	(45,158,298)	(2,621,352)	18,370,350	14.18%
2001	1,193,797,493	119,379,749	46,094,999	1,592,200	(24,726,065)	(2,737,447)	20,223,687	16.94%

Notes:
Source: City of Salem Finance Department
(1) Includes real estate and public service corporation assessments from table 5.
(2) The Enterprise Fund bonds are backed by the full faith and credit of the City but are expected to be paid from the revenue and receipts of the Enterprise Funds.
(3) School debt is included in the amount of debt applicable to limit.

TABLE 11
UNAUDITED

CITY OF SALEM, VIRGINIA
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS

Fiscal Year Ended (1)	**Population** (2)	**Total Personal Income** (3)	**Per Capita Personal Income** (3)	**Public School Enrollment** (4)	**Unemployment Rate** (5)
		(In Thousands)			
2010	25,462	$4,751,000	$41,019	3,905	7.20%
2009	25,209	4,751,000	41,019	3,907	6.30%
2008	25,143	4,751,000	41,019	3,895	3.60%
2007	25,143	4,616,000	40,495	3,946	3.00%
2006	25,100	4,392,000	38,338	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%

Notes:
(1) Population, school enrollment and unemployment figures are based on fiscal years ending June 30. Per Capita Income is as of December 31.
(2) Population is based on figures available from the Census Department for fiscal year 2010, American Community Survey for fiscal year 2009 and the Weldon Cooper Center, University of Virginia for fiscal years 2008 and earlier.
(3) Bureau of Economic Analysis (BEA) . Total personal income reported is for Roanoke County and the City of Salem. No data is available for the City of Salem only. In 2010, BEA revised estimates for personal income and per capita personal income for 2006, 2007 and 2008.
(4) Director of Business Services, School Division
(5) Virginia Employment Commission

TABLE 12
UNAUDITED

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

	2010			2001		
Employer	**Employees**	**Rank**	**Percentage of Total City Employment** (1)	**Employees**	**Rank**	**Percentage of Total City Employment** (1)
Veterans Administration Medical Center	1,900	1	8.51%	1,458	2	5.91%
Lewis-Gale Hospital HCA	1,549	2	6.94%	1,400	3	5.68%
Yokohama Industries	850	3	3.81%	1,194	5	4.84%
General Electric	750	4	3.36%	1,490	1	6.04%
Virginia Department of Transportation	725	5	3.25%			
Liberty Medical	625	6	2.80%			
City of Salem Schools	584	7	2.62%	529	7	2.15%
City of Salem	549	8	2.46%	488	8	1.98%
Roanoke College	476	9	2.13%	455	9	1.85%
U.S. Food Service, Inc.	445	10	1.99%			
Lewis-Gale Clinic				1,140	4	4.62%
Home Shopping Network Virginia Division				850	6	3.45%
U.S. Postal Barcoding Inc.				380	10	1.54%

Notes:
Source: City of Salem Department of Planning and Economic Development, Virginia Employment Commission
(1) Calculated using data provided by Virginia Employment Commission

TABLE 13
UNAUDITED

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

Function	2010	2009	2008	2007	2006	2005	2004	2003
General government	72	74	76	74	72	72	71	70
Judicial administration	20	20	20	20	19	19	19	19
Public safety	162	167	165	164	162	159	154	154
Public works	110	112	113	111	115	115	114	115
Parks, recreation and cultural	33	33	26	25	25	20	22	22
Community development	3	3	3	3	4	2	2	2
Electric	29	29	29	29	28	29	29	28
Water and sewage	53	58	58	59	58	60	63	63
Civic Center	17	18	20	19	19	20	20	19
Catering and concessions	4	5	5	5	5	5	5	5
Total	503	519	515	509	507	501	499	497

Notes:
Source: City of Salem Finance Department
Information is presented beginning with the year the City implemented GASB 34.

TABLE 14
UNAUDITED

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

Function	2010	2009	2008	2007	2006	2005	2004	2003
General government								
Finance								
Accounts payable checks issued	13,595	12,104	13,991	14,617	15,638	16,307	16,836	16,183
Human resources								
Positions filled (full-time and temporary)	129	257	244	201	246	233	219	246
Registrar								
Number of registered voters	16,309	16,258	15,897	15,524	14,995	15,652	15,146	14,442
Fleet								
Pieces of equipment maintained	551	560	600	558	527	517	510	498
Judicial administration								
Sheriff								
Inmates housed	2,343	1,494	1,294	1,296	1,125	1,067	1,497	1,708
Inmate transports	1,879	1,594	1,545	1,427	1,391	1,315	1,471	1,292
Courts worked	676	695	624	639	611	593	588	580
Public safety								
Police								
Calls for service	34,342	35,159	34,526	33,776	30,163	30,442	31,566	30,396
Accidents	975	1,024	1,300	1,329	1,221	1,263	1,258	1,221
DUI Arrests	129	122	146	176	159	124	196	254
Fire								
Emergency responses - fire	3,270	3,441	3,083	2,715	3,006	2,537	2,182	2,106
Emergency responses - medic units	3,335	3,596	3,085	2,982	3,289	2,934	2,281	2,007
Hazardous conditions responses	134	161	182	146	82	101	72	79
Building inspections								
Residential construction permits issued	130	148	169	336	309	319	272	599
Commercial construction permits issued	63	71	103	93	92	139	163	53
Public works								
Refuse collection								
Refuse collected (tons per year)	83,607	88,365	77,027	90,405	81,379	84,270	92,665	90,762
Tons recycled	3,883	4,841	4,623	4,724	2,154	3,594	3,550	3,559
Other public works								
Tons of asphalt used in resurfacing	3,616	5,185	6,958	14,510	9,111	11,966	8,005	7,088
Square yards of milling completed	39,959	80,155	68,091	84,386	58,605	25,480	17,973	15,990
Tons of salt used	1,389	176	170	277	901	705	1,350	1,574
Leaves collected (loads)	507	448	323	421	422	604	375	400
Parks, recreation and cultural								
Parks and recreation								
Tournaments hosted	53	50	54	57	59	54	51	54
Special events held	25	24	24	25	21	18	18	18
Youth sports teams	210	195	252	186	184	219	219	214
Adult sports teams	49	48	59	48	40	40	40	42
Library								
Circulation	290,309	276,578	264,184	241,816	233,852	232,892	224,712	230,848
Children's program attendance	7,129	8,792	7,647	4,591	3,580	4,164	2,622	3,324
Patron visits to the library	245,807	239,745	233,524	234,379	228,560	217,477	220,571	214,911
New patrons	1,417	1,648	1,694	1,694	1,510	1,537	1,492	1,553
Internet sessions	58,517	50,711	62,650	55,689	32,650	25,834	27,973	25,845
Electric								
Number of customer accounts	13,131	13,175	13,130	13,032	12,968	12,856	12,883	12,678
Water								
Number of customer accounts	9,301	9,304	9,256	9,170	9,107	9,055	9,035	8,916
Million gallons sold to customers	976.5	1,003.4	1,066.6	1,043.4	1,089.5	1,097.3	1,097.7	1,066.3
Sewage								
Number of customer accounts	8,717	8,706	8,664	8,561	8,513	8,461	8,446	8,339
Waste/water treated (million gallons/day)	8.3	6.2	5.7	8.1	6.8	9.2	7.3	7.8
Civic Center								
Concerts	9	9	9	13	6	8	12	16
Meetings	1,156	1,216	1,295	1,081	1,209	1,282	1,259	1,282
Tickets sold	103,891	112,997	99,581	147,491	163,972	129,248	150,801	162,263
Arena utilization days	179	202	219	201	175	203	180	175

Notes:
Source: Various City Departments
Information is presented beginning with the year the City implemented GASB 34.

TABLE 15
UNAUDITED

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

Function	2010	2009	2008	2007	2006	2005	2004	2003
Public safety								
Police station	1	1	1	1	1	1	1	1
Law enforcement vehicles	46	49	50	48	45	42	56	52
Fire stations	3	3	3	3	3	3	3	3
Fire trucks	6	6	7	6	5	5	5	5
Ambulances	5	5	5	5	4	3	3	3
Public works								
Primary streets (lane miles)	67.5	67.5	67.5	67.5	64.8	64.8	64.3	64.1
Secondary streets (lane miles)	272	272	272	269.8	224.8	224.8	222.8	222.8
Alleys (lane miles)	12	12	12	12	10.8	10.8	10.8	10.8
Garbage trucks	12	12	13	13	10	11	12	12
Parks, recreation and cultural								
Community center/senior center	1	1	1	1	3	3	3	3
Parks/athletic fields	15	15	15	15	15	15	15	14
Acres of parks maintained	495	495	495	495	495	495	495	495
Library	1	1	1	1	1	1	1	1
Golf course	1	1	1	1	1	1	1	1
Electric								
Substations	11	11	11	11	7	7	7	7
Overhead distribution lines (miles)	172	171	158	158	159	161	161	183
Underground distribution lines (miles)	38	38	33	33	33	31	31	30
Transmission lines (miles)	17	17	17	17	23	23	23	23
Water and sewage								
Water treatment plant	1	1	1	1	1	2	2	2
Water distribution lines (miles)	182	181	182	181	181	180	155	154
Sanitary sewer lines (miles)	177	171	176	176	174	174	144	143

Notes:
Source: City of Salem Finance Department
Information is presented beginning with the year the City implemented GASB 34.

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CITY OF SALEM, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2010

Federal Grantor ***Pass-through Grantor: Commonwealth of Virginia*** Program Title	**Federal CFDA Number**	**Federal Expenditures**
Department of Agriculture		
Department of Agriculture and Consumer Services		
Food Distribution – Commodities	10.555	$ 96,092
Department of Education		
National School Breakfast Program	10.553	108,499
National School Lunch Program	10.555	478,325
Department of Justice		
Direct Payments		
Drug Enforcement Task Force	16.000	80,009
Bulletproof Vest Partnership Program	16.607	1,953
Byrne Justice Assistance Grant	16.738	22,307
Department of Transportation		
Direct Payments		
Highway Planning and Construction	20.205	1,732,451
Division of Motor Vehicles		
Alcohol Traffic Safety and Drunk Driving Prevention	20.601	24,055
Department of Education		
Department of Education		
Education Consolidation Improvement Act of 1981:		
Title I: Grants to Local Educational Agencies	84.010	350,053
Title I: Perkins Career and Technical Education	84.048	43,110
Title I: State Grants for Innovative Programs	84.298	40
Title II: Part A, Improving Teacher Quality	84.367	127,729
Elementary and Secondary Education Act (ESEA):		
Special Education – Grants to States	84.027	741,141
Special Education – Preschool Grants	84.173	17,274
Vocational Education:		
Adult Education	84.002	62,599
Educational Technology State Grants	84.318	6,928
Special Projects:		
Safe and Drug Free Schools and Communities	84.186	11,048
English Language Acquisition	84.365	5,819
American Recovery and Reinvestment Act of 2009 (ARRA):		
ARRA Education Technology State Grants	84.386	11,838
ARRA Title I: Grants to Local Educational Agencies	84.389	177,520
ARRA Special Education Grants to States	84.391	334,665
ARRA Special Education - Preschool Grants	84.392	10,142
ARRA State Fiscal Stabilization Fund - Education State Grants	84.394	2,111,732
Federal Emergency Management Agency		
Department of Emergency Services		
Emergency Management Assistance	83.503	13,483
State Homeland Security Grant	97.073	14,425
Severe Loss Repetitive Program	97.110	136,959
Total Expenditures of Federal Awards		**$ 6,720,196**

Note 1: Basis of Accounting
This schedule was prepared on the modified accrual basis of accounting.

Note 2: Nonmonetary Assistance
Nonmonetary assistance is reported in the Schedule of Expenditures of Federal Awards at the fair market value of the food commodities disbursed. At June 30, 2010, the Component Unit – School Division had food commodities in inventory of $20,577.

BROWN,
EDWARDS&
COMPANY, L.L.P.
Certified Public Accountants

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 ("City"), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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.

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

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

Providing Professional Business Advisory & Consulting Services
319 McClanahan Street, S.W. • P.O. Box 12388 • Roanoke, VA 24025-2388 • 540-345-0936 • Fax: 540-342-6181 • www.BEcpas.com

Compliance and Other Matters

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

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

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 23, 2010

BROWN,
EDWARDS&
COMPANY, L.L.P.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON 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 ("City"), with the types of compliance requirements described in the U.S. Office of Management and Budget *(OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Providing Professional Business Advisory & Consulting Services

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Internal Control over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control 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 *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

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 over compliance that might be deficiencies, 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.**

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 23, 2010

CITY OF SALEM, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS
June 30, 2010

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

STATE COMPLIANCE MATTERS

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

State Agency Requirements:
Education

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, 2010

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unqualified** opinion on the basic financial statements.
2. **No significant deficiencies** related to the audit of the financial statements is 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*.
3. **No instances of noncompliance material** to the basic financial statements were disclosed during the audit.
4. **No significant deficiencies** are disclosed in the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on 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 **no audit findings** relating to major programs.
7. The programs tested as major programs include:

National School Breakfast Program	10.553
National School Lunch Program	10.555
Title I: Grants to Local Educational Agencies	84.010, 84.389
Special Education Cluster	84.027, 84.173
ARRA Special Education Grants	84.391, 84.392
ARRA State Fiscal Stabilization Fund – Education State Grants	84.394

8. The threshold for distinguishing Types A and B programs was $300,000.
9. The City was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS

None

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

None

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Department of Finance
City of Salem, Virginia

Frank P. Turk	Director of Finance

Accounting/Accounts Payable/Purchasing

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

Administrative

Alyson R. Chaisson	Finance Administrative Secretary/ Accounting Technician

Payroll

Mechelle Bennett-Stump	Payroll Technician
Patricia K. Poage	Payroll Supervisor