

CITY OF SALEM, VIRGINIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT YEAR ENDED JUNE 30, 2014

DEPARTMENT OF FINANCE

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INTRODUCTORY SECTION



The introductory section of the City of Salem, Virginia's Comprehensive Annual Financial Report contains the Letter of Transmittal, which presents an overview of the profile of the City of Salem government, the local economic condition and outlook, major initiatives and accomplishments, and financial policies and financial planning. Also included in this section are an organizational chart and the Certificate of Achievement for Excellence in Financial Reporting awarded by the Government Finance Officers Association of the United States and Canada (GFOA) for the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013. It is the highest form of recognition in governmental financial reporting.

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November 19, 2014

**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, 2014. 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) beginning on page 20 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 2014 estimated population, 25,299, accounts for approximately 8.2% of the population in its metropolitan statistical area (MSA), which includes the neighboring City of Roanoke and Counties of Botetourt, Craig, Franklin and Roanoke.

The City of Salem operates under a council-manager form of government. 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 GASB Statement No. 14, as amended by GASB Statement No. 39 and GASB Statement No. 61. The accounting and reporting principles of the GASB are based on the fundamental concept that publicly elected officials are accountable to their constituents, and the financial statements should emphasize the primary government and permit financial statement users to distinguish between the primary government and its component units. There are several commissions and authorities where the City's accountability is limited to appointments to, or seats on, the respective boards. The City does not exercise financial or administrative control over these entities, so they are excluded from this report.

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

Local Economic Condition and Outlook

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

Salem is fortunate to have a diversified economy comprised of health care, manufacturing, higher education and retail trade. Based on 2014 1st quarter data from Virginia Employment Commission, Salem experienced the largest number of new hires in accommodation and food services, administrative, health care and retail trade. 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. According to Virginia Employment Commission Quarterly Census of Employment and Wages, eighteen new start-up firms opened in Salem between July 1, 2013 and March 31, 2014. Included are several new banks and restaurants, Family Dollar, Varsity Transfer and Green Gearheads, a recycling business. Salem's unemployment rate of 5.2% decreased from the prior year rate of 6.6% and was lower than the national unemployment rate of 6.3% and the state unemployment rate of 5.4%.

Economic challenges are far from over, but Salem was able to recognize an increase in fund balance in FY14. General fund revenues increased slightly from the previous year, with the largest growth in other local taxes. Sales tax increased \$349,080 or 5.7%. Meals, lodging and admissions taxes were all up from the previous year. Cigarette tax was up \$130,306 due to a rate increase that was effective July 1, 2013. City Council increased this tax with the intent that additional revenue generated be reserved for fund balance replenishment.

Real estate trends reflect level performance from the prior year. Twenty-nine new homes and townhouses with an assessed value of \$5.3 million were constructed during fiscal year 2014. The North Oaks subdivision experienced the most new construction. Other revenue categories in the general fund did not experience significant changes.

Maintaining the high service levels to which our citizens are accustomed continued to be a challenge in fiscal year 2014. The City continued to closely monitor spending, with limited hiring and purchases of capital equipment. As a result of these measures and other savings, general fund expenditures decreased \$2,193,018 from the prior year. Street and Parks and Recreation department expenditures were lower in FY14. The Fire Department received less grant funding in FY14, reducing grant expenditures. The City recognized cost savings on property insurance when the service was rebid. The number of Title IVE-eligible children and the type of services required resulted in reduced

expenditure of Comprehensive Services Act funds. The amount transferred to the School Division decreased as a larger amount of the meals tax funding designated for schools was used to pay debt service for the bonds issued to pay for the new South Salem Elementary School. In the previous year, a larger amount of the designated meals tax was transferred to the School Division for capital purchases because the required debt service payment was lower.

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.

The new South Salem Elementary School opened in September 2013, in time for the start of the 2013-2014 school year. The new school replaced the South Salem School that was built in the early 1960s. Construction was completed in an amazing 14 month period, despite record rainfall. The new school, at approximately 88,000 square feet, was constructed with many special features. The attention to detail is evident in everything from the amount of natural light pouring into the classrooms to the wide hallways and strategically placed bathroom sinks. Every effort was made to recycle and reuse as much material as possible from the old school.

South Salem Elementary is more than just an institution for learning. The oversized gym and the new playing field in front of the building will be a great benefit for Parks and Recreation. There is ample parking for sporting events. The back of the school features a walking trail that can be used by citizens. Because this project was undertaken during the recession, significant savings were achieved. Construction costs per square foot were \$16 less than in 2006, resulting in savings of \$1.3 million. Interest savings of \$1.5 million were realized because of lower borrowing rates. Paying for furnishings, fixtures, equipment and technology up front, resulted in an additional \$772,000 in savings. An increase in meals tax was implemented in February 2012 to help pay debt service.

Salem students demonstrated high levels of performance in academic, extracurricular and athletic activities. All six Salem schools were fully accredited by the Virginia Department of Education. In 2014, East, West and South Salem Elementary Schools met all Federal Annual Measurable Objectives (AMO). G.W. Carver and East Salem Elementary were recognized as "Distinguished Title I Schools" for exceeding Elementary and Secondary Education Act achievement objectives. They were two of only 55 schools in Virginia to earn this recognition. 2014 was the tenth consecutive year that East Salem Elementary has earned this distinction. Salem Schools are very proud of the 2014 graduation rate of 90.4%. Approximately 74% of Salem High School graduates attend 2 or 4 year colleges or universities.

In August 2013, the School Division was awarded \$850,000 in Strategic Compensation Grant funds which provided performance and incentive payments in FY14 for teachers who met goals related to student achievement, professional growth and leadership. Salem was one of only thirteen school divisions to receive these funds and received the largest single award. The Strategic Compensation Grant Program was developed to encourage school divisions to collaborate with teachers to create compensation models that reward classroom educators whose efforts enable schools to meet strategic goals. The Salem School Division began researching an innovative teacher-designed incentive program in 2011.

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 (RVCVB) to promote conventions and events in the region. On November 5, 2013, City of Salem Mayor Randy Foley, along with the City of Roanoke Mayor and the County of Roanoke Vice-Chair, accepted the 2013 Southeast Tourism Society's (STS) Government Tourism Leadership Award in Jacksonville, FL. This award honors an elected official (city, county, state or federal) whose support or influence greatly enhances the tourism industry. This was the first time a joint jurisdictional nomination was recognized. All three governments banded together in support of the RVCVB by signing off on a regional tourism agreement investing three percentage points of the local lodging tax to the RVCVB, adding over one million dollars dedicated to marketing Virginia's Blue Ridge.

Salem was one of only six localities to be awarded funding from the Virginia Tourism Corporation to promote tourism-related events and planning. Salem received a \$50,000 grant and partnered with the RVCVB, Salem-Roanoke County Chamber of Commerce, Salem Red Sox, Outback Concerts of Tennessee and the Roanoke Valley Horsemen's Association to provide \$110,000 in matching funds.

The annual Salem Fair held at the Salem Civic Center is the largest fair in the state. Attendance at the Fair held in July 2013 increased over 2012. Despite the wettest weather in the history of the fair, attendance and revenue increased for the fourth time in the past five years. Saturday, July 6, 2013, had the highest attendance of any day in the 26 year history of the fair. The Salem Red Sox played their sixth season at Salem Memorial Stadium with over 210,000 fans in attendance, which was an increase from the previous year. Events such as Stagg Bowl, Roanoke Valley Horse Show, Olde Salem Days, NCAA Championships, ASA Softball and many other special and sporting 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 2017/2018. Besides football and basketball, the City was awarded Division III softball through 2015/2016. Division II softball co-hosted by the Mountain East Conference will return again in 2017 and 2018. In addition, the City was awarded the NCAA Division II Women's Lacrosse Championship for 2015

with the games to be played at Kerr Stadium at Roanoke College. In 2014, nearly 17,000 people traveled to Salem to attend NCAA events held in the City, which included the Stagg Bowl, Division III Men's Basketball Championship along with Division II Softball and Women's Lacrosse.

The James I. Moyer Complex hosted over 1,800 softball and baseball teams this year in tournaments, filling over 20,000 hotel rooms. The biggest event that came to the valley this year was the ASA/USA Girls' Class "A" 16U national championship. Over 10,000 hotel rooms were filled for this event alone. One hundred thirty six teams from all over the country competed for this national championship. Other major events were the ISF Senior World Cup, NCAA Division II Softball National Championship and the Chance Crawford Benefit Adult Slow Pitch Tournament. Over 50,000 people attended events at the Moyer Sports Complex during the past year.

Salem was awarded grant funding of \$150,000 from the Virginia E-911 Services Board to cover a portion of the cost of replacing the 911 phone system. The new system was put in service in June 2014 and is a geo-diverse, VoIP phone system. Being geo-diverse means it has two geographically separated pieces that allow the City to continue to respond to 911 calls if either half of the system is down. Dispatchers are able to answer all lines from either site. The system ties in with existing computer aided dispatch software and has many other features that enable dispatchers to get help to callers more efficiently. The system is capable of accepting text messages from cell phones. This feature will be implemented in FY15.

The Mason's Creek section of the greenway was completed in FY14. This section is a one mile trail extending from Roanoke Boulevard to Salem Turnpike along the creek. Funding from the Federal Transportation Enhancement Program covered the majority of construction costs.

In fiscal year 2014, the City and School Division continued the implementation process for several software projects to replace legacy payroll, timekeeping and billing systems. New World Systems is the financial system used by the City and School Division. The New World Systems utility billing and collection module was implemented in July 2014. Kronos, Inc. was selected for human resources, payroll and timekeeping. Timekeeping and payroll for the School Division was implemented during FY14.

Financial Policies and Financial Planning

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

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

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

Independent Audit

Virginia law and the Charter of the City of Salem require that the financial statements of the City be audited by a certified public accountant selected by City Council. 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 2013. This represents the twenty-sixth 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



Rosemarie B. Jordan
Director of Finance

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**CITY OF SALEM, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
JUNE 30, 2014**

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

ELECTED OFFICERS

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

GENERAL CITY GOVERNMENT

Kevin S. Boggess City Manager
James E. Taliaferro, II Assistant City Manager and Clerk of Council
Rosemarie B. Jordan Director of Finance
Stephen M. Yost City Attorney
Beth M. Austin Director of Human Resources
Mark R. Waldron Director of Management Information Systems
H. Bradley Orth Chief Information Officer
Jeff A. 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
Larado M. Robinson Director of Water and Sewer Department
Justin W. Kuzmich Real Estate Assessor
Todd W. Sutphin 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
John E. Saunders Director of Civic Facilities
Mike Stevens Director of Communications

MEMBERS OF SCHOOL BOARD

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

SCHOOL ADMINISTRATION

Dr. H. Alan Seibert Superintendent of Schools
Michael A. Bryant Assistant Superintendent
Rosemarie B. Jordan Director of Finance
Mandy C. Hall Supervisor of Business
Dr. Joseph T. Coleman Director of Assessment and School Principal
Dr. Darryl D. Helems Supervisor of Student Services
Curtis N. Hicks Director of Secondary Instruction
Russell L. Holladay Director of Personnel
Dr. Randy L. Jennings Supervisor of Special Education
Diane D. Washenberger Director of Elementary Instruction



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
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Presented to

**City of Salem
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

FINANCIAL SECTION



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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Salem, Virginia (the "City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Analysis of Funding Progress for Defined Benefit Pension Plan, and the Analysis of Funding Progress for Other Postemployment Benefits 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.

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 19, 2014

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

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, 2014. It should be read in conjunction with the transmittal letter and the City's basic financial statements.

FINANCIAL HIGHLIGHTS

- As of June 30, 2014, the primary government had \$135.1 million in total net position, an increase of \$0.6 million from prior year. Unrestricted net position available to fund future expenses was \$4.9 million or 3.6% of total net position and increased \$2.6 million.
- As of June 30, 2014, the governmental activities had \$64.6 million in total net position, which decreased \$3.4 million from prior year. Unrestricted net position available to fund future expenses was \$(22.6) million or (35.0%) of total net position and decreased by \$1.8 million from prior year.
- As of June 30, 2014, the business-type activities had \$70.5 million in total net position, an increase of \$4.0 million from prior year. Unrestricted net position available to fund future expenses was \$27.5 million or 39.0% of total net position and increased \$4.4 million from prior year.
- As of June 30, 2014, the general fund had \$8.8 million in total fund balance, which increased by \$2.9 million from prior year. Unassigned fund balance was \$5.3 million or 60.2% 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 35 and include the Statement of Net Position and the Statement of Activities. These statements provide information about the City as a whole using the accrual basis of accounting, which is the method used by most private-sector enterprises. All current year revenues and expenses are reported in the Statement of Activities regardless of when cash is received or paid. These statements allow readers to answer the question "Is the City's financial position, as a whole, better or worse as a result of the year's activities?"

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

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

Fund Financial Statements

The fund financial statements begin on page 37 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. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. These funds are reported on the modified accrual basis of accounting, which measures cash and other liquid assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term overview that helps the reader determine the financial resources that can be spent in the near future to finance the City's programs. The City's governmental funds include the general fund, debt service fund and capital projects fund. The differences between governmental activities as reported in the government-wide and fund financial statements are reconciled in Exhibits 4 and 6.

Proprietary funds – When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. 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.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

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

Summary of Position

The following table presents a condensed summary of net position.

	Summary of Net Position							
	(In Millions)							
	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2014	2013*	2014	2013*	2014	2013*	2014	2013
Current and other assets	\$ 15.1	\$ 10.8	\$ 33.7	\$ 27.2	\$ 48.8	\$ 38.0	\$ 11.7	\$ 9.4
Capital assets, net	93.9	96.3	91.9	95.0	185.8	191.3	49.4	49.2
Total assets	109.0	107.1	125.6	122.2	234.6	229.3	61.1	58.6
Current and other liabilities	4.5	3.8	5.1	3.1	9.6	6.9	6.6	7.4
Long-term liabilities	39.8	35.3	50.0	52.6	89.8	87.9	1.1	0.9
Total liabilities	44.3	39.1	55.1	55.7	99.4	94.8	7.7	8.3
Deferred inflows of revenues	0.1	-	-	-	0.1	-	-	-
Net investment in capital assets	84.2	86.9	43.0	43.4	127.2	130.3	49.4	49.2
Restricted	3.0	1.9	-	-	3.0	1.9	-	-
Unrestricted	(22.6)	(20.8)	27.5	23.1	4.9	2.3	4.0	1.1
Total net position	\$ 64.6	\$ 68.0	\$ 70.5	\$ 66.5	\$ 135.1	\$ 134.5	\$ 53.4	\$ 50.3

* Restated

The primary government net position increased from \$134.5 million to \$135.1 million. Net position of governmental activities decreased \$3.4 million offset by an increase of \$4.0 million in business-type activities. A detailed description of the changes in revenues and expenses that create the differences in net position is discussed in the next section.

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

The primary government's unrestricted net position, the portion of net position that can be used to finance the daily operations of the City was \$4.9 million, an increase of \$2.6 million from prior year. Debt totaling \$3.9 million issued for Civic Center improvements is being repaid by governmental activities while the related asset is recorded in business-type activities. The City also assumed \$23.2 million of debt issued for school improvements while the School Division recorded the related asset. As such, \$27.1 million is included in governmental activities long-term liabilities, which directly reduced unrestricted net position.

Net position is reported as restricted when constraints on asset use are externally imposed by creditors, grantors, contributors, regulators, or are imposed by law through constitutional provisions or enabling legislation. The City had restricted net position totaling \$3 million as of June 30, 2014 for governmental activities. Approximately \$2.2 million in state funding was received, but not yet spent, for highway maintenance. Approximately \$472,000 in federal and state judicial administration and public safety grant funding was received, but not yet spent, for fire programs, asset forfeiture and hazardous materials grants. Approximately \$326,000 is restricted for future capital projects.

As of June 30, 2014, the component unit had \$53.4 million in total net position, which increased \$3.1 million from prior year. Unrestricted net position available to fund future expenses was \$4.0 million or 7.4% of total net position and increased by \$2.9 million from prior year. Net investment in capital assets was \$49.4 million and increased \$240,146 from prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Summary of Changes in Net Position

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

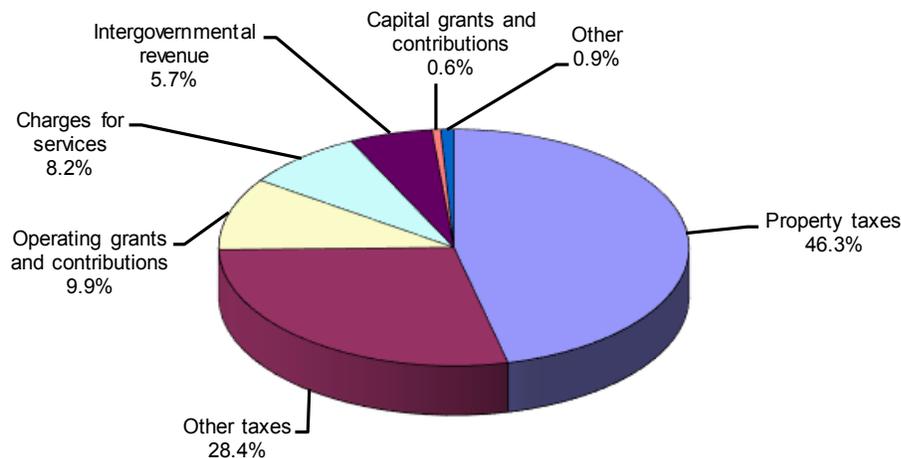
	Summary of Changes in Net Position							
	(In Millions)							
	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2014	2013*	2014	2013*	2014	2013*	2014	2013
Revenues								
<i>Program Revenues:</i>								
Charges for services	\$ 5.8	\$ 5.6	\$54.2	\$ 53.6	\$ 60.0	\$ 59.2	\$ 1.7	\$ 1.5
Operating grants and contributions	7.0	7.4	-	-	7.0	7.4	9.0	8.1
Capital grants and contributions	0.4	2.0	-	-	0.4	2.0	-	-
<i>General Revenues:</i>								
Property taxes	32.7	32.3	-	-	32.7	32.3	-	-
Local sales and use tax	6.4	6.1	-	-	6.4	6.1	-	-
Business license tax	5.1	5.1	-	-	5.1	5.1	-	-
Meals tax	4.3	4.1	-	-	4.3	4.1	-	-
Utility taxes	1.1	1.2	-	-	1.1	1.2	-	-
Other taxes	3.2	2.9	-	-	3.2	2.9	-	-
Intergovernmental revenue	4.0	3.9	-	-	4.0	3.9	-	-
Investment earnings	0.1	0.1	-	-	0.1	0.1	-	-
Gain on sale of capital assets	-	-	-	-	-	-	-	-
Payments from City of Salem	-	-	-	-	-	-	25.1	30.3
State aid	-	-	-	-	-	-	13.1	13.1
Other	0.6	0.6	-	-	0.6	0.6	0.8	0.8
Total revenues	70.7	71.3	54.2	53.6	124.9	124.9	49.7	53.8
Expenses								
General government	\$ 6.2	\$ 6.5	\$ -	\$ -	\$ 6.2	\$ 6.5	\$ -	\$ -
Judicial administration	2.0	1.9	-	-	2.0	1.9	-	-
Public safety	17.5	17.3	-	-	17.5	17.3	-	-
Public works	13.5	13.8	-	-	13.5	13.8	-	-
Health and welfare	2.6	2.7	-	-	2.6	2.7	-	-
Education	25.1	30.3	-	-	25.1	30.3	46.6	44.5
Parks, recreation and cultural	5.3	5.4	-	-	5.3	5.4	-	-
Community development	2.4	2.3	-	-	2.4	2.3	-	-
Interest and other fiscal charges	1.2	1.3	-	-	1.2	1.3	-	-
Electric	-	-	34.1	33.2	34.1	33.2	-	-
Water and sewage	-	-	11.0	10.7	11.0	10.7	-	-
Civic center	-	-	2.6	2.8	2.6	2.8	-	-
Catering and concessions	-	-	0.8	0.8	0.8	0.8	-	-
Total expenses	75.8	81.5	48.5	47.5	124.3	129.0	46.6	44.5
Excess (deficiency) before transfers	(5.1)	(10.2)	5.7	6.1	0.6	(4.1)	3.1	9.3
Transfers	1.7	1.1	(1.7)	(1.1)	-	-	-	-
Increase (decrease) in net position	(3.4)	(9.1)	4.0	5.0	0.6	(4.1)	3.1	9.3
Net position, beginning as restated	68.0	77.1	66.5	61.5	134.5	138.6	50.3	41.0
Net position, ending	\$ 64.6	\$68.0	\$70.5	\$ 66.5	\$135.1	\$134.5	\$ 53.4	\$ 50.3

* Restated

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Governmental Activities – Revenues

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



Property taxes, which were 46.3% of total governmental activities revenue, include real estate tax, the local portion of personal property tax, machinery and tools tax and public service corporation taxes. Property taxes increased \$393,000 or 1.2% from the previous year. Machinery and tools tax increased due to moderate capital investment and establishment of several new businesses. Personal property tax revenue increased 1.8% while real estate assessments remained relatively level with the previous year.

Sales and use tax increased \$349,000 or 5.7%, which is encouraging. Meals tax revenue was up \$160,000 or 3.9% from the prior year. The meals tax rate was increased from 4% to 6% effective February 1, 2012 with the additional 2% committed to school capital needs. Business license and utility taxes remained comparable to the previous year.

Other taxes which included bank stock tax, motor vehicle tax, recordation tax, admissions tax, lodging tax, cigarette tax and other miscellaneous tax increased \$260,000 or 8.9%. The lodging tax rate was raised from 7% to 8% effective January 1, 2013, with the additional revenue dedicated to Roanoke Valley Convention and Visitors Bureau (RVCVB). As the higher rate was in place for the entire fiscal year, additional revenue was generated in fiscal year 2014. The cigarette tax rate was increased effective July 1, 2013 resulting in additional revenue of \$130,000. Admissions tax also increased.

Operating grants and contributions category includes social service programs, street maintenance funds, reimbursement for constitutional officers, funding received under House Bill 599 for law enforcement and other grants and contributions. This category comprised 9.9% of total governmental activities revenues and decreased \$460,000 or 6.2% from the prior year largely due to a lower amount received for public safety grants. In fiscal year 2013, the City received \$88,000 from FEMA to cover storm cleanup costs. The Fire Department was awarded funding to purchase handheld radios and defibrillators. These one-time grants resulted in higher grant revenue in fiscal year 2013. E911 revenue from the state decreased \$40,000 in fiscal year 2014 because the distribution formula was revised. In the health and welfare function, revenue received under the Comprehensive Services Act for At Risk Youth and Families was lower due to less costly services required in fiscal year 2014. In the previous year, the School Division contributed \$250,000 towards payment of debt service costs. No contribution was made in the current year.

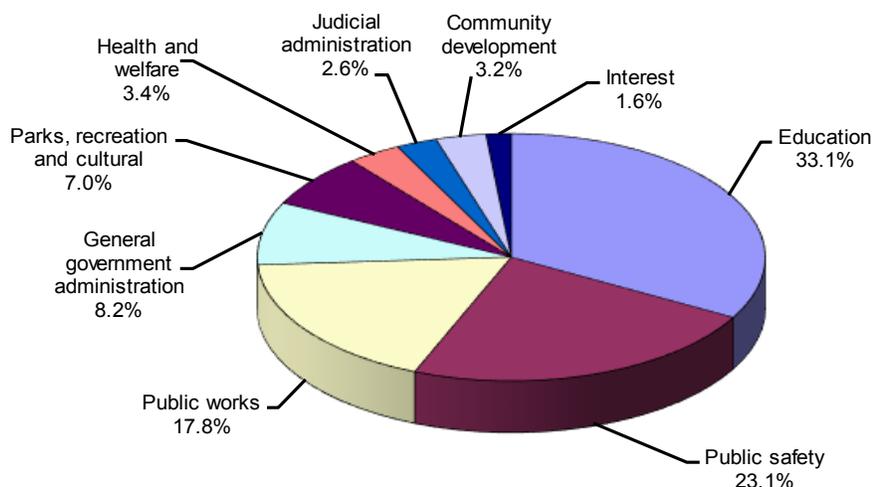
Charges for services, which were 8.2% of total governmental activities revenues, include fines, court fees, inspection fees, garbage collection fees, recreation fees and other program-based fees. These revenues increased \$181,000 from prior year largely due to higher waste collection and disposal fees. Disposal costs paid by the City reflect a comparable increase.

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

Capital grants and contributions included grants received from federal and state agencies to fund capital purchases. These revenues decreased \$1.6 million. In fiscal year 2013, a larger amount of funding was received for construction of the Roanoke River Greenway. In addition, donations were received in the prior year to purchase new scoreboards at Moyer Park. The School Division contributed approximately \$300,000 to the ongoing technology projects in the previous year, which is reflected in the general government category.

Governmental Activities – Expenses

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



Education expenses totaling \$25.1 million or 33.1% of governmental activities, represents the largest allocation of resources. Expenses declined \$5.2 million from the previous year. Funding of \$18.9 million was allocated to the School Division to cover operating costs, which was the same amount provided in the previous year. In fiscal year 2013, \$9.5 million in bond proceeds were provided to the School Division to fund a portion of the South Salem Elementary construction costs. In the current year, an additional \$5.5 million was provided. Meals tax revenue dedicated to school capital projects totaled \$1.9 million in fiscal year 2013. In fiscal year 2014, \$702,000 was transferred to the School Division as a larger amount of the dedicated meals tax revenue was utilized to pay the required debt service for the bonds issued for the South Salem construction project.

Public safety expenses, which were 23.1% of total governmental activities expenses, increased \$253,000 or 1.5%. This category includes operations of the labor-intensive police and fire departments, along with expense of emergency medical services, communications (E-911 call center) and the cost of juvenile justice programs. Juvenile detention costs increased as more children were housed at the Roanoke Valley Detention Center. Costs to house inmates at the Roanoke County jail increased due to higher per diems. Line of duty insurance was higher in fiscal year 2014. These increases were partially offset by a decrease in depreciation expense due to more assets being fully depreciated in fiscal year 2014 and police vehicle disposals.

Public works expenses were 17.8% of total governmental activities expenses and included engineering, solid waste management, building maintenance, street paving, traffic engineering and street maintenance. Expenses were down \$410,000 or 3% due to decreased highway maintenance spending. Salary and benefit costs for the Street department declined due to limited hiring to fill vacant positions.

General government expense declined \$158,000 and comprised 8.2% of total government activities. In fiscal year 2014, an internal service fund was established to account for health insurance activity. Costs of the employee health clinic were accounted for in the internal service fund in 2014, but were previously reported as a general government expense. The decrease due to this accounting change was partially offset by an increase in Technology Systems expenses. With several new software packages in place

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

during fiscal year 2014 (including Kronos and New World Systems), the City began paying software maintenance charges that weren't required in previous years. Depreciation expense was also higher in fiscal year 2014 due to capitalization of new software.

Health and welfare expenses, which were 3.4% of total governmental activities, decreased \$131,000 or 5.1%. Comprehensive Services Act expenditures were lower than the previous year as less costly services were provided.

Business-type Activities

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

Component Unit – School Division Activities

General revenues of the School Division decreased \$5.2 million or 11.8%. Payments from the City were higher in the previous year largely due to the transfer of funding for construction of the new school. In fiscal year 2013, support totaled \$30.3 million and included \$18.9 to cover operating costs and \$9.5 million in bond proceeds to fund a portion of South Salem Elementary School construction costs. Meals tax revenue dedicated to school capital projects totaled \$1.9 million. In the current year, the transfer for operating costs remained level, but other amounts were lower. Bond proceeds totaling \$5.5 million were transferred to cover remaining school construction costs. Meals tax revenue transferred totaled \$702,000 as a larger amount was required to pay debt service costs for the bonds issued for school construction. State aid remained level with the previous year.

Operating grants and contributions increased \$834,046 or 10.3% largely due to the receipt of \$850,000 for the Governor's Strategic Compensation Grant Initiative. Charges for services revenue was up \$122,049 or 7.9% as a result of higher reimbursements for VWCC dual enrollment classes.

The School Division incurred expenses of \$46.6 million for the year ended June 30, 2014 an increase of \$2.1 million or 4.6% from prior year. The Governor's Strategic Compensation Grant Initiative funding was used to provide one-time incentive compensation totaling \$850,000 to teachers. Depreciation expense was substantially higher in fiscal year 2014 because the new South Salem Elementary school was capitalized. VWCC dual enrollment costs were also \$154,000 higher in fiscal year 2014.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

As of June 30, 2014, the governmental funds had \$9.3 million in total fund balance, an increase of \$3.6 million from prior year. Unassigned fund balances available to fund future expenditures were \$5.3 million or 57% of total fund balance. Unassigned fund balance, which includes all amounts not included in other classifications, is available to pay for future years' capital projects expenditures and provide for unforeseen circumstances. Restricted fund balance includes amounts that can be spent only for specific purposes stipulated by grantors and totaled \$3 million. Assigned fund balance totaled \$473,469 and represents amounts set aside to liquidate encumbrances. Committed fund balance totaled \$125,651 and represents funds appropriated to complete the CAMA software and ERP projects.

General Fund

The general fund is the chief operating fund of the City. As of June 30, 2014, the general fund had \$8.8 million in total fund balance, which increased \$2.9 million from the prior year. Unassigned fund balances available to fund future expenditures were \$5.3 million or 60.2% of total fund balance and increased \$1.8 million from the previous year. As a measure of the general fund's liquidity, it may be useful to compare both total fund balance and unassigned fund balance to total fund expenditures. Total fund balance to total fund expenditures increased from 10.1% to 13.6%. Unassigned fund balance to total fund expenditures increased from 5.2% to 8.1%.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

City Council has stated its intent to increase the unassigned general fund balance to 15% of the fund's current year budgeted appropriations, a level more reflective of the best practices recommended by the Government Finance Officers Association of the United States and Canada (GFOA). Unassigned fund balance is currently 8% of 2014 general fund appropriations, up from 5.5% in the previous year. While still short of City Council's goal, progress was made during fiscal year 2014. To help improve reserves, City Council voted to increase the cigarette tax rate from \$0.15 per pack to \$0.45 per pack effective July 1, 2013 with the intent that the additional cigarette tax revenue be used to replenish general fund reserves that declined during the past few years of recession. In fiscal year 2014, an additional \$130,000 in cigarette tax revenue was generated.

Property taxes, which were 47.1% of total general fund revenue, increased \$190,000 or 0.6% from the prior year. Real estate assessments remained relatively level with the previous year but revenue declined slightly as a larger allowance was required at June 30, 2014. Personal property assessments were higher than the previous year but revenues declined slightly. In fiscal year 2014, a larger amount of the tax due was not collected within the 60 day availability period, increasing the amount of revenue that was deferred. A larger allowance was also required at June 30, 2014. Increases in machinery and tools tax and penalties and interest partially offset the reduced real estate and personal property revenues. Moderate capital investment and establishment of several new businesses contributed to the increase in machinery and tools tax.

Other local taxes, which comprised 28.6% of total general fund revenue, increased \$737,000 or 3.8% from the prior year. Sales tax revenue rose \$349,000 or 5.7% from the prior year. Meals tax revenue increased \$160,000 or 3.9%. The lodging tax rate was increased from 7% to 8% effective January 1, 2013 generating additional revenue which was dedicated to RVCVB. Fiscal year 2014 was the first full year that the higher tax rate was in place. Lodging tax increased \$97,000 as did the payment to RVCVB. City Council increased the cigarette tax rate effective July 1, 2013, resulting in \$130,000 of additional cigarette tax revenue. Collection of business license taxes as of June 30th remained level with the prior year.

Intergovernmental revenue, which was 15.5% of total general fund revenue, decreased \$84,000 or 0.8% from the prior year. The Fire Department was awarded more grant funding in fiscal year 2013 for equipment purchases and funding was received from FEMA to cover storm cleanup costs. In fiscal year 2014, funding received under the Comprehensive Services Act decreased due to lower treatment costs. Increased asset forfeiture proceeds and additional highway maintenance funding for road maintenance partially offset the decreases.

Charges for services, which were 7.1% of total general fund revenue, increased \$31,000. Waste collection and disposal fees increased with a corresponding increase in costs the City paid for transport and disposal of waste. This increase was partially offset by a decrease in fees charged for ambulance transports under the revenue recovery program.

Education expenditures decreased \$1.2 million from prior year and represented 30.1% of General Fund expenditures. Of the \$19.6 million in expenditures, \$18.9 million represented local operating support provided to the School Division and \$702,000 was the transfer of meals tax collected by the City and dedicated to school capital projects. The amount transferred was smaller in fiscal year 2014 as a larger portion of the meals tax funding was utilized to pay debt service costs on the bonds issued for South Salem Elementary construction costs.

Public safety expenditures, which comprised 25.1% of total general fund expenditures, remained level with the prior year. More juveniles were housed at the Roanoke Valley Detention Center in fiscal year 2014. The daily rate paid to house prisoners at the Roanoke County jail went up in fiscal year 2014 resulting in higher costs. These increases were offset by a decrease in Fire Department expenditures. In fiscal year 2013, the Fire Department was awarded grant funding of \$147,146 for the Assistance to Firefighters Grant, which was used to purchase radios and computers. They were also awarded \$54,840 from the Rescue Squad Assistance Fund to purchase cardiac monitors in the prior year.

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

Public works expenditures, which were 17% of total general fund expenditures, decreased \$415,000 or 3.6% from the prior year. The amount of highway maintenance funds expended was lower in fiscal year 2014. Salary and fringe benefit costs of several Street department divisions were lower than the previous year as vacant positions were not immediately filled.

Health and welfare expenditures were 7.8% or \$207,000 lower than the previous year due to a decrease in Comprehensive Services Act expenditures. The type of services provided in fiscal year 2013 resulted in higher costs in the prior year.

Parks, recreation and cultural expenses were 6.6% of total governmental activities expenses and decreased \$185,000 from the prior year. Maintenance of city parks and greenways, library costs and expenses for citywide recreational and athletic programs and events were included in this category. In fiscal year 2013, donations were used to purchase equipment and new scoreboards at Moyer Park. In addition, a new roof was installed at the Senior Center during fiscal year 2013, increasing prior year costs.

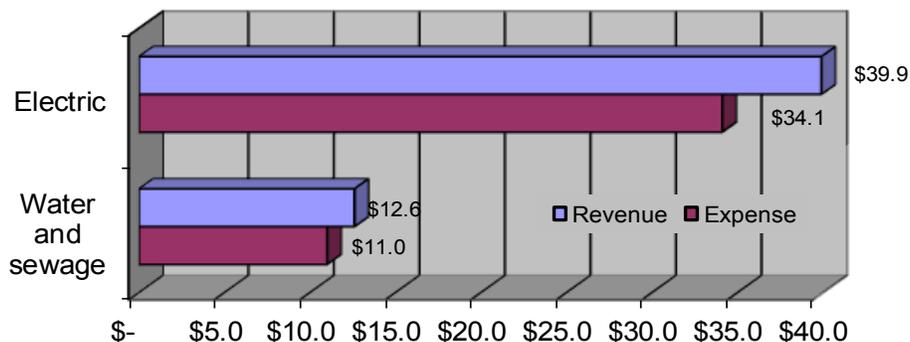
Non-departmental expenditures, which were 4.2% of total general fund expenditures, decreased \$108,000 or 3.8%. Vacation buyback costs were charged directly to departments in fiscal year 2014, but were included in the non-department category in the previous year. Liability insurance costs were lower in fiscal year 2014, partially offset by an increase in worker's compensation insurance expense. The lodging tax rate was increased from 7% to 8% effective January 1, 2013, with the additional revenue dedicated to RVCVB. Fiscal year 2014 was the first full year of the higher tax rate and resulted in a larger payment to RVCVB.

Capital Projects Fund

During fiscal year 2014, the fund balance in the capital projects fund increased by \$776,998. Bonds were sold during fiscal year 2014 and funded several projects. The 911 telephone system was replaced during fiscal year 2014 at a cost of \$295,000. Grant funds of \$150,000 and bond proceeds funded this purchase. The City contracts with Roanoke County to administer the City's social services program. The City paid \$500,000 in fiscal year 2014 for their share of the Roanoke County Social Services Building renovation. Expenditures of approximately \$265,000 were incurred for the ongoing ERP projects for the City and School Division. Various greenway projects continued with expenditures of \$230,000 incurred during fiscal year 2014. Four police vehicles were purchased and equipped at a cost of \$164,000. Proceeds of \$5.5 million from the bond sale in December 2013 were transferred to the School Division to cover a portion of South Salem Elementary School construction costs.

Proprietary Funds

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



Electric Fund

As of June 30, 2014, the electric fund had \$38.4 million in total net position, which increased by \$2.9 million from prior year. Net investment in capital assets was \$13.8 million or 36.0% of total net position and decreased \$55,656 from prior year. Unrestricted net position available to fund future expenses were \$24.6 million or 64.0% of total net position and increased by \$3.0 million from prior year.

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

For fiscal year 2014, operating revenue was \$39.9 million and decreased \$418,960 from the prior year primarily due to lower consumption. Operating expenses were \$33.4 million and were approximately \$1 million higher than prior year. Despite the decrease in consumption, purchased power costs increased. The City of Salem purchases power for resale through American Electric Power (AEP). Rates are recalculated annually based on the supplier's cost. In accordance with the contract, AEP is allowed to charge back to the City environmental and other costs as approved by the Federal Energy Regulatory Commission (FERC). These costs relate to AEP's overall transmission and power production costs and are allocated to the City. They are not a direct result of activities in Salem. The true up of charges is done annually and the settle up recorded in fiscal year 2013 was significantly lower than previous years and lower than the settle up recorded in fiscal year 2014.

Water and Sewage Fund

As of June 30, 2014, the water and sewage fund had \$27.9 million in total net position, an increase of \$1.7 million from prior year. Net investment in capital assets was \$24 million or 86% of total net position and increased \$73,875 from prior year. Unrestricted net position available to fund future expenses was \$3.9 million or 14% of total net position and increased \$1.6 million from prior year.

For fiscal year 2014, operating revenue was \$12.6 million, an increase of \$915,461 from the previous year. The City's water and sewer rates were restructured effective July 1, 2010 to include a monthly base service fee and also a volume charge based on metered water usage. A rate increase was then instituted on January 1, 2011, 2012 and 2013. Operating expenses were \$9.8 million, approximately \$526,000 higher than prior year. Treatment of sewage costs were higher due to the 14% increase in the rate paid to Western Virginia Water Authority (WVWA). An additional 316 million gallons of sewage were treated in fiscal year 2014 compared to the previous year and \$42,000 was paid to WVWA for the Old Roanoke River Interceptor project, which began in fiscal year 2014.

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 2014
(In Millions)**

	Original Budget	Budget As Amended	Actual
Revenues	\$ 68.2	\$ 69.2	\$ 70.3
Expenditures	(65.9)	(67.5)	(65.1)
Transfers in	2.8	2.8	2.8
Transfers out	(5.5)	(5.1)	(5.1)
Use of fund balance	\$ (0.4)	\$ (0.6)	\$ 2.9

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, 2013.
- To re-appropriate grants, donations and other revenues authorized in fiscal year 2013 or earlier, but not expended or encumbered as of June 30, 2013.
- To appropriate grants, donations and other revenues accepted or adjusted in fiscal year 2014 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

CAPITAL ASSETS

The City's total primary government capital assets, net of accumulated depreciation, decreased 2.8% from \$191.3 million to \$185.8 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	
	2014	2013	2014	2013	2014	2013	2014	2013
Land	\$ 5.9	\$ 5.9	\$ 1.5	\$ 1.5	\$ 7.4	\$ 7.4	\$ 1.1	\$ 1.1
Construction in progress	0.8	2.0	2.4	1.7	3.2	3.7	0.4	14.0
Machinery and equipment	4.6	4.7	1.2	1.3	5.8	6.0	3.9	2.5
Buildings and improvements	25.1	25.9	19.4	20.3	44.5	46.2	44.0	31.6
Public domain infrastructure	57.5	57.8	-	-	57.5	57.8	-	-
Distribution and transmission	-	-	15.5	15.9	15.5	15.9	-	-
Utility plant	-	-	30.4	32.1	30.4	32.1	-	-
Sewage treatment contract	-	-	21.5	22.2	21.5	22.2	-	-
Total	<u>\$ 93.9</u>	<u>\$ 96.3</u>	<u>\$ 91.9</u>	<u>\$ 95.0</u>	<u>\$185.8</u>	<u>\$191.3</u>	<u>\$ 49.4</u>	<u>\$ 49.2</u>

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

- The City and School Division continued implementation of three new software projects to replace legacy financial, human resources, payroll, timekeeping, cashiering and billing systems with \$265,435 spent on these projects in fiscal year 2014. The financial utility management module went live in July 2014. The School timekeeper and payroll modules went live in February 2014 and June 2014, respectively. The personal property tax and business tax modules of the cashiering and billing system went live in January 2014.
- Construction was completed in July 2013 on a pedestrian bridge next to West Riverside Drive that connects two sections of the Roanoke River Greenway with \$21,960 expended in fiscal year 2014 and a total capitalized cost of \$831,228. The bridge was partially funded with monies received from the Federal Transportation Enhancement Program.
- Construction was completed on Phase 1 of the Mason Creek Greenway with \$120,096 expended in fiscal year 2014 and a total capitalized cost of \$743,549. This one mile trail extends from Roanoke Boulevard to Salem Turnpike and was partially funded with monies received from the Federal Transportation Enhancement Program.
- Four new police vehicles were purchased in fiscal year 2014 with a total cost of \$164,042. The vehicles featured completely re-designed exterior decals and were funded through general obligation bonds issued in December 2013.
- A new telephone system for the 911 communications center was purchased in fiscal year 2014 with a total capitalized cost of \$231,587. The new system provides more advanced call handling features and provides crucial audio and visual call alerts. The system was funded by a grant received from the Virginia E-911 Services Board and from general obligation bonds issued in December 2013.
- A housing unit was purchased on Central Avenue in fiscal year 2014 with a total cost of \$127,891. The housing unit was leased to the Cardinal Criminal Justice Academy in May 2014 for a five year term
- Traffic signal replacement and improvements totaled \$394,462 in fiscal year 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

- The Electric Department purchased a new International Bucket Truck in fiscal year 2014 at a cost of \$202,784.
- The Electric Department replaced six 12 kV circuit breakers located at the Indiana Street substation at a total cost of \$154,500. The new circuit breakers contain a newer technology that is safer and more reliable than the outdated circuit breakers that were replaced and will help reduce future power outages.
- Renovations were completed in fiscal year 2014 for the water tank at Creekwood Drive with \$100,823 spent in fiscal year 2014 and a total cost of \$216,145.
- \$491,745 was spent on improvements to Electric distribution and transmission infrastructure, including the circuit breaker replacements.

LONG-TERM DEBT

At June 30, 2014, the City's long-term liabilities, excluding compensated absences, other postemployment benefit liabilities, bond premiums, bond discounts, deferred amounts on refunding, and bond issuance costs, totaled \$85.9 million. This amount was comprised of \$37.5 million related to governmental activities (including \$23.2 million for debt held on behalf of the School Division) and \$48.4 million related to business-type activities. The City made \$5.9 million in principal payments (including the current refunding of a general obligation note for \$5.0 million) and amortized \$69,554 in discounts, premiums, and deferred amounts on refunding.

Total debt increased \$2,191,652 during the fiscal year. On December 17, 2013, the City issued \$7,275,000 in general obligation bonds to finance the construction of South Salem Elementary School, the City's portion of the construction and renovation of the social services building, acquisition and installation of a new 911 phone system and other general data systems and rolling stock for supporting City operations, including administrative and financing costs. Detailed information regarding these changes in long-term debt is disclosed in Note 8 to the financial statements.

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

The 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 \$37.5 million is below the legal debt limit of \$204.4 million. Table 10 of the statistical section provides additional information related to the legal debt margin.

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

Interest and other fiscal charges for fiscal year 2014 were \$1.2 million or 1.6% of total governmental activities expenses.

FACTORS INFLUENCING FUTURE BUDGETS

The current economic conditions do not show a great deal of improvement over the previous year. Reduced state support and slow revenue growth put pressure on local government budgets and require tough choices. The state recently reduced revenue estimates for the biennium. As part of their plan to deal with revenue shortfalls, aid to localities will be reduced in fiscal year 2015. Additional cuts are also a possibility in fiscal year 2016. The School Division will not suffer additional cuts in fiscal year 2015 as a

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

result of the reduced revenue estimates. Our state continues to face uncertainty from actions taken at the federal level to reduce the budget deficit.

City Council approved increases in some taxes and fees effective July 1, 2014 which is anticipated to generate approximately \$950,000 in additional general fund revenue. The trash collection fee was raised from \$1 per household per month to \$7 per household per month. This change is expected to result in additional revenue of \$682,000. The personal property tax rate will increase from \$3.20 per \$100 of assessed value to \$3.25 per \$100 of assessed value on January 1, 2015 and should generate an additional \$125,000 in tax revenue. The machinery and equipment tax rate will remain at \$3.20. Several smaller changes in permits and fees were also instituted.

The general fund budget for fiscal year 2015 included funding for 2.5% employee raises and capital purchases. Capital purchases approved include two police vehicles, a radial arm mowing tractor, firewall replacement, boiler replacement at the Animal Shelter and building improvements at Fire Station 1. The VRS retirement rate increased from 16.27% to 18.13%, which resulted in higher costs for general and enterprise funds in the fiscal year 2015 budget.

The City is in the ninth year of a twenty-year contract to purchase electricity. The rate the City pays for wholesale electricity varies based on the supplier's actual costs, which are affected by fuel and environmental costs. Moderate increases are expected over the next several years. No rate increases for customers are included in the fiscal year 2015 budget. A 1% to 2% decrease in consumption is anticipated.

Effective July 1, 2014, connection fees were increased in Electric and Water and Sewer funds. An availability fee for Water and Sewer was also instituted on July 1, 2014. These changes are expected to result in approximately \$66,000 in additional revenue for Electric fund and \$194,000 for Water and Sewer fund.

Effective July 1, 2010, the City instituted a new rate structure for water and sewer services. The monthly bills were modified to include a monthly base service fee and also a volume charge based on metered water usage. Rate increases necessary to produce sufficient revenue to sustain long-term water and sewer systems were phased incrementally over a four-year period. Rate increases were effective January 1 of 2011, 2012 and 2013. Water and sewer rates increased approximately 10% and 12% respectively on January 1, 2014. The fiscal year 2015 budget includes a 5% increase in water rates and a 1% increase in sewer rates. A decrease in consumption is anticipated.

The City and Salem School Division continue to face the uncertainty that health care reform brings to the market. Interpretations and guidance on health care reform indicate that costs for employers will ultimately increase. The Affordable Care Act is already impacting the City and School Division budgets. In fiscal year 2014, the City and School Division, as self-funded employers, had to pay a reinsurance fee of \$1 multiplied by the average number of covered lives. In addition, the requirements of the Affordable Care Act have forced the City and School Division to examine how part-time labor is utilized. Health care costs will rise if insurance must be offered to additional employees. The City and School Division continue to monitor requirements and changes of the Affordable Care Act.

In June 2012, the Governmental Accounting Standards Board approved GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for governments that provide their employees with pension benefits. Beginning in fiscal year 2015, governments providing defined benefit pensions will be required to recognize their long-term obligation for pension benefits and to comparably measure the annual costs of pension benefits for the first time. While the City will be affected by these new requirements, the biggest impact will be felt by the School Division. In recent years, the State has not adequately funded their share of the pension obligation for teachers. The unfunded actuarial accrued liability for the VRS Teacher's pool will be allocated to Schools, resulting in a liability on government-wide financial statements. Some pension reform efforts were passed by the 2012 General Assembly. The new GASB reporting standard is

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

expected to increase volatility in VRS rates and result in higher unfunded liability calculation for all systems.

REQUESTS FOR INFORMATION

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

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

BASIC FINANCIAL STATEMENTS



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

CITY OF SALEM, VIRGINIA
STATEMENT OF NET POSITION
JUNE 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 6,905,895	\$ 25,405,541	\$ 32,311,436	\$ 8,464,473
Receivables, net	3,445,526	6,075,542	9,521,068	32,004
Due from other governmental units	4,306,040	-	4,306,040	1,155,646
Internal balances	(400,000)	400,000	-	-
Other postemployment benefits asset	-	-	-	66,146
Inventories	421,117	1,698,700	2,119,817	55,511
Prepaid items	-	76,710	76,710	24,797
<i>Restricted assets:</i>				
Cash and cash equivalents	374,442	-	374,442	1,859,312
<i>Capital assets:</i>				
Nondepreciable	6,647,573	3,966,136	10,613,709	1,527,746
Depreciable, net	87,268,688	87,921,857	175,190,545	47,913,820
Total assets	<u>108,969,281</u>	<u>125,544,486</u>	<u>234,513,767</u>	<u>61,099,455</u>
LIABILITIES				
Accounts payable and accrued liabilities	2,687,080	3,035,569	5,722,649	934,574
Accrued payroll and related liabilities	887,675	267,633	1,155,308	5,154,073
Accrued interest	418,055	771,987	1,190,042	-
Self insurance claims liability	459,032	-	459,032	439,848
Unearned revenue	52,964	241,166	294,130	57,375
Customer security deposits	-	801,534	801,534	-
<i>Long-term liabilities due in less than one year:</i>				
Bonds payable	3,018,738	3,339,875	6,358,613	-
Compensated absences	1,580,808	430,924	2,011,732	408,637
<i>Long-term liabilities due in more than one year:</i>				
Bonds payable	34,621,844	45,919,068	80,540,912	-
Compensated absences	329,506	204,676	534,182	691,264
Other postemployment benefits	294,802	64,039	358,841	-
Total liabilities	<u>44,350,504</u>	<u>55,076,471</u>	<u>99,426,975</u>	<u>7,685,771</u>
DEFERRED INFLOWS OF RESOURCES				
Property taxes collected in advance	53,525	-	53,525	-
Total deferred inflows of resources	<u>53,525</u>	<u>-</u>	<u>53,525</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	84,242,062	42,936,315	127,178,377	49,441,566
Restricted for:				
Grant programs	471,558	-	471,558	-
Highway maintenance	2,190,400	-	2,190,400	-
Capital projects	325,968	-	325,968	-
Unrestricted (deficit)	(22,664,736)	27,531,700	4,866,964	3,972,118
Total net position	<u>\$ 64,565,252</u>	<u>\$ 70,468,015</u>	<u>\$ 135,033,267</u>	<u>\$ 53,413,684</u>

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

**CITY OF SALEM, VIRGINIA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-type Activities		
Primary Government								
<i>Governmental activities:</i>								
General government	\$ 6,248,574	\$ 407,275	\$ 246,861	\$ -	\$ (5,594,438)		\$ (5,594,438)	
Judicial administration	2,026,034	226,583	1,003,172	-	(796,279)		(796,279)	
Public safety	17,532,682	1,103,765	1,080,188	150,000	(15,198,729)		(15,198,729)	
Public works	13,399,134	3,695,667	3,727,410	34,311	(5,941,746)		(5,941,746)	
Health and welfare	2,578,984	-	768,214	-	(1,810,770)		(1,810,770)	
Education	25,103,243	-	-	-	(25,103,243)		(25,103,243)	
Parks, recreation and cultural	5,279,886	375,450	149,854	207,088	(4,547,494)		(4,547,494)	
Community development	2,388,701	34	-	-	(2,388,667)		(2,388,667)	
Interest and other fiscal charges	1,235,080	-	-	-	(1,235,080)		(1,235,080)	
Total governmental activities	<u>75,792,318</u>	<u>5,808,774</u>	<u>6,975,699</u>	<u>391,399</u>	<u>(62,616,446)</u>		<u>(62,616,446)</u>	
<i>Business-type activities:</i>								
Electric	34,182,987	39,861,201	-	27,380		\$ 5,705,594	5,705,594	
Water and sewage	10,999,420	12,645,216	-	21,671		1,667,467	1,667,467	
Civic Center	2,600,249	934,047	-	-		(1,666,202)	(1,666,202)	
Catering and concessions	856,866	779,220	-	-		(77,646)	(77,646)	
Total business-type activities	<u>48,639,522</u>	<u>54,219,684</u>	<u>-</u>	<u>49,051</u>		<u>5,629,213</u>	<u>5,629,213</u>	
Total primary government	<u>\$ 124,431,840</u>	<u>\$ 60,028,458</u>	<u>\$ 6,975,699</u>	<u>\$ 440,450</u>	<u>\$ (62,616,446)</u>	<u>\$ 5,629,213</u>	<u>\$ (56,987,233)</u>	
Component Unit	<u>\$ 46,571,284</u>	<u>\$ 1,667,139</u>	<u>\$ 8,956,887</u>	<u>\$ 7,000</u>				<u>\$ (35,940,258)</u>
<i>General revenues:</i>								
Property taxes					32,666,172	-	32,666,172	-
Local sales and use taxes					6,432,110	-	6,432,110	-
Business license tax					5,078,755	-	5,078,755	-
Meals tax					4,277,741	-	4,277,741	-
Utility taxes					1,150,691	-	1,150,691	-
Other taxes					3,184,568	-	3,184,568	-
Intergovernmental revenue not restricted					3,961,782	-	3,961,782	-
Unrestricted investment earnings					143,186	172	143,358	-
Gain on sale of capital assets					33,051	5,013	38,064	-
Payments from City of Salem					-	-	-	25,103,243
State aid					-	-	-	13,144,693
Other					554,303	-	554,303	778,599
Transfers					1,694,330	(1,694,330)	-	-
Total general revenues and transfers					<u>59,176,689</u>	<u>(1,689,145)</u>	<u>57,487,544</u>	<u>39,026,535</u>
Change in net position					<u>(3,439,757)</u>	<u>3,940,068</u>	<u>500,311</u>	<u>3,086,277</u>
Net position, beginning, as restated					<u>68,005,009</u>	<u>66,527,947</u>	<u>134,532,956</u>	<u>50,327,407</u>
Net position, ending					<u>\$ 64,565,252</u>	<u>\$ 70,468,015</u>	<u>\$ 135,033,267</u>	<u>\$ 53,413,684</u>

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

**CITY OF SALEM, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 5,336,090	\$ -	\$ 259,665	\$ 5,595,755
Cash and cash equivalents, restricted	2,500	-	371,942	374,442
Receivables, net	3,403,480	-	-	3,403,480
Due from other governmental units	4,232,645	-	73,395	4,306,040
Inventories	421,117	-	-	421,117
Total assets	<u>\$ 13,395,832</u>	<u>\$ -</u>	<u>\$ 705,002</u>	<u>\$ 14,100,834</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 1,887,893	\$ -	\$ 245,092	\$ 2,132,985
Accrued payroll and related liabilities	878,757	-	-	878,757
Due to other funds	400,000	-	-	400,000
Unearned revenue	29,047	-	-	29,047
Total liabilities	<u>3,195,697</u>	<u>-</u>	<u>245,092</u>	<u>3,440,789</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	1,261,500	-	-	1,261,500
Property taxes collected in advance	53,525	-	-	53,525
Unavailable revenue - charges for services and fees	65,248	-	-	65,248
Total deferred inflows of resources	<u>1,380,273</u>	<u>-</u>	<u>-</u>	<u>1,380,273</u>
FUND BALANCES				
Nonspendable	421,117	-	-	421,117
Restricted	2,661,958	-	325,968	2,987,926
Committed	-	-	125,651	125,651
Assigned	465,178	-	8,291	473,469
Unassigned	5,271,609	-	-	5,271,609
Total fund balances	<u>8,819,862</u>	<u>-</u>	<u>459,910</u>	<u>9,279,772</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 13,395,832</u>	<u>\$ -</u>	<u>\$ 705,002</u>	<u>\$ 14,100,834</u>

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

**CITY OF SALEM, VIRGINIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Total fund balance of governmental funds	\$ 9,279,772
Capital assets used in governmental activities are not considered current financial resources and, therefore, are not reported in the governmental funds.	93,916,261
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	1,326,748
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable	(37,512,037)
Bond premiums	(181,097)
Bond discounts	52,552
Accrued interest	(418,055)
Compensated absences	(1,910,314)
Other postemployment benefits	(294,802)
The internal service fund is used by management to charge the costs of health insurance to individual funds. The assets, liabilities and net position of the internal service fund are included with governmental activities in the Statement of Net Position.	306,224
Net position of governmental activities	<u><u>\$ 64,565,252</u></u>

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

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	General	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Property taxes	\$ 33,079,688	\$ -	\$ -	\$ 33,079,688
Other local taxes	20,123,865	-	-	20,123,865
Permits, fees and licenses	218,804	-	-	218,804
Fines and forfeitures	126,761	-	-	126,761
Revenue from use of money and property	696,628	-	937	697,565
Charges for services	4,956,368	-	-	4,956,368
Other	146,028	-	14,067	160,095
Intergovernmental	10,912,237	-	377,332	11,289,569
Total revenues	<u>70,260,379</u>	<u>-</u>	<u>392,336</u>	<u>70,652,715</u>
EXPENDITURES				
<i>Current:</i>				
General government	5,689,510	-	-	5,689,510
Judicial administration	1,919,961	-	-	1,919,961
Public safety	16,358,165	-	-	16,358,165
Public works	11,087,740	-	-	11,087,740
Health and welfare	2,465,194	-	-	2,465,194
Education	19,622,043	-	5,481,200	25,103,243
Parks, recreation and cultural	4,323,040	-	-	4,323,040
Community development	857,219	-	-	857,219
Non-departmental	2,759,940	-	-	2,759,940
Capital projects	-	-	1,788,469	1,788,469
<i>Debt service:</i>				
Principal retirement	-	2,647,514	-	2,647,514
Interest	-	980,558	-	980,558
Bond issuance costs	-	-	15,500	15,500
Total expenditures	<u>65,082,812</u>	<u>3,628,072</u>	<u>7,285,169</u>	<u>75,996,053</u>
Excess (deficiency) of revenues over expenditures	<u>5,177,567</u>	<u>(3,628,072)</u>	<u>(6,892,833)</u>	<u>(5,343,338)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt	-	-	7,275,000	7,275,000
Transfers in	2,810,000	3,628,072	394,831	6,832,903
Transfers out	<u>(5,131,569)</u>	<u>-</u>	<u>-</u>	<u>(5,131,569)</u>
Total other financing sources (uses)	<u>(2,321,569)</u>	<u>3,628,072</u>	<u>7,669,831</u>	<u>8,976,334</u>
Net change in fund balances	2,855,998	-	776,998	3,632,996
Fund balances, beginning, as restated	5,963,864	-	(317,088)	5,646,776
Fund balances, ending	<u>\$ 8,819,862</u>	<u>\$ -</u>	<u>\$ 459,910</u>	<u>\$ 9,279,772</u>

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

CITY OF SALEM, VIRGINIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

Net changes in fund balances of governmental funds	\$ 3,632,996
<p>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.</p>	
Capital outlay	2,340,188
Depreciation expense	(4,529,903)
Net capital transfer to proprietary fund	(7,004)
<p>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.</p>	
Proceeds from sale of assets	(36,798)
Loss from sale of assets	(99,058)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as fund revenues.	(948)
<p>Issuance of debt provides current financial resources to governmental funds, but increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Position. Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>	
Bond Proceeds, net of payment to refunded bond escrow agent	(7,275,000)
Principal payments	2,647,514
Amortization of current year bond premiums	17,751
Amortization of current year bond discounts	(1,779)
Amortization of current year deferred amounts on refunding	(177,537)
<p>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.</p>	
Change in accrued interest payable	(62,841)
Change in compensated absences	50,225
Change in other postemployment benefits	227,569
<p>The internal service fund is used by management to charge the costs of health insurance to individual funds. The change in net position of the internal service fund is reported with governmental activities.</p>	(165,132)
Change in net position of governmental activities	<u><u>\$ (3,439,757)</u></u>

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

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
REVENUES				
Property taxes	\$ 33,133,047	\$ 33,133,047	\$ 33,079,688	\$ (53,359)
Other local taxes	19,161,540	19,264,121	20,123,865	859,744
Permits, fees and licenses	226,500	226,500	218,804	(7,696)
Fines and forfeitures	171,000	171,000	126,761	(44,239)
Revenue from use of money and property	611,284	611,284	696,628	85,344
Charges for services	4,866,302	4,873,652	4,956,368	82,716
Other	20,500	25,500	146,028	120,528
Intergovernmental	9,938,952	10,849,837	10,912,237	62,400
Total revenues	<u>68,129,125</u>	<u>69,154,941</u>	<u>70,260,379</u>	<u>1,105,438</u>
EXPENDITURES				
General government	6,186,681	6,013,950	5,689,510	324,440
Judicial administration	1,823,553	1,908,503	1,919,961	(11,458)
Public safety	16,009,456	16,341,032	16,358,165	(17,133)
Public works	12,255,064	12,604,712	11,087,740	1,516,972
Health and welfare	1,901,663	2,551,784	2,465,194	86,590
Education	18,919,494	19,622,043	19,622,043	-
Parks, recreation and cultural	4,423,729	4,529,477	4,323,040	206,437
Community development	912,166	915,102	857,219	57,883
Non-departmental	3,455,695	2,993,922	2,759,940	233,982
Total expenditures	<u>65,887,501</u>	<u>67,480,525</u>	<u>65,082,812</u>	<u>2,397,713</u>
Excess of revenues over expenditures	<u>2,241,624</u>	<u>1,674,416</u>	<u>5,177,567</u>	<u>3,503,151</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	2,810,000	2,810,000	2,810,000	-
Transfers out	(5,479,124)	(5,131,571)	(5,131,569)	2
Total other financing uses	<u>(2,669,124)</u>	<u>(2,321,571)</u>	<u>(2,321,569)</u>	<u>2</u>
Net change in fund balances	<u>\$ (427,500)</u>	<u>\$ (647,155)</u>	<u>\$ 2,855,998</u>	<u>\$ 3,503,153</u>

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

CITY OF SALEM, VIRGINIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	Enterprise Funds			Total	Internal Service Fund
	Electric	Water and Sewage	Nonmajor Proprietary Funds		
ASSETS					
<i>Current assets:</i>					
Cash and cash equivalents	\$ 21,577,967	\$ 3,812,163	\$ 15,411	\$ 25,405,541	\$ 1,310,140
Receivables, net	4,365,918	1,553,395	156,229	6,075,542	42,046
Due from other funds	735,000	-	-	735,000	-
Inventories	1,373,590	305,934	19,176	1,698,700	-
Prepaid items	-	1,496	75,214	76,710	-
Total current assets	<u>28,052,475</u>	<u>5,672,988</u>	<u>266,030</u>	<u>33,991,493</u>	<u>1,352,186</u>
<i>Noncurrent assets:</i>					
Due from other funds	400,000	-	-	400,000	-
<i>Capital assets:</i>					
Nondepreciable	1,308,669	2,480,814	176,653	3,966,136	-
Depreciable, net	30,158,976	52,853,496	4,909,385	87,921,857	-
Total capital assets	<u>31,467,645</u>	<u>55,334,310</u>	<u>5,086,038</u>	<u>91,887,993</u>	<u>-</u>
Total noncurrent assets	<u>31,867,645</u>	<u>55,334,310</u>	<u>5,086,038</u>	<u>92,287,993</u>	<u>-</u>
Total assets	<u>59,920,120</u>	<u>61,007,298</u>	<u>5,352,068</u>	<u>126,279,486</u>	<u>1,352,186</u>
LIABILITIES					
<i>Current liabilities:</i>					
Accounts payable and accrued liabilities	2,437,466	480,933	117,170	3,035,569	554,095
Accrued payroll and related liabilities	92,850	99,792	74,991	267,633	8,918
Accrued interest	197,139	574,848	-	771,987	-
Self insurance claims liability	-	-	-	-	459,032
Due to other funds	-	-	735,000	735,000	-
Unearned revenue	18,507	114,450	108,209	241,166	23,917
Customer security deposits	801,534	-	-	801,534	-
Bonds payable	722,317	2,617,558	-	3,339,875	-
Compensated absences	164,238	168,947	97,739	430,924	-
Total current liabilities	<u>4,434,051</u>	<u>4,056,528</u>	<u>1,133,109</u>	<u>9,623,688</u>	<u>1,045,962</u>
<i>Noncurrent liabilities:</i>					
Bonds payable	16,931,201	28,987,867	-	45,919,068	-
Compensated absences	165,801	1,583	37,292	204,676	-
Other postemployment benefits	17,632	28,061	18,346	64,039	-
Total noncurrent liabilities	<u>17,114,634</u>	<u>29,017,511</u>	<u>55,638</u>	<u>46,187,783</u>	<u>-</u>
Total liabilities	<u>21,548,685</u>	<u>33,074,039</u>	<u>1,188,747</u>	<u>55,811,471</u>	<u>1,045,962</u>
NET POSITION					
Net investment in capital assets	13,814,127	24,036,150	5,086,038	42,936,315	-
Unrestricted (deficit)	24,557,308	3,897,109	(922,717)	27,531,700	306,224
Total net position	<u>\$ 38,371,435</u>	<u>\$ 27,933,259</u>	<u>\$ 4,163,321</u>	<u>\$ 70,468,015</u>	<u>\$ 306,224</u>

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

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	Enterprise Funds				Internal Service Fund
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total	
OPERATING REVENUES					
Charges for services	\$ 39,530,711	\$ 12,370,884	\$ 1,619,197	\$ 53,520,792	\$ 5,503,357
Connections and transfers	35,142	76,355	-	111,497	-
Penalties	93,382	186,691	-	280,073	-
Pole rentals	180,444	-	-	180,444	-
Commissions	-	-	13,235	13,235	-
Other	21,522	11,286	80,835	113,643	230,982
Total operating revenues	<u>39,861,201</u>	<u>12,645,216</u>	<u>1,713,267</u>	<u>54,219,684</u>	<u>5,734,339</u>
OPERATING EXPENSES					
Salaries	-	1,595,959	1,360,502	2,956,461	11,165
Fringe benefits	-	738,454	431,197	1,169,651	6,928
Show expenses	-	-	144,457	144,457	-
Maintenance	-	489,351	165,571	654,922	4,812
Billing and collection	366,565	549,083	-	915,648	-
Professional services	38,717	116,761	17,365	172,843	447,819
Insurance	18,389	20,144	18,426	56,959	-
Purchased power	28,124,669	-	-	28,124,669	-
Distribution - operations	744,558	-	-	744,558	-
Distribution - maintenance	1,465,255	-	-	1,465,255	-
Administration	729,979	288,952	87,949	1,106,880	4,789
Travel and training	8,504	8,507	16,744	33,755	-
Materials and supplies	-	410,635	276,225	686,860	6,072
Expendable equipment and small tools	44,401	85,075	1,429	130,905	-
Utilities	-	380,400	263,330	643,730	4,184
Miscellaneous	189,671	2,920	836	193,427	40,253
Depreciation	1,630,015	2,955,637	505,282	5,090,934	-
Treatment of sewage	-	2,191,226	-	2,191,226	-
Commissions	-	-	167,558	167,558	-
Claims	-	-	-	-	5,379,410
Total operating expenses	<u>33,360,723</u>	<u>9,833,104</u>	<u>3,456,871</u>	<u>46,650,698</u>	<u>5,905,432</u>
Operating income (loss)	<u>6,500,478</u>	<u>2,812,112</u>	<u>(1,743,604)</u>	<u>7,568,986</u>	<u>(171,093)</u>
NONOPERATING REVENUES (EXPENSES)					
Interest income	73	-	99	172	5,961
Interest expense	(806,712)	(1,166,316)	-	(1,973,028)	-
Gain (loss) on sale of capital assets	(15,552)	694	4,075	(10,783)	-
Net nonoperating revenues (expenses)	<u>(822,191)</u>	<u>(1,165,622)</u>	<u>4,174</u>	<u>(1,983,639)</u>	<u>5,961</u>
Income (loss) before contributions and transfers	<u>5,678,287</u>	<u>1,646,490</u>	<u>(1,739,430)</u>	<u>5,585,347</u>	<u>(165,132)</u>
Capital contributions in	27,380	21,671	-	49,051	-
Transfers in	7,004	-	1,108,666	1,115,670	-
Transfers out	(2,810,000)	-	-	(2,810,000)	-
Change in net position	<u>2,902,671</u>	<u>1,668,161</u>	<u>(630,764)</u>	<u>3,940,068</u>	<u>(165,132)</u>
Net position, beginning, as restated	35,468,764	26,265,098	4,794,085	66,527,947	471,356
Net position, ending	<u>\$ 38,371,435</u>	<u>\$ 27,933,259</u>	<u>\$ 4,163,321</u>	<u>\$ 70,468,015</u>	<u>\$ 306,224</u>

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

**CITY OF SALEM, VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014**

	Enterprise Funds				Internal Service Fund
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total	
OPERATING ACTIVITIES					
Receipts from customers	\$ 40,066,909	\$ 12,581,263	\$ 1,583,818	\$ 54,231,990	\$ 5,530,365
Payments to suppliers	(27,513,376)	(4,608,243)	(1,182,967)	(33,304,586)	(435,662)
Payments to employees	(2,161,642)	(2,382,329)	(1,834,598)	(6,378,569)	(9,175)
Payments for claims	-	-	-	-	(4,827,275)
Other receipts	21,522	11,286	80,835	113,643	230,982
Net cash provided by (used in) operating activities	<u>10,413,413</u>	<u>5,601,977</u>	<u>(1,352,912)</u>	<u>14,662,478</u>	<u>489,235</u>
NONCAPITAL FINANCING ACTIVITIES					
Interfund loan	(223,000)	-	223,000	-	-
Transfers in	-	-	1,108,666	1,108,666	-
Transfers out	(2,810,000)	-	-	(2,810,000)	-
Net cash provided by (used in) noncapital financing activities	<u>(3,033,000)</u>	<u>-</u>	<u>1,331,666</u>	<u>(1,701,334)</u>	<u>-</u>
CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of capital assets	-	694	4,444	5,138	-
Purchases of capital assets	(882,931)	(1,153,783)	(10,228)	(2,046,942)	-
Proceeds from capital debt	-	765,191	-	765,191	-
Principal paid on capital debt	(690,912)	(2,579,668)	-	(3,270,580)	-
Interest paid on capital debt	(818,780)	(1,293,888)	-	(2,112,668)	-
Capital contributions	27,380	21,671	-	49,051	-
Net cash used in capital and related financing activities	<u>(2,365,243)</u>	<u>(4,239,783)</u>	<u>(5,784)</u>	<u>(6,610,810)</u>	<u>-</u>
INVESTING ACTIVITIES					
Interest received	73	-	99	172	5,961
Net cash provided by investing activities	<u>73</u>	<u>-</u>	<u>99</u>	<u>172</u>	<u>5,961</u>
Net increase (decrease) in cash and cash equivalents	5,015,243	1,362,194	(26,931)	6,350,506	495,196
Cash and cash equivalents, beginning, as restated	<u>16,562,724</u>	<u>2,449,969</u>	<u>42,342</u>	<u>19,055,035</u>	<u>814,944</u>
Cash and cash equivalents, ending	<u>\$ 21,577,967</u>	<u>\$ 3,812,163</u>	<u>\$ 15,411</u>	<u>\$ 25,405,541</u>	<u>\$ 1,310,140</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Operating income (loss)	\$ 6,500,478	\$ 2,812,112	\$ (1,743,604)	\$ 7,568,986	\$ (171,093)
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i>					
Depreciation	1,630,015	2,955,637	505,282	5,090,934	-
<i>Decrease (increase) in assets:</i>					
Receivables, net	202,748	(167,117)	(15,472)	20,159	3,091
Inventories	(16,093)	(16,449)	(1,293)	(33,835)	-
Prepaid items	-	(262)	3,222	2,960	-
<i>Increase (decrease) in liabilities:</i>					
Accounts payable and accrued liabilities	2,111,114	(3,229)	(10,545)	2,097,340	554,095
Accrued payroll and related liabilities	(10,164)	(1,419)	(7,175)	(18,758)	8,918
Self insurance claims liability	-	-	-	-	70,307
Due to other funds	(20,758)	(45,249)	(14,461)	(80,468)	-
Unearned revenue	8,507	114,450	(33,142)	89,815	23,917
Customer security deposits payable	15,975	-	-	15,975	-
Compensated absences	10,085	(2,927)	(25,841)	(18,683)	-
Other postemployment benefits	(18,494)	(43,570)	(9,883)	(71,947)	-
Net cash provided by (used in) operating activities	<u>\$ 10,413,413</u>	<u>\$ 5,601,977</u>	<u>\$ (1,352,912)</u>	<u>\$ 14,662,478</u>	<u>\$ 489,235</u>
<i>Noncash investing, capital, and financing activities</i>					
Capital assets financed with accounts payable	<u>\$ 4,552</u>	<u>\$ 14,934</u>	<u>\$ -</u>	<u>\$ 19,486</u>	<u>\$ -</u>

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

**CITY OF SALEM, VIRGINIA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014**

	Agency Funds	OPEB Trust Fund
ASSETS		
Cash and cash equivalents	\$ 1,395,213	\$ -
Investments held by trustee, fair value of pooled funds	-	4,201,618
Receivables, net	2,580	-
Due from Commonwealth of Virginia	63,953	-
Total assets	1,461,746	4,201,618
LIABILITIES		
Accounts payable	50,399	-
Liability to agency	1,411,347	-
Total liabilities	1,461,746	-
NET POSITION		
Held in trust for other postemployment benefits	\$ -	\$ 4,201,618

**CITY OF SALEM, VIRGINIA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2014**

	OPEB Trust Fund
ADDITIONS	
Employer contributions	\$ 335,000
<i>Investment Income</i>	
Increase in fair value of investments	441,229
Less investment expenses	(4,651)
Total additions	771,578
Net increase in plan net position	771,578
Net position held in trust for other postemployment benefits, beginning	3,430,040
Net position held in trust for other postemployment benefits, ending	\$ 4,201,618

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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, Supervisor of Business, 510 South College Avenue, Salem, Virginia 24153.

During the current year, the City provided \$18,919,494 of operating support to the School Division and made debt service payments of \$2,270,000 on behalf of the School Division.

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

1. Summary of Significant Accounting Policies (Continued)

Fund Financial Statements (Continued)

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

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

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

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

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

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

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

- The *health insurance fund* accounts for funding, claims, and operating costs of the City's self-insurance program and the employee health clinic.

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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the current period. General fund tax revenues are considered measurable when they have been levied and available if collected within 60 days of year-end. Interest revenues are considered measurable and available if collected within 60 days of year-end. Grant revenues are considered measurable when the legal and contractual requirements have been met and available if collected within one year of the end of the current fiscal period. All other revenue items are considered measurable and available when cash is received by the 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 following 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 *economic resources measurement focus* and the *accrual basis of accounting*, with the exception of agency funds which have no measurement focus but employ the *accrual basis of accounting* for purposes of asset and liability recognition.

Budgets and Budgetary Accounting

The City's budget is presented and adopted in accordance with accounting principles generally accepted in the United States of America. 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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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. City Council must approve budget amendments between funds and any budget amendments increasing or decreasing appropriations. During the year, City Council approved \$1,245,471 of additional appropriations primarily for grants, capital outlay, unforeseen operating expenditures and the reappropriation of fund balances for encumbrances.

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

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded in order to reserve the applicable appropriation, is employed as an extension of formal budgetary integration in the general and capital project funds. Encumbrances outstanding at year-end are reported as part of the restricted, committed, or assigned fund balances since they do not constitute expenditures or liabilities. These encumbrances are subject to reappropriation by City Council in the subsequent fiscal year. Significant encumbrances as of June 30, 2014 total \$910,232 in the general fund and \$668,876 in the capital projects fund.

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 2014 was \$1.18 per \$100 of assessed value.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. Summary of Significant Accounting Policies (Continued)

Property Taxes (Continued)

The City levies *personal property taxes* on motor vehicles and business and other tangible personal property each year as of January 1. Personal property taxes are due the following May 31 and are considered delinquent after the due date. Personal property taxes do not create a lien on property; however, a penalty of 10% of delinquent personal property tax or \$10, whichever is greater, is due for late payment. Interest on delinquent taxes is accrued monthly at a rate of 0.83%, or 10% annually. Personal property transactions during the year are taxed on a prorated basis. The tax rate for 2014 was \$3.20 per \$100 of assessed value.

Interfund Balances

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

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

Prepaid Items

Governmental fund prepaid items consist primarily of software maintenance fees incurred for consumption in a subsequent fiscal year. Prepaid items are amortized using the consumption method. The fees are recorded as an expenditure in the fiscal year related to the maintenance contract service period.

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

Capital Assets

Capital assets, which include property, plant and equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. 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.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

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

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

The City capitalizes net interest costs on funds borrowed to finance the construction of proprietary capital assets. Capital asset additions included \$6,132 of net capitalized interest for the current year.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City currently has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has two types of items that qualify for reporting in this category: *unavailable revenue and property taxes collected in advance*. The governmental funds report unavailable revenue from two sources: property taxes and charges for services and fees. These amounts only arise under a modified accrual basis of accounting and are deferred and recognized as an inflow of resources in the period that the amounts become available. The governmental funds and government-wide statement of net position report revenues collected in advance from one source: property taxes. These amounts are deferred and recognized as an inflow of resources when the taxes are levied.

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.

Unearned Revenue

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, and rentals.

Long-Term Obligations

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

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. Summary of Significant Accounting Policies (Continued)

Long-Term Obligations (Continued)

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 City 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 OPEB Trust Fund's Board of Trustees establishes investment objectives and risk tolerance and asset allocation policies based on the investment policy, market and economic conditions and generally prevailing prudent investment practices.

Net Position

Net investment in capital assets for governmental activities excludes \$23,255,414 of School Division debt and \$3,884,242 of Civic Center debt reported by the City because the related assets are reported by the School Division and Civic Center, respectively. Noncapital debt of \$504,075 and \$307,265 are also excluded in governmental activities and the water and sewage fund, respectively.

Fund Balances

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

1. Summary of Significant Accounting Policies (Continued)

Fund Balances (Continued)

- **Unassigned** – Amounts that are available for any purpose; positive amounts are reported only in the general fund.

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

Restricted Amounts

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

Minimum Fund Balance

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

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

Estimates

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and 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	\$ 32,311,436	\$ 8,464,473
Cash and cash equivalents, restricted	374,442	1,859,312
	\$ 32,685,878	\$ 10,323,785

Restricted cash and cash equivalents consist of a general fund surety bond payable, unspent bond proceeds in the city capital projects fund, and the school capital projects fund cash balance.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

2. Deposits and Investments (Continued)

Deposits

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

Investments

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

As of June 30, 2014, the City had no investments.

Credit Risk

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

Interest Rate Risk

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

3. Receivables

Receivables are as follows:

	Governmental Activities	Business-type Activities			Component Unit
		Electric	Water and Sewage	Nonmajor Proprietary	
Tax receivables	\$ 3,425,739	\$ -	\$ -	\$ -	\$ -
Account receivables	42,046	4,524,008	1,614,849	163,551	-
Other receivables	1,714,505	-	-	-	32,004
Gross receivables	5,182,290	4,524,008	1,614,849	163,551	32,004
Allowance for uncollectibles	(1,736,764)	(158,090)	(61,454)	(7,322)	-
Receivables, net	\$ 3,445,526	\$4,365,918	\$1,553,395	\$ 156,229	\$ 32,004

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

4. Interfund Balances and Transfers

The composition of the interfund balances is as follows:

Due to (fund)	Due from (fund)			
		General	Nonmajor enterprise	Total
	Electric	400,000	735,000	1,135,000
Total	\$ 400,000	\$ 735,000	\$ 1,135,000	

The amount due to the electric fund from the general fund is a long-term loan that will be subsequently paid over a five year period. The amount due to the electric fund from the nonmajor enterprise funds is short-term loan to fund operations.

The composition of the interfund transfers is as follows:

Transfer in (fund)	Transfer out (fund)		
	General	Electric	Total
General	\$ -	\$ 2,810,000	\$ 2,810,000
Debt service	3,628,072	-	3,628,072
Capital projects	394,831	-	394,831
Electric	7,004	-	7,004
Nonmajor enterprise	1,108,666	-	1,108,666
Total	\$ 5,138,573	\$ 2,810,000	\$ 7,948,573

Transfers to the general fund include a payment in lieu of taxes. Transfers to the debt service fund include principal and interest payments for general government and school debt. Transfers to capital projects include funding for current projects. Transfers to the electric fund include capital assets transferred from the general fund. Transfers to nonmajor enterprise funds include funding assistance for operating expenses.

The general fund transferred capital assets of \$7,004 to the electric fund, which is a reconciling item for interfund transfers for the governmental funds between Exhibit 2 and Exhibit 5.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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	997,691	-
Sales tax	-	606,926
Comprehensive Services Act	194,856	-
Communications tax	181,141	-
Constitutional officers reimbursement	96,539	-
Roanoke River Greenway project funding	69,953	-
Rental tax	28,842	-
Recordation tax	17,651	-
Four for Life program	17,117	-
DEA reimbursement	11,989	-
Fire programs grant	11,777	-
Other	8,451	-
VJCCCA and Family Preservation grants reimbursement	6,954	-
Victim Witness program	6,021	-
VA Pre Hospital Information Bridge - Special Initiative grant	5,898	-
DMV grants	4,851	-
911 grant	4,379	-
Federal government		
School funds	-	548,720
FEMA storm costs reimbursement	42,519	-
Reimbursement from GSA	10,704	-
	<u>\$ 4,306,040</u>	<u>\$ 1,155,646</u>

6. Capital Assets

Capital asset activity for the year is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets, nondepreciable				
Land	\$ 5,850,248	\$ 46,576	\$ -	\$ 5,896,824
Construction in progress	1,969,035	442,967	(1,661,253)	750,749
Capital assets, nondepreciable	<u>7,819,283</u>	<u>489,543</u>	<u>(1,661,253)</u>	<u>6,647,579</u>
Capital assets, depreciable				
Machinery and equipment	20,213,868	1,139,470	(565,750)	20,787,588
Buildings and improvements	40,482,638	153,479	-	40,636,117
Public domain infrastructure	96,372,266	2,239,489	(124,601)	98,487,154
Capital assets, depreciable	<u>157,068,772</u>	<u>3,532,438</u>	<u>(690,351)</u>	<u>159,910,859</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

6. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities (Continued)				
Accumulated depreciation				
Machinery and equipment	(15,466,380)	(1,197,404)	471,843	(16,191,941)
Buildings and improvements	(14,563,495)	(966,904)	-	(15,530,399)
Public domain infrastructure	(38,609,344)	(2,386,135)	75,648	(40,919,831)
Accumulated depreciation	(68,639,219)	(4,550,443)	547,491	(72,642,171)
Capital assets, depreciable, net	88,429,553	(1,018,005)	(142,860)	87,268,688
Capital assets, net	<u>\$ 96,248,836</u>	<u>\$ (528,462)</u>	<u>\$ (1,804,113)</u>	<u>\$ 93,916,261</u>
Business-type Activities				
Capital assets, nondepreciable				
Land	\$ 1,523,798	\$ -	\$ -	\$ 1,523,798
Construction in progress	1,681,943	1,098,690	(338,295)	2,442,338
Capital assets, nondepreciable	3,205,741	1,098,690	(338,295)	3,966,136
Capital assets, depreciable				
Machinery and equipment	7,061,300	290,894	(136,551)	7,215,643
Buildings and improvements	27,048,123	10,228	(1,528)	27,056,823
Distribution and transmission	34,705,998	561,987	(162,448)	35,105,537
Utility plant	76,951,523	488,486	(55,806)	77,384,203
Sewage treatment contract	28,843,397	-	-	28,843,397
Capital assets, depreciable	174,610,341	1,351,595	(356,333)	175,605,603
Accumulated depreciation				
Machinery and equipment	(5,804,125)	(342,041)	136,308	(6,009,858)
Buildings and improvements	(6,782,955)	(930,937)	1,403	(7,712,489)
Distribution and transmission	(18,821,425)	(954,672)	146,896	(19,629,201)
Utility plant	(44,854,841)	(2,105,883)	-	(46,960,724)
Sewage treatment contract	(6,604,619)	(766,855)	-	(7,371,474)
Accumulated depreciation	(82,867,965)	(5,100,388)	284,607	(87,683,746)
Capital assets, depreciable, net	91,742,376	(3,748,793)	(71,726)	87,921,857
Capital assets, net	<u>\$ 94,948,117</u>	<u>\$ (2,650,103)</u>	<u>\$ (410,021)</u>	<u>\$ 91,887,993</u>

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

Governmental Activities		Business-type Activities	
General government	\$ 504,747	Electric	\$ 1,630,015
Judicial administration	37,503	Water and sewage	2,964,454
Public safety	645,461	Civic Center	497,882
Public works	2,583,859	Catering	7,400
Parks, recreation and cultural	758,333	Total depreciation expense	<u>\$ 5,099,751</u>
Total depreciation expense	<u>\$ 4,529,903</u>		

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

6. Capital Assets (Continued)

Accumulated depreciation shown in the capital asset table for governmental activities exceeds depreciation expense by \$20,540 because the table includes accumulated depreciation for machinery and equipment transferred to parks & recreation. Accumulated depreciation shown in the capital asset table for business-type activities exceeds depreciation expense by \$637 because the table includes machinery and equipment transferred to electric.

Component Unit	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	\$ 1,123,637	\$ -	\$ -	\$ 1,123,637
Construction in progress	14,021,080	3,880,450	(17,497,421)	404,109
Capital assets, nondepreciable	15,144,717	3,880,450	(17,497,421)	1,527,746
Capital assets, depreciable				
Furniture and equipment	6,504,677	1,327,128	(345,802)	7,486,003
Buildings and improvements	53,663,763	16,121,839	(2,206,633)	67,578,969
Capital assets, depreciable	60,168,440	17,448,967	(2,552,435)	75,064,972
Accumulated depreciation				
Furniture and equipment	(4,040,640)	(563,599)	986,039	(3,618,200)
Buildings and improvements	(22,071,097)	(1,755,634)	293,779	(23,532,952)
Accumulated depreciation	(26,111,737)	(2,319,233)	1,279,818	(27,151,152)
Capital assets, depreciable, net	34,056,703	15,129,734	(1,272,617)	47,913,820
Capital assets, net	\$ 49,201,420	\$19,010,184	\$ (18,770,038)	\$ 49,441,566

7. Unearned Revenue

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

	Governmental Activities	Business-type Activities	Component Unit
Charges for services and fees	\$ 52,964	\$ 241,166	\$ 57,375
Unearned revenue	\$ 52,964	\$ 241,166	\$ 57,375

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.

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, 2014, \$1,600,000 of bonds are considered defeased.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

8. Long-Term Liabilities (Continued)

Current Year Debt Issuance

On December 17, 2013, the City issued \$7,275,000 in series 2013 general obligation bonds with a true interest cost of 3.03%. The net proceeds of \$7,259,500 (after payment of \$15,500 in issuance costs), were used to finance the cost of certain infrastructure projects and equipment including the construction and equipping of the new South Salem Elementary School, the City's portion of the construction and renovation of the social services building, acquisition and installation of a new 911 phone system and other general data systems and rolling stock for supporting City operations, including administrative and financing costs.

Line of Credit

On December 30, 2013, the City entered into a committed guidance line of credit agreement with StellarOne Bank, now Union First Market Bank. The agreement provides for borrowings of up to \$5,000,000 to provide for general working capital needs. The outstanding principal balance will be payable in full on demand or at maturity, whichever occurs first. Interest will accrue on the outstanding principal balance at the Wall Street Journal Prime Rate, with changes becoming effective on the day such rate changes. Payments of interest will be due on the first day of each month. This commitment will expire on December 31, 2014. As of June 30, 2014, no principal balance was outstanding.

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds	\$32,884,551	\$ 7,275,000	\$ (2,647,514)	\$37,512,037	\$3,018,738
Bond premiums	198,848	-	(17,751)	181,097	-
Bond discounts	(54,331)	-	1,779	(52,552)	-
Deferred amounts on refunding	(177,537)	-	177,537	-	-
Bonds payable	32,851,531	7,275,000	(2,485,949)	37,640,582	3,018,738
Compensated absences	1,960,539	1,530,583	(1,580,808)	1,910,314	1,580,808
Other postemployment benefits	522,371	1,491,450	(1,719,019)	294,802	-
	<u>\$35,334,441</u>	<u>\$ 10,297,033</u>	<u>\$ (5,785,776)</u>	<u>\$39,845,698</u>	<u>\$4,599,546</u>
Business-type Activities					
General obligation bonds	\$50,872,551	\$ 765,191	\$ (3,270,580)	\$48,367,162	\$3,339,875
Bond premiums	983,792	-	(92,011)	891,781	-
Bonds payable	51,856,343	765,191	(3,362,591)	49,258,943	3,339,875
Compensated absences	654,283	412,241	(430,924)	635,600	430,924
Other postemployment benefits	135,986	478,973	(550,920)	64,039	-
	<u>\$52,646,612</u>	<u>\$ 1,656,405</u>	<u>\$ (4,344,435)</u>	<u>\$49,958,582</u>	<u>\$3,770,799</u>
Component Unit					
Compensated absences	\$ 905,171	\$ 254,717	\$ (59,987)	\$ 1,099,901	\$ 408,637
Other postemployment benefits	(66,146)	274,039	(274,039)	(66,146)	-
	<u>\$ 839,025</u>	<u>\$ 528,756</u>	<u>\$ (334,026)</u>	<u>\$ 1,033,755</u>	<u>\$ 408,637</u>

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

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

8. Long-Term Liabilities (Continued)

Details of long-term indebtedness are as follows:

	Interest Rates	Issue Date	Maturity Date	Issue Amount	Governmental Activities	Business-type Activities
General Obligation Bonds						
2003 Public Improvement	2.00-4.50%	10/03	10/15	\$ 22,000,000	\$ 2,200,000	\$ -
2004 Refunding	1.50-3.50%	03/04	04/16	9,640,000	686,650	863,350
2004 Public Improvement	3.00%	04/04	07/26	11,052,222	-	7,798,433
2006 Public Improvement	4.00-5.00%	05/06	04/31	25,000,000	2,012,120	17,577,880
2007 Refunding	4.00-5.00%	02/07	01/27	17,045,000	-	15,085,000
2010 Taxable Build America	4.57-6.56%	12/10	02/31	2,700,000	2,700,000	-
2010 Taxable	1.55-3.17%	12/10	02/16	1,010,000	305,000	-
2010 Public Improvement	3.00-4.25%	12/10	02/28	2,830,000	2,825,000	-
2010 Public Improvement	3.15%	09/10	03/30	3,648,124	-	3,256,845
2010 Refunding	2.50-5.25%	12/10	02/19	7,410,000	1,170,517	2,809,483
2011 Refunding	2.14%	12/11	10/23	9,485,000	9,270,000	-
2012 Public Improvement	2.35%	12/12	08/32	9,545,000	9,067,750	-
2013 Public Improvement	1.25%	03/13	04/35	976,171	-	976,171
2013 Public Improvement	3.03%	12/13	08/33	7,275,000	7,275,000	-
					37,512,037	48,367,162
					181,097	891,781
					(52,552)	-
					<u>\$ 37,640,582</u>	<u>\$ 49,258,943</u>

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

Fiscal Year	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 3,018,738	\$ 1,097,833	\$ 3,339,875	\$ 1,987,970
2016	2,934,873	966,545	3,331,647	1,852,100
2017	2,642,916	874,867	3,082,643	1,722,317
2018	2,633,570	803,077	3,170,125	1,596,365
2019	2,624,224	731,287	3,263,316	1,466,699
2020-2024	11,879,865	2,689,602	15,296,934	5,423,776
2025-2029	6,847,363	1,386,047	13,521,299	2,129,898
2030-2034	4,930,488	306,175	3,304,294	213,230
2035	-	-	57,029	621
	<u>\$ 37,512,037</u>	<u>\$ 8,855,433</u>	<u>\$ 48,367,162</u>	<u>\$ 16,392,976</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

9. Fund Balance

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

	General Fund	Debt Service Fund	Capital Projects Fund
	<u> </u>	<u> </u>	<u> </u>
Fund Balances:			
Nonspendable:			
Inventories	\$ 421,117	\$ -	\$ -
Restricted for:			
General government administration	-	-	64,482
Judicial administration	21,218	-	-
Public safety	445,343	-	4,545
Public works	2,195,397	-	240,000
Parks & recreation	-	-	16,941
Committed to:			
General government administration	-	-	125,651
Assigned to:			
General government administration	178,366		
Public safety	172,356	-	-
Public works	111,832	-	-
Parks & recreation	2,624	-	8,291
Unassigned:	5,271,609	-	-
Total fund balances	<u>\$ 8,819,862</u>	<u>\$ -</u>	<u>\$ 459,910</u>

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 \$436,560 and \$72,579 for the City and School Division, respectively.

General Liability and Other

The City provides general liability and other insurance through Virginia Municipal League (VML) Insurance Programs. General liability and automotive liability have a \$1,000,000 limit per occurrence. Boiler and machinery coverage and property coverage are covered as per statement of values. The City maintains an additional \$10,000,000 umbrella policy over all forms of liability. The City has flood insurance coverage through Nationwide Mutual Insurance Company for properties in designated flood zones or that are part of the water plant. Total premiums for the current fiscal year were \$364,956.

The School Division provides general liability and other insurance through the Virginia Municipal League (VML) Insurance Programs. General liability and automobile liability have a \$1,000,000 limit per occurrence. Boiler and machinery coverage and property coverage are covered as per statement of values. The School Division maintains an additional \$10,000,000 umbrella policy over all forms of liability. Total premiums for the current fiscal year were \$124,172.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

10. Risk Management (Continued)

Healthcare

The City's professionally administered self-insurance program provides health coverage for employees of the City and School Division on a cost-reimbursement basis. All active employees, retired City employees and retired School employees pay a premium equivalent for participation. The premium equivalent represents a minimum of 10% active or retired employee participation. The City is obligated for claims payments under the program. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$150,000 per covered individual and approximately \$9,975,155 in the aggregate.

During the current fiscal year total claim expenses of \$8,331,624, 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, 2014. The estimated liability for the City and School Division was \$459,032 and \$439,848, respectively for a total of \$898,880 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
2014	\$ 689,276	\$ 8,331,624	\$ 8,122,020	\$ 898,880
2013	\$ 738,264	\$ 7,948,001	\$ 7,996,989	\$ 689,276
2012	\$ 798,857	\$ 7,811,624	\$ 7,872,217	\$ 738,264

Other

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

11. Pension Plan

Plan Description

The City and School Division contribute to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (the "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 (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

Within the VRS Plan, the System administers three different benefit plans for local government employees – Plan 1, Plan 2, and Hybrid. Each plan has a different eligibility and benefit structure as set out below:

VRS PLAN 1

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

11. Pension Plan (Continued)

VRS PLAN 1 (Continued)

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

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

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

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

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

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

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

Normal Retirement Age – Age 65.

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

11. Pension Plan (Continued)

VRS PLAN 1 (Continued)

Earliest Reduced Retirement Eligibility – Members may retire with a reduced benefit as early as age 55 with at least five years of creditable service or age 50 with at least 10 years of creditable service.

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

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

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

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

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

11. Pension Plan (Continued)

VRS PLAN 2

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

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

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

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

Normal Retirement Age – Normal Social Security retirement age.

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

Earliest Reduced Retirement Eligibility – Members may retire with a reduced benefit as early as age 60 with at least five years of creditable service.

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

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

HYBRID RETIREMENT PLAN

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

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

11. Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

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

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

* Non-Eligible Members

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

- Members of the State Police Officers' Retirement System (SPORS)
- Members of the Virginia Law Officers' Retirement System (VaLORS)
- Political subdivision employees who are covered by enhanced benefits for hazardous duty employees

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

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

Creditable Service

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

11. Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

Vesting

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

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

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

Distribution is not required by law until age 70½.

Calculating the Benefit

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

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

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

Normal Retirement Age

Defined Benefit Component: Same as VRS Plan 2.

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

Earliest Unreduced Retirement Eligibility

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

11. Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

Earliest Reduced Retirement Eligibility

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

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

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Not applicable.

Disability Coverage – Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2013-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 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 compensation toward their retirement. All or part of the 5% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. 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 *Code of Virginia* and approved by the VRS Board of Trustees. The City's contribution rate for the fiscal year ended June 30, 2014 were 21.27% of the annual covered payroll, respectively (including the employee share).

The School Division's non-professional employees' contribution rate for the fiscal year ended June 30, 2014 was 12.91% of annual covered payroll (including the employee share). The School Division's professional employees' contribution rate for the VRS statewide teacher pool for fiscal year ended June 30, 2014 was 16.66% of annual covered payroll (including the employee share). Total employer and employee contributions made to the VRS statewide teacher pool for professional employees by the School Division for fiscal years ended June 30, 2014, 2013, and 2012 were \$3,261,270, \$3,666,828, and \$2,403,733, respectively, and were equal to the required contributions for each year.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

11. Pension Plan (Continued)

Annual Pension Cost

For the fiscal year ended June 30, 2014, the City's and School Division's annual pension cost of \$4,801,154 and \$160,259, 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, 2014	\$ 4,801,154	100%	\$ -
	June 30, 2013	\$ 4,976,394	100%	\$ -
	June 30, 2012	\$ 3,803,207	100%	\$ -
School Division Non-Professional Staff	June 30, 2014	\$ 160,259	100%	\$ -
	June 30, 2013	\$ 164,578	100%	\$ -
	June 30, 2012	\$ 142,347	100%	\$ -

The fiscal year 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, 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 for Plan 1 employees and 2.25% for Plan 2 employees. 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 a closed basis. The remaining amortization period at June 30, 2013 for the unfunded actuarial accrued liability (UAAL) was 30 years.

Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date for the City, the plan was 70.97% funded. The actuarial accrued liability for benefits was \$178,753,613 and the actuarial value of assets was \$126,862,382, resulting in an unfunded actuarial accrued liability (UAAL) of \$51,891,231. The covered payroll (annual payroll of active employees covered by the plan) was \$22,978,569 and the ratio of the UAAL to the covered payroll was 225.82%.

As of June 30, 2013, the most recent actuarial valuation date for the School Division's non-professional employees, the plan was 89.21% funded. The actuarial accrued liability for benefits was \$4,758,374 and the actuarial value of assets was \$4,244,932 resulting in an unfunded actuarial accrued liability (UAAL) of \$513,442. The covered payroll (annual payroll of active employees covered by the plan) was \$1,279,323 and the ratio of the UAAL to the covered payroll was 40.13%.

The schedules 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 (AAL) for benefits.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

12. Other Postemployment Benefits

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

An actuarial valuation was performed as of June 30, 2013. 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. Full-time employees retiring directly 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 dependents covered at the time of retirement may continue participation in the Retiree Health Plan at the same premium levels as active employees. This creates a benefit to the retiree in the form of a lower insurance rate by blending retirees with active employees, also known as an implicit rate subsidy.

In addition to the implicit rate subsidy, all pre-65 retirees who retired on or before September 30, 2010 receive a premium subsidy for 90% of the subscriber-only premium rate. For individuals retiring on or after October 1, 2010 and who were hired before July 1, 2010, the City will contribute 3% of the subscriber-only premium for each year of service up to 90% of the total subscriber-only premium for pre-65 retirees. For employees hired on or after July 1, 2010, the City will contribute 3% of the subscriber-only premium for each year of service up to 50% 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. The City contributes 3% of the subscriber-only premium for each year of service up to 90% not to exceed \$3,300. Employees hired on or after July 1, 2010 are not eligible to receive the Medicare Health Supplement 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.

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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

12. Other Postemployment Benefits (Continued)

Plan Description (Continued)

As of June 30, 2013, the date of the latest actuarial valuation for the City and School Division, plan participation consisted of:

	City of Salem	School Division
Active employees	502	535
Retired participants	279	56
Total participants	781	591

Funding Policy

The Retiree Health Plan is funded through member and employer contributions. City Retirees receiving benefits contribute a minimum of 10%, 28%, 50% and 50% of the health insurance premium rate for subscriber only, subscriber + one minor child, employee & spouse, and family coverage, respectively. School Division Retirees receiving benefits contribute 100% of the health insurance premium rate. During the current year, retired City and School Division members contributed \$306,928 and \$418,316, respectively, of the total premiums through their required contributions of between \$7.02 and \$1,523, depending on the type of coverage and years of service.

Based on the June 30, 2013 actuarial valuation, the City contributed \$2,269,939 to the Retiree Health Plan. Included in this amount is a current year contribution of \$319,844 to the Virginia Pooled OPEB Trust, which consisted of \$20,328 representing 100% of the annual required contribution (ARC) and \$299,516 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 June 30, 2013 actuarial valuation, the School Division contributed \$236,039 to the Retiree Health Plan. Included in this amount is a current year contribution of \$37,115 to the Virginia Pooled OPEB Trust, which represented 100% of the annual required contribution (ARC). 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 (asset) for the fiscal year ended June 30, 2014.

	City of Salem	School Division
Annual required contribution	\$ 1,963,938	\$ 274,697
Interest on net OPEB obligation	45,615	(4,630)
Adjustment to annual required contribution	(39,130)	3,972
Annual OPEB cost	1,970,423	274,039
Contributions made	(2,269,939)	(274,039)
Increase (decrease) in net OPEB obligation	(299,516)	-
Net OPEB obligation (asset), beginning	658,357	(66,146)
Net OPEB obligation (asset), ending	\$ 358,841	\$ (66,146)

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

12. Other Postemployment Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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

Three-Year Trend Information				
	<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
City of Salem	June 30, 2014	\$ 1,970,423	115.2%	\$ 358,841
	June 30, 2013	\$ 1,849,352	107.6%	\$ 658,357
	June 30, 2012	\$ 1,815,277	110.4%	\$ 799,233
School Division	June 30, 2014	\$ 274,039	100.0%	\$ (66,146)
	June 30, 2013	\$ 294,471	97.6%	\$ (66,146)
	June 30, 2012	\$ 284,897	125.7%	\$ (73,243)

Funded Status and Funding Progress

As of June 30, 2013, the City's most recent actuarial valuation date, the plan was 12.2% funded. The actuarial accrued liability (AAL) for benefits was \$28,083,367 and the actuarial value of assets was \$3,430,040, resulting in an unfunded actuarial accrued liability (UAAL) for benefits of \$24,653,327. The covered payroll (annual payroll of active employees covered by the plan) was \$22,978,569 and the ratio of the UAAL to the covered payroll was 107.3%.

As of June 30, 2013, the School Division's most recent actuarial valuation date, the plan was 23.7% funded. The AAL for benefits was \$2,951,722 and the actuarial value of assets was \$699,672, resulting in a UAAL for benefits of \$2,252,050. The covered payroll (annual payroll of active employees covered by the plan) was \$23,283,603 and the ratio of the UAAL to the covered payroll was 9.7%.

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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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.

	<u>City of Salem</u>	<u>School Division</u>
<i>Actuarial methods</i>		
Actuarial cost method	Entry Age	Entry Age
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
<i>Actuarial assumptions</i>		
Investment rate of return	7.00%	7.00%
Inflation rate	2.50%	2.50%
Healthcare cost trend rate	8% for fiscal year 2013 grading to 5% for fiscal year 2016	8% for fiscal year 2013 grading to 5% for fiscal year 2016

13. Operating Leases

Rental Costs

The City and School Division entered several non-cancelable operating leases for office space and equipment. Rent expenditures for the current year were \$82,593 and \$31,930 for the City and School Division, respectively. Scheduled minimum rental payments for the next five years are as follows:

Fiscal Year Ending	<u>City of Salem</u>	<u>School Division</u>
June 30, 2015	\$ 61,662	\$ 16,498
June 30, 2016	13,922	12,826
June 30, 2017	7,835	7,368
June 30, 2018	2,083	234
June 30, 2019	521	-
	<u>\$ 86,023</u>	<u>\$ 36,926</u>

Rental Revenues

The City entered into a fifteen year lease agreement with the General Services Administration (GSA). The lease provides for the use of office area on the third floor of the City of Salem Police Department. The lease includes a five year renewal option under the same terms and conditions. The net book value of leased assets of \$1,663,670 (cost of \$1,843,486 less accumulated depreciation of \$179,816) is included in capital assets in the government-wide financial statements. Rent is determined as \$48.75 per ABOA plus a component for operating costs adjusted annually based on the Cost of Living Index. Rent revenues for the current year were \$128,441. Scheduled minimum rental revenues over the remaining lease period are \$1,568,432. Minimum rental revenues are determined using the current year change in the monthly rent payment of 0.21% projected for each future year of the lease.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

13. Operating Leases (Continued)

Rental Revenues (Continued)

The City entered into a five year lease agreement with Cardinal Criminal Justice Academy. The lease provides for the use of real property located at 912 Central Avenue in Salem. Upon completion of the five year term, the lease shall continue on a month-to-month basis. The net book value of leased assets of \$127,547 (cost of \$127,891 less accumulated depreciation of \$344) is included in capital assets in the government-wide financial statements. Rent in the amount of \$14,500 is paid annually in advance and due on the same date for the next five years.

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

<u>Fiscal Year Ending</u>	<u>Rental Revenues</u>
June 30, 2015	\$ 143,199
June 30, 2016	143,470
June 30, 2017	143,742
June 30, 2018	144,014
June 30, 2019	144,287
	<u>\$ 718,712</u>

14. Commitments and Contingencies

Construction Commitments

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

	<u>Spent To Date</u>	<u>Remaining Contract</u>
Salem Woods Storm Drain	\$ 172,843	\$ 150,890
South Salem Elementary School	15,000,798	50,000
East Salem Elementary School Addition/Renovation	249,568	626,432
	<u>\$ 15,423,209</u>	<u>\$ 827,322</u>

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, 2013 resulted in a credit of \$379,933 in the current fiscal year. The agreement expires May 31, 2026 with two possible five-year period renewals and may be terminated under certain circumstances.

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

Solid Waste Disposal

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

On 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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

14. Commitments and Contingencies (Continued)

Solid Waste Disposal (Continued)

On October 1, 2013, the City entered an agreement with Craig County to accept the County's solid waste at the City's transfer station. The agreement expires on 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 County of Roanoke, Virginia to sell surplus water at a bulk rate determined by a mutually agreed upon formula. The agreement expires June 30, 2021. The agreement automatically renews for 10-year terms upon expiration and requires a 24-month notification prior to termination.

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

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

Special Services

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

Performance Agreement

On July 30, 2008, the City entered a performance agreement with a company to provide incentive payments for development of property located at 4th Street and Main Street. The City will make maximum annual payments of \$500,000 for no more than 10 years not to exceed \$3,000,000. As of June 30, 2014, \$1,220,945 has been remitted.

Special Purpose Grants

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

Litigation

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

15. 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, 2014, the City remitted \$103,500 to BRBH for services. Financial statements may be obtained from BRBH at 301 Elm Street, Roanoke, Virginia, 24016.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

15. Jointly Governed Organizations (Continued)

Roanoke Valley Detention Commission

The Counties of Botetourt, Franklin and Roanoke and the Cities of Roanoke and Salem formed the Roanoke Valley Detention Commission (Commission) to renovate, expand and operate a detention facility for juveniles. The Commission is governed by a six-member board, of which one member is appointed by the City 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, 2014, the City remitted \$219,595 to the Commission for per diem charges. Financial statements may be obtained from the Commission at 498 Coyner Springs Road, Roanoke, Virginia 24012.

Roanoke Valley Regional Board

The Counties of Botetourt, Craig and Franklin, the City of Roanoke and the City of Salem School Division jointly participate in a regional education program for severely disabled students operated by the Roanoke Valley Regional Board (Regional Board). The Regional Board is governed by a five-member board, one from each participating locality. The School Division has control over budget and financing only to the extent of representation by the one board member appointed. Each locality's financial obligation is based on their proportionate share of students attending the regional program. For the year ended June 30, 2014, the School Division remitted \$739,431 to the Regional Board for services. Financial statements may be obtained from the 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, 2014, the City remitted \$8,345 for operating costs of the facility. Financial statements may be obtained from the Center at 1220 Kessler Mill Road, Salem, Virginia 24153.

Western Virginia Regional Jail Authority

The Counties of Franklin, Montgomery and Roanoke and the City 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, 2014, the City remitted \$1,070,858 for per diem charges and \$648,371 for capital costs to the Jail Authority. Financial statements may be obtained from the Jail Authority at 5885 West River Road, Salem, Virginia 24153.

Roanoke Valley Broadband Authority

The Counties of Botetourt and Roanoke and the Cities of Salem and Roanoke formed the Roanoke Valley Broadband Authority (RVBA) in order to acquire, finance, construct, operate, manage, and maintain a broadband system and related facilities pursuant to the Virginia Wireless Services Authorities Act. RVBA is governed by a five-member board, of which one member is appointed by the City of Salem. Each locality's financial obligation shall be an equal share of the operating costs of the Authority. For the year ending June 30, 2014, the City remitted \$28,600 to the RVBA.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

15. Jointly Governed Organizations (Continued)

Roanoke Valley Governor's School

The Counties of Bedford, Botetourt, Craig, Franklin and Roanoke and the Cities of Roanoke and Salem jointly participate in a regional education program focusing on science, technology, engineering and mathematics operated by Roanoke Valley Governor's School (RVGS). RVGS is governed by a seven member board, with one member from each participating locality. The School Division has control over budget and financing only to the extent of representation by the one board member appointed. Each locality's financial obligation is based on their proportionate share of students attending RVGS. For the year ended June 30, 2014, the School Division remitted \$41,850 for services.

16. Accounting Changes and Restatements

The City adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the fiscal year ended June 30, 2014. Under GASB 65, debt issuance costs should be expensed as incurred. Previously these costs were reported as deferred charges and amortized over the term of the related debt. The City restated beginning net position for governmental activities, business-type activities, electric, and water and sewage for debt issuance costs incurred prior to fiscal year 2014.

The City also restated the general fund, governmental activities, and component unit beginning fund balance/net position to reflect the segregation of funding, claims, and operating costs of the self-insurance program and the employee health clinic for the City and Schools into internal service funds.

The effect of these restatements on beginning fund balance/net position of the general fund, internal service fund, and governmental activities is as follows:

	<u>General Fund</u>	<u>Internal Service Fund</u>	<u>Governmental Activities</u>
Fund Balance/Net Position, beginning as previously reported	\$ 6,803,172	\$ -	\$ 68,599,425
Implementation of GASB Statement No. 65, changes related to debt issuance costs	-	-	(226,464)
To segregate City health insurance internal service fund	(471,356)	471,356	-
To segregate School health insurance internal service fund	(367,952)	-	(367,952)
Fund Balance/Net Position, beginning as restated	<u>\$ 5,963,864</u>	<u>\$ 471,356</u>	<u>\$ 68,005,009</u>

The effect of these restatements on beginning net position of electric, water and sewage, and business-type activities is as follows:

	<u>Electric</u>	<u>Water and Sewage</u>	<u>Business-type Activities</u>
Net Position, beginning as previously reported	\$ 35,597,724	\$ 27,295,097	\$ 67,686,906
Implementation of GASB Statement No. 65, changes related to debt issuance costs	(128,960)	(1,029,999)	(1,158,959)
Net Position, beginning as restated	<u>\$ 35,468,764</u>	<u>\$ 26,265,098</u>	<u>\$ 66,527,947</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

16. Accounting Changes and Restatements (Continued)

The effect of these restatements on beginning net position of the component unit is as follows:

	Component Unit
Net Position, beginning as previously reported	\$ 49,959,455
To segregate School health insurance internal service fund	367,952
Net Position, beginning as restated	\$ 50,327,407

17. New Accounting Standards

The GASB has issued Statement 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*. The statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information. The provisions of this statement are effective for fiscal years beginning after June 15, 2014. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is therefore unable to disclose the impact of adoption.

The GASB has issued Statement 69, *Government Combinations and Disposals of Government Operations*. The statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations including a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The provisions of this statement are effective for fiscal years beginning after December 15, 2013. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is therefore unable to disclose the impact of adoption.

The GASB has issued Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make payment on the guarantee. The statement also specifies information required to be disclosed by governments that extend nonexchange financial guarantees or receive nonexchange financial guarantees. The provisions of this statement are effective for fiscal years beginning after June 15, 2013. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is therefore unable to disclose the impact of adoption.

The GASB has issued Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68*. The statement amends Statement 68 to require, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this statement should be applied simultaneously with the provisions of Statement 68. 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



The Required Supplementary Information subsection of the City of Salem, Virginia's Comprehensive Annual Financial Report includes an analysis of funding progress for the defined benefit pension plan, an analysis of funding progress for other postemployment benefits, and employer contributions for other postemployment benefits.

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN
JUNE 30, 2014**

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, 2013	\$ 126,862,382	\$ 178,753,613	\$ 51,891,231	70.97%	\$ 22,978,569	225.82%
June 30, 2012	\$ 124,613,944	\$ 176,792,475	\$ 52,178,531	70.49%	\$ 22,364,013	233.31%
June 30, 2011	\$ 127,092,832	\$ 170,752,509	\$ 43,659,677	74.43%	\$ 22,707,562	192.27%

**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, 2013	\$ 4,244,932	\$ 4,758,374	\$ 513,442	89.21%	\$ 1,279,323	40.13%
June 30, 2012	\$ 4,137,362	\$ 4,624,721	\$ 487,359	89.46%	\$ 1,225,598	39.77%
June 30, 2011	\$ 4,170,371	\$ 4,369,904	\$ 199,533	95.43%	\$ 1,218,992	16.37%

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2014

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, 2013	\$ 3,430,040	\$ 28,083,367	\$ 24,653,327	12.2%	\$ 22,978,569	107.3%
June 30, 2011	\$ 2,384,957	\$ 24,152,578	\$ 21,767,621	9.9%	\$ 22,707,562	95.9%
July 1, 2009	\$ 936,910	\$ 23,073,994	\$ 22,137,084	4.1%	\$ 24,004,460	92.2%

**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)
June 30, 2013	\$ 699,672	\$ 2,951,722	\$ 2,252,050	23.7%	\$ 23,283,603	9.7%
June 30, 2011	\$ 460,426	\$ 3,041,121	\$ 2,580,695	15.1%	\$ 22,300,816	11.6%
July 1, 2008	\$ -	\$ 2,594,210	\$ 2,594,210	0.0%	\$ 23,509,649	11.0%

**CITY OF SALEM, VIRGINIA
 REQUIRED SUPPLEMENTARY INFORMATION
 EMPLOYER CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS
 JUNE 30, 2014**

City of Salem

<u>Fiscal year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
June 30, 2014	\$ 1,963,938	115.6%
June 30, 2013	\$ 1,841,418	108.1%
June 30, 2012	\$ 1,805,415	111.0%

**Component Unit
 School Division**

<u>Fiscal year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
June 30, 2014	\$ 274,697	99.8%
June 30, 2013	\$ 295,200	97.3%
June 30, 2012	\$ 284,897	125.7%

OTHER SUPPLEMENTARY INFORMATION



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

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2014

	Business-type Activities - Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
ASSETS			
<i>Current assets:</i>			
Cash and cash equivalents	\$ 8,379	\$ 7,032	\$ 15,411
Receivables, net	111,903	44,326	156,229
Inventories	-	19,176	19,176
Prepaid items	75,214	-	75,214
Total current assets	<u>195,496</u>	<u>70,534</u>	<u>266,030</u>
<i>Capital assets:</i>			
Nondepreciable	176,653	-	176,653
Depreciable, net	4,865,828	43,557	4,909,385
Total capital assets	<u>5,042,481</u>	<u>43,557</u>	<u>5,086,038</u>
Total assets	<u>5,237,977</u>	<u>114,091</u>	<u>5,352,068</u>
LIABILITIES			
<i>Current liabilities:</i>			
Accounts payable and accrued liabilities	100,162	17,008	117,170
Accrued payroll and related liabilities	60,434	14,557	74,991
Due to other funds	670,000	65,000	735,000
Unearned revenue	107,509	700	108,209
Compensated absences	81,721	16,018	97,739
Total current liabilities	<u>1,019,826</u>	<u>113,283</u>	<u>1,133,109</u>
<i>Noncurrent liabilities:</i>			
Compensated absences	9,979	27,313	37,292
Other postemployment benefits	18,346	-	18,346
Total noncurrent liabilities	<u>28,325</u>	<u>27,313</u>	<u>55,638</u>
Total liabilities	<u>1,048,151</u>	<u>140,596</u>	<u>1,188,747</u>
NET POSITION			
Net investment in capital assets	5,042,481	43,557	5,086,038
Unrestricted (deficit)	(852,655)	(70,062)	(922,717)
Total net position	<u>\$ 4,189,826</u>	<u>\$ (26,505)</u>	<u>\$ 4,163,321</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	Business-type Activities - Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
OPERATING REVENUES			
Charges for services	\$ 861,154	\$ 758,043	\$ 1,619,197
Commissions	13,235	-	13,235
Other	59,658	21,177	80,835
Total operating revenues	<u>934,047</u>	<u>779,220</u>	<u>1,713,267</u>
OPERATING EXPENSES			
Salaries	1,035,740	324,762	1,360,502
Fringe benefits	332,663	98,534	431,197
Show expenses	144,457	-	144,457
Maintenance	162,721	2,850	165,571
Professional services	6,011	11,354	17,365
Insurance	18,426	-	18,426
Administration	74,789	13,160	87,949
Travel and training	16,677	67	16,744
Materials and supplies	46,072	230,153	276,225
Expendable equipment and small tools	1,260	169	1,429
Utilities	262,943	387	263,330
Miscellaneous	608	228	836
Depreciation	497,882	7,400	505,282
Commissions	-	167,558	167,558
Total operating expenses	<u>2,600,249</u>	<u>856,622</u>	<u>3,456,871</u>
Operating loss	<u>(1,666,202)</u>	<u>(77,402)</u>	<u>(1,743,604)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	99	-	99
Gain (loss) on sale of capital assets	4,319	(244)	4,075
Net nonoperating revenue (expenses)	<u>4,418</u>	<u>(244)</u>	<u>4,174</u>
Loss before transfers	<u>(1,661,784)</u>	<u>(77,646)</u>	<u>(1,739,430)</u>
Transfers in	1,108,666	-	1,108,666
Change in net position	<u>(553,118)</u>	<u>(77,646)</u>	<u>(630,764)</u>
Net position, beginning	4,742,944	51,141	4,794,085
Net position, ending	<u>\$ 4,189,826</u>	<u>\$ (26,505)</u>	<u>\$ 4,163,321</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	Business-type Activities - Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
OPERATING ACTIVITIES			
Receipts from customers	\$ 820,632	\$ 763,186	\$ 1,583,818
Payments to suppliers	(739,107)	(443,860)	(1,182,967)
Payments to employees	(1,409,135)	(425,463)	(1,834,598)
Other receipts	59,658	21,177	80,835
Net cash used in operating activities	<u>(1,267,952)</u>	<u>(84,960)</u>	<u>(1,352,912)</u>
NONCAPITAL FINANCING ACTIVITIES			
Interfund Loan	158,000	65,000	223,000
Transfers in	1,108,666	-	1,108,666
Net cash provided by noncapital financing activities	<u>1,266,666</u>	<u>65,000</u>	<u>1,331,666</u>
CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from sale of capital assets	4,444	-	4,444
Purchases of capital assets	(10,228)	-	(10,228)
Net cash used in capital and related financing activities	<u>(5,784)</u>	<u>-</u>	<u>(5,784)</u>
INVESTING ACTIVITIES			
Interest received	99	-	99
Net cash provided by investing activities	<u>99</u>	<u>-</u>	<u>99</u>
Net decrease in cash and cash equivalents	(6,971)	(19,960)	(26,931)
Cash and cash equivalents, beginning	15,350	26,992	42,342
Cash and cash equivalents, ending	<u>\$ 8,379</u>	<u>\$ 7,032</u>	<u>\$ 15,411</u>

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES

Operating loss	\$ (1,666,202)	\$ (77,402)	\$ (1,743,604)
<i>Adjustments to reconcile operating loss to net cash used in operating activities</i>			
Depreciation	497,882	7,400	505,282
<i>Decrease (increase) in assets:</i>			
Receivables, net	(19,915)	4,443	(15,472)
Inventories	-	(1,293)	(1,293)
Prepaid items	3,222	-	3,222
<i>Increase (decrease) in liabilities:</i>			
Accounts payable and accrued liabilities	3,569	(14,114)	(10,545)
Accrued payroll and related liabilities	(5,840)	(1,335)	(7,175)
Due to other funds	(11,934)	(2,527)	(14,461)
Unearned revenue	(33,842)	700	(33,142)
Compensated absences	(25,972)	131	(25,841)
Other postemployment benefits	(8,920)	(963)	(9,883)
Net cash used in operating activities	<u>\$ (1,267,952)</u>	<u>\$ (84,960)</u>	<u>\$ (1,352,912)</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2014

	Cardinal Criminal Justice Academy	Court- Community Corrections Program	Total Agency Funds
ASSETS			
Cash and cash equivalents	\$ 367,786	\$ 1,027,427	\$ 1,395,213
Receivables, net	2,580	-	2,580
Due from Commonwealth of Virginia	-	63,953	63,953
Total assets	<u>\$ 370,366</u>	<u>\$ 1,091,380</u>	<u>\$ 1,461,746</u>
LIABILITIES			
Accounts payable	\$ 2,473	\$ 47,926	\$ 50,399
Liability to agency	367,893	1,043,454	1,411,347
Total liabilities	<u>\$ 370,366</u>	<u>\$ 1,091,380</u>	<u>\$ 1,461,746</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
YEAR ENDED JUNE 30, 2014

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<u>CARDINAL CRIMINAL JUSTICE ACADEMY</u>				
ASSETS				
Cash and cash equivalents	\$ 503,330	\$ 568,458	\$ (704,002)	\$ 367,786
Receivables, net	3,100	2,580	(3,100)	2,580
Total assets	<u>\$ 506,430</u>	<u>\$ 571,038</u>	<u>\$ (707,102)</u>	<u>\$ 370,366</u>
LIABILITIES				
Accounts payable	\$ 13,474	\$ 284,400	\$ (295,401)	\$ 2,473
Liability to agency	492,956	286,638	(411,701)	367,893
Total liabilities	<u>\$ 506,430</u>	<u>\$ 571,038</u>	<u>\$ (707,102)</u>	<u>\$ 370,366</u>
<u>COURT-COMMUNITY CORRECTIONS PROGRAM</u>				
ASSETS				
Cash and cash equivalents	\$ 1,043,630	\$ 1,924,433	\$ (1,940,636)	\$ 1,027,427
Due from Commonwealth of Virginia	77,988	63,953	(77,988)	63,953
Total assets	<u>\$ 1,121,618</u>	<u>\$ 1,988,386</u>	<u>\$ (2,018,624)</u>	<u>\$ 1,091,380</u>
LIABILITIES				
Accounts payable	\$ 33,981	\$ 1,091,363	\$ (1,077,418)	\$ 47,926
Liability to agency	1,087,637	897,023	(941,206)	1,043,454
Total liabilities	<u>\$ 1,121,618</u>	<u>\$ 1,988,386</u>	<u>\$ (2,018,624)</u>	<u>\$ 1,091,380</u>
<u>TOTAL AGENCY FUNDS</u>				
ASSETS				
Cash and cash equivalents	\$ 1,546,960	\$ 2,492,891	\$ (2,644,638)	\$ 1,395,213
Receivables, net	3,100	2,580	(3,100)	2,580
Due from Commonwealth of Virginia	77,988	63,953	(77,988)	63,953
Total assets	<u>\$ 1,628,048</u>	<u>\$ 2,559,424</u>	<u>\$ (2,725,726)</u>	<u>\$ 1,461,746</u>
LIABILITIES				
Accounts payable	\$ 47,455	\$ 1,375,763	\$ (1,372,819)	\$ 50,399
Liability to agency	1,580,593	1,183,661	(1,352,907)	1,411,347
Total liabilities	<u>\$ 1,628,048</u>	<u>\$ 2,559,424</u>	<u>\$ (2,725,726)</u>	<u>\$ 1,461,746</u>



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

Contents	Page
Financial Trends.....	92
<i>These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>	
Revenue Capacity.....	97
<i>These schedules contain information to help the reader assess the government's most significant local revenue sources, property tax and sale of electricity.</i>	
Debt Capacity.....	100
<i>These schedules present information to help the reader assess the affordability of the government's current level of outstanding debt and the government's ability to issue additional debt in the future.</i>	
Demographic and Economic Information.....	102
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.</i>	
Operating Information.....	104
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.</i>	

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TABLE 1
UNAUDITED

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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
	(1)							(2)	(3)	(3)
Governmental Activities										
Net investment in capital assets	\$ 84,242,062	\$ 86,860,275	\$ 87,145,604	\$ 88,456,284	\$ 90,258,361	\$ 89,946,841	\$ 88,463,741	\$ 85,853,628	\$ 88,112,343	\$ 89,479,130
Restricted	2,987,926	1,896,959	1,260,230	1,416,694	-	-	-	-	-	-
Unrestricted	(22,664,736)	(20,157,809)	(10,590,213)	(12,606,292)	(9,373,128)	(10,704,656)	(9,598,627)	(9,132,365)	(12,509,444)	(12,674,607)
Total governmental net position	<u>\$ 64,565,252</u>	<u>\$ 68,599,425</u>	<u>\$ 77,815,621</u>	<u>\$ 77,266,686</u>	<u>\$ 80,885,233</u>	<u>\$ 79,242,185</u>	<u>\$ 78,865,114</u>	<u>\$ 76,721,263</u>	<u>\$ 75,602,899</u>	<u>\$ 76,804,523</u>
Business-type activities										
Net investment in capital assets	\$ 42,936,315	\$ 43,413,519	\$ 44,265,414	\$ 44,172,488	\$ 43,180,397	\$ 40,790,077	\$ 39,787,750	\$ 41,636,232	\$ 36,954,684	\$ 36,501,799
Restricted	-	-	-	1,989,529	-	-	-	-	-	-
Unrestricted	27,531,700	24,273,387	18,453,692	18,896,375	20,437,874	23,324,884	25,278,681	20,760,143	21,804,567	21,839,306
Total business-type activities net position	<u>\$ 70,468,015</u>	<u>\$ 67,686,906</u>	<u>\$ 62,719,106</u>	<u>\$ 65,058,392</u>	<u>\$ 63,618,271</u>	<u>\$ 64,114,961</u>	<u>\$ 65,066,431</u>	<u>\$ 62,396,375</u>	<u>\$ 58,759,251</u>	<u>\$ 58,341,105</u>
Primary government										
Net investment in capital assets	\$ 127,178,377	\$ 130,273,794	\$ 131,411,018	\$ 132,628,772	\$ 133,438,758	\$ 130,736,918	\$ 128,251,491	\$ 127,489,860	\$ 125,067,027	\$ 125,980,929
Restricted	2,987,926	1,896,959	1,260,230	3,406,223	-	-	-	-	-	-
Unrestricted	4,866,964	4,115,578	7,863,479	6,290,083	11,064,746	12,620,228	15,680,054	11,627,778	9,295,123	9,164,699
Total primary government net position	<u>\$ 135,033,267</u>	<u>\$ 136,286,331</u>	<u>\$ 140,534,727</u>	<u>\$ 142,325,078</u>	<u>\$ 144,503,504</u>	<u>\$ 143,357,146</u>	<u>\$ 143,931,545</u>	<u>\$ 139,117,638</u>	<u>\$ 134,362,150</u>	<u>\$ 135,145,628</u>

Notes:

Source: City of Salem Finance Department

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

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

(3) Net investment in capital assets and unrestricted net position of governmental activities were restated to properly classify School Division debt.

**TABLE 2
UNAUDITED**

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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
	(1), (2)	(3)						(4)		
Expenses										
<i>Governmental activities</i>										
General government	\$ 6,248,574	\$ 6,450,069	\$ 6,583,782	\$ 6,110,416	\$ 5,328,382	\$ 5,937,208	\$ 5,031,352	\$ 4,803,246	\$ 5,107,268	\$ 4,283,754
Judicial administration	2,026,034	1,952,657	1,866,052	1,887,444	1,779,072	1,897,961	1,687,507	1,540,762	1,457,720	1,292,722
Public safety	17,532,682	17,279,490	16,492,831	15,818,359	15,330,477	15,932,421	15,048,715	13,869,676	13,547,191	11,535,321
Public works	13,399,134	13,809,579	14,421,981	13,915,318	14,019,163	14,906,728	14,067,674	13,476,019	12,443,334	10,789,008
Health and welfare	2,578,984	2,709,561	2,430,955	2,738,894	2,333,736	2,354,803	2,450,245	2,193,126	2,055,166	1,823,783
Education	25,103,243	30,295,228	18,471,653	18,420,000	18,420,000	18,420,000	17,995,000	17,095,000	16,266,005	15,618,081
Parks, recreation and cultural	5,279,886	5,436,335	5,284,647	5,495,431	5,064,065	5,620,844	5,721,997	5,796,220	5,239,517	3,851,575
Community development	2,388,701	2,327,751	2,076,325	1,834,749	1,725,528	1,830,327	1,122,221	1,022,096	933,002	513,272
Nondepartmental	-	-	-	-	-	-	-	-	-	2,424,022
Interest on long-term debt	1,235,080	1,354,680	1,139,218	1,151,867	1,137,667	1,188,350	1,263,858	1,202,201	1,267,296	1,478,103
Total governmental activities	<u>75,792,318</u>	<u>81,615,350</u>	<u>68,767,444</u>	<u>67,372,478</u>	<u>65,138,090</u>	<u>68,088,642</u>	<u>64,388,569</u>	<u>60,998,346</u>	<u>58,316,499</u>	<u>53,609,641</u>
<i>Business-type activities</i>										
Electric	34,182,987	33,171,403	36,047,453	35,145,346	30,978,370	28,763,182	26,505,160	24,308,309	24,692,031	16,311,434
Water and sewage	10,999,420	10,671,798	10,952,702	11,034,638	11,065,592	11,253,172	11,150,046	10,991,783	10,836,280	9,502,885
Civic Center	2,600,249	2,838,499	2,472,731	2,374,165	2,332,330	2,440,459	2,435,383	2,563,090	2,364,891	2,199,589
Catering and concessions	856,866	849,306	903,039	878,171	965,556	1,033,658	1,081,528	1,103,860	1,036,737	960,320
Total business-type activities	<u>48,639,522</u>	<u>47,531,006</u>	<u>50,375,925</u>	<u>49,432,320</u>	<u>45,341,848</u>	<u>43,490,471</u>	<u>41,172,117</u>	<u>38,967,042</u>	<u>38,929,939</u>	<u>28,974,228</u>
Total primary government	<u>\$ 124,431,840</u>	<u>\$ 129,146,356</u>	<u>\$ 119,143,369</u>	<u>\$ 116,804,798</u>	<u>\$ 110,479,938</u>	<u>\$ 111,579,113</u>	<u>\$ 105,560,686</u>	<u>\$ 99,965,388</u>	<u>\$ 97,246,438</u>	<u>\$ 82,583,869</u>
Program revenues										
<i>Governmental activities</i>										
Charges for services										
Public safety	\$ 1,103,765	\$ 1,069,969	\$ 991,473	\$ 911,073	\$ 900,837	\$ 1,107,794	\$ 1,048,587	\$ 1,148,627	\$ 1,315,417	\$ 1,083,694
Public works	3,695,667	3,523,970	3,560,239	3,418,637	3,248,138	3,627,290	3,203,179	2,892,913	1,799,284	1,821,717
Other activities	1,009,342	1,034,129	1,005,691	782,662	716,248	587,294	566,814	535,125	471,137	415,225
Operating grants and contributions	6,975,699	7,436,195	7,124,704	7,159,171	6,827,928	6,763,352	6,613,064	7,024,034	6,038,168	5,979,520
Capital grants and contributions	391,399	2,003,251	595,986	1,517,633	2,709,381	2,119,392	1,359,606	1,168,709	6,392,874	314,789
Total governmental activities	<u>13,175,872</u>	<u>15,067,514</u>	<u>13,278,093</u>	<u>13,789,176</u>	<u>14,402,532</u>	<u>14,205,122</u>	<u>12,791,250</u>	<u>12,769,408</u>	<u>16,016,880</u>	<u>9,614,945</u>
<i>Business-type activities</i>										
Charges for services										
Electric	39,861,201	40,280,161	36,824,320	35,726,379	32,915,660	30,863,283	31,000,915	29,300,625	27,699,386	20,192,965
Water and sewage	12,645,216	11,729,755	11,114,241	9,988,563	10,329,200	10,981,350	11,569,453	10,740,194	9,529,125	8,510,106
Civic Center	934,047	775,437	880,306	912,697	865,314	919,781	937,520	1,006,344	793,716	887,312
Catering and concessions	779,220	781,469	856,919	858,714	940,834	994,016	1,048,994	1,097,172	991,208	967,446
Capital grants and contributions										
Electric	-	-	-	39,929	-	-	-	-	-	-
Water and sewage	49,051	-	13,222	-	-	-	-	-	-	-
Total business-type activities	<u>54,268,735</u>	<u>53,566,822</u>	<u>49,689,008</u>	<u>47,526,282</u>	<u>45,051,008</u>	<u>43,758,430</u>	<u>44,556,882</u>	<u>42,144,335</u>	<u>39,013,435</u>	<u>30,557,829</u>
Total primary government	<u>\$ 67,444,607</u>	<u>\$ 68,634,336</u>	<u>\$ 62,967,101</u>	<u>\$ 61,315,458</u>	<u>\$ 59,453,540</u>	<u>\$ 57,963,552</u>	<u>\$ 57,348,132</u>	<u>\$ 54,913,743</u>	<u>\$ 55,030,315</u>	<u>\$ 40,172,774</u>

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Net (expense) revenue										
Total governmental activities	\$ (62,616,446)	\$ (66,547,836)	\$ (55,489,351)	\$ (53,583,302)	\$ (50,735,558)	\$ (53,883,520)	\$ (51,597,319)	\$ (48,228,938)	\$ (42,299,619)	\$ (43,994,696)
Total business-type activities	5,629,213	6,035,816	(686,917)	(1,906,038)	(290,840)	267,959	3,384,765	3,177,293	83,496	1,583,601
Total primary government	<u>\$ (56,987,233)</u>	<u>\$ (60,512,020)</u>	<u>\$ (56,176,268)</u>	<u>\$ (55,489,340)</u>	<u>\$ (51,026,398)</u>	<u>\$ (53,615,561)</u>	<u>\$ (48,212,554)</u>	<u>\$ (45,051,645)</u>	<u>\$ (42,216,123)</u>	<u>\$ (42,411,095)</u>

General Revenues and Other Changes in Net Position

Governmental activities:

Taxes										
Property taxes	\$ 32,666,172	\$ 32,272,995	\$ 32,480,280	\$ 32,068,912	\$ 31,477,369	\$ 31,335,765	\$ 30,082,026	\$ 27,606,560	\$ 27,161,942	\$ 25,062,245
Local sales and use taxes	6,432,110	6,083,030	5,891,941	5,707,813	5,492,934	5,568,978	5,908,920	5,711,940	5,634,585	5,601,846
Business license tax	5,078,755	5,107,983	4,751,638	4,564,531	4,421,129	4,827,348	4,714,965	4,258,059	3,866,585	4,032,843
Meals tax	4,277,741	4,118,041	3,242,532	2,551,880	2,429,239	2,448,064	2,546,104	2,397,412	2,351,010	2,190,099
Utility taxes	1,150,691	1,153,190	1,124,383	1,123,400	1,105,818	1,123,616	1,156,775	1,228,975	1,372,250	1,339,238
Other taxes	3,184,568	2,924,694	2,604,603	2,805,271	2,684,054	2,856,119	2,362,788	2,700,657	2,625,066	2,486,633
Intergovernmental revenue not restricted	3,961,782	3,859,380	3,747,854	3,747,722	3,735,738	3,860,269	4,030,210	3,878,955	3,523,634	3,597,191
Unrestricted investment earnings	143,186	134,650	127,210	129,640	132,522	213,671	568,689	789,526	556,039	501,808
Gain on sale of property	33,051	1,198	-	-	-	24,624	5,715	-	402,089	571,311
Other	554,303	606,657	411,355	603,696	324,136	375,139	812,702	279,223	218,274	266,019
Transfers	1,694,330	1,069,822	1,656,490	(3,338,110)	575,667	1,626,999	1,552,276	495,995	975,685	(70,821)
Total governmental activities	<u>59,176,689</u>	<u>57,331,640</u>	<u>56,038,286</u>	<u>49,964,755</u>	<u>52,378,606</u>	<u>54,260,592</u>	<u>53,741,170</u>	<u>49,347,302</u>	<u>48,687,159</u>	<u>45,578,412</u>

Business-type activities:

Unrestricted investment earnings	172	168	4,121	8,049	23,297	179,714	706,658	928,710	271,303	311,154
Gain on sale of property	5,013	1,638	-	-	-	205,932	-	6,967	-	-
Other	-	-	-	-	346,520	21,924	130,909	20,149	-	-
Transfers	(1,694,330)	(1,069,822)	(1,656,490)	3,338,110	(575,667)	(1,626,999)	(1,552,276)	(495,995)	(975,685)	70,821
Total business-type activities	<u>(1,689,145)</u>	<u>(1,068,016)</u>	<u>(1,652,369)</u>	<u>3,346,159</u>	<u>(205,850)</u>	<u>(1,219,429)</u>	<u>(714,709)</u>	<u>459,831</u>	<u>(704,382)</u>	<u>381,975</u>
Total primary government	<u>\$ 57,487,544</u>	<u>\$ 56,263,624</u>	<u>\$ 54,385,917</u>	<u>\$ 53,310,914</u>	<u>\$ 52,172,756</u>	<u>\$ 53,041,163</u>	<u>\$ 53,026,461</u>	<u>\$ 49,807,133</u>	<u>\$ 47,982,777</u>	<u>\$ 45,960,387</u>

Changes in Net Position

Total governmental activities	\$ (3,439,757)	\$ (9,216,196)	\$ 548,935	\$ (3,618,547)	\$ 1,643,048	\$ 377,072	\$ 2,143,851	\$ 1,118,364	\$ 6,387,540	\$ 1,583,716
Total business-type activities	3,940,068	4,967,800	(2,339,286)	1,440,121	(496,690)	(951,470)	2,670,056	3,637,124	(620,886)	1,965,576
Total primary government	<u>\$ 500,311</u>	<u>\$ (4,248,396)</u>	<u>\$ (1,790,351)</u>	<u>\$ (2,178,426)</u>	<u>\$ 1,146,358</u>	<u>\$ (574,398)</u>	<u>\$ 4,813,907</u>	<u>\$ 4,755,488</u>	<u>\$ 5,766,654</u>	<u>\$ 3,549,292</u>

Notes:

Source: City of Salem Finance Department

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

**TABLE 3
UNAUDITED**

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>		
Post-GASB 54 implementation:	(1)					
General Fund						
Nonspendable	\$ 421,117	\$ 447,097	\$ 497,206	\$ 554,962		
Restricted	2,661,958	1,896,731	1,244,986	1,287,008		
Committed	-	-	519,817	-		
Assigned	465,178	941,626	1,256,103	1,588,768		
Unassigned	5,271,609	3,517,718	3,469,721	3,351,935		
Total general fund	<u>\$ 8,819,862</u>	<u>\$ 6,803,172</u>	<u>\$ 6,987,833</u>	<u>\$ 6,782,673</u>		
All Other Governmental Funds						
Restricted	\$ 325,968	\$ 228	\$ 15,244	\$ 129,686		
Committed	125,651	115,000	39,436	-		
Assigned	8,291	-	-	-		
Unassigned	-	(432,316)	-	-		
Total all other governmental funds	<u>\$ 459,910</u>	<u>\$ (317,088)</u>	<u>\$ 54,680</u>	<u>\$ 129,686</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Pre-GASB 54 implementation:						
General Fund						
Reserved	\$ 1,038,347	\$ 916,227	\$ 893,623	\$ 1,357,034	\$ 1,431,926	\$ 1,179,343
Unreserved	5,183,434	5,486,537	7,086,974	6,547,440	6,419,834	10,534,365
Total general fund	<u>\$ 6,221,781</u>	<u>\$ 6,402,764</u>	<u>\$ 7,980,597</u>	<u>\$ 7,904,474</u>	<u>\$ 7,851,760</u>	<u>\$ 11,713,708</u>
All Other Governmental Funds						
Reserved	\$ 784,005	\$ 2,130,298	\$ 3,388,893	\$ 1,083,915	\$ 1,251,705	\$ 3,777,959
<i>Unreserved, reported in:</i>						
Capital projects fund	(1,051,141)	(2,031,615)	(3,152,261)	(189,129)	(463,348)	(1,691,345)
Total all other governmental funds	<u>\$ (267,136)</u>	<u>\$ 98,683</u>	<u>\$ 236,632</u>	<u>\$ 894,786</u>	<u>\$ 788,357</u>	<u>\$ 2,086,614</u>

Note:

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

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

TABLE 4
UNAUDITED

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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
	(1)	(2)								(3)
Revenues										
Taxes	\$ 53,203,553	\$ 52,276,472	\$ 50,284,343	\$ 48,794,986	\$ 47,592,620	\$ 48,272,897	\$ 47,254,766	\$ 44,555,391	\$ 44,037,357	\$ 41,593,054
Permits, fees and licenses	218,804	198,742	202,342	218,094	243,035	228,687	303,958	293,004	294,314	286,150
Fines and forfeitures	126,761	153,584	160,816	164,161	159,179	171,056	159,489	159,363	150,860	162,207
Revenue from use of money and property	697,565	697,140	642,067	677,805	465,564	539,930	786,455	1,434,893	1,385,122	1,861,432
Charges for services	4,956,368	4,925,221	4,700,364	4,463,860	4,282,550	4,602,745	4,154,836	3,915,569	2,959,842	2,749,670
Other	160,095	247,149	104,701	284,324	172,872	195,505	152,478	47,673	32,544	43,796
Intergovernmental	11,289,569	13,129,214	11,462,504	12,562,674	12,525,033	12,526,047	10,859,986	10,336,870	8,720,129	8,765,664
Total revenues	70,652,715	71,627,522	67,557,137	67,165,904	65,440,853	66,536,867	63,671,968	60,742,763	57,580,168	55,461,973
Expenditures										
General government	5,689,510	5,881,344	5,792,852	4,900,770	5,232,405	6,380,771	4,891,569	4,694,442	4,994,542	4,386,061
Judicial administration	1,919,961	1,866,050	1,801,429	1,788,821	1,695,531	1,723,427	1,649,871	1,506,395	1,321,052	1,256,107
Public safety	16,358,165	16,371,685	15,353,250	14,792,022	14,358,932	14,371,192	14,397,297	13,358,739	12,707,985	11,670,171
Public works	11,087,740	11,502,485	11,988,380	11,656,775	11,101,013	12,113,469	12,156,138	11,434,040	9,400,116	9,777,021
Health and welfare	2,465,194	2,672,631	2,391,628	2,682,090	2,293,464	2,315,841	2,410,340	2,163,687	1,918,490	1,823,783
Education	25,103,243	30,295,228	18,471,653	18,420,000	18,420,000	18,420,000	17,995,000	17,095,000	16,266,005	15,618,081
Parks, recreation and cultural	4,323,040	4,508,319	4,403,170	4,203,452	4,204,705	4,716,767	4,464,456	4,354,144	4,316,920	4,037,410
Community development	857,219	829,081	981,483	879,709	618,217	1,148,291	469,835	639,535	815,991	513,272
Non-departmental	2,759,940	2,867,807	2,658,955	2,908,441	2,579,752	3,349,639	1,976,756	1,769,127	3,610,694	2,424,022
Capital projects	1,788,469	2,377,884	1,571,118	3,703,365	2,350,384	1,624,611	1,397,376	2,750,335	4,325,562	5,519,655
<i>Debt service:</i>										
Principal retirement	2,647,514	7,765,685	2,623,661	2,606,810	2,593,118	2,618,896	2,612,403	2,607,365	2,863,024	5,616,505
Interest	980,558	824,824	970,434	930,767	1,029,641	1,105,218	1,171,197	1,119,793	1,185,708	1,432,203
Bond Issuance Cost	15,500	45,750	31,900	117,689	-	-	-	-	-	-
Total expenditures	75,996,053	87,808,773	69,039,913	69,590,711	66,477,162	69,888,122	65,592,238	63,492,602	63,726,089	64,074,291
Excess (deficiency) of revenues over expenditures	(5,343,338)	(16,181,251)	(1,482,776)	(2,424,807)	(1,036,309)	(3,351,255)	(1,920,270)	(2,749,839)	(6,145,921)	(8,612,318)
Other Financing Sources (Uses)										
Proceeds from long-term debt	7,275,000	9,518,800	-	6,540,000	-	-	-	-	-	-
Proceeds from sale of refunding bonds	-	5,036,200	9,485,000	3,339,279	-	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	(9,513,728)	(3,430,000)	-	-	-	-	-	-
Premium on sale of bonds	-	-	-	248,757	-	-	-	-	-	-
Discount on sale of bonds	-	-	-	(48,989)	-	-	-	-	-	-
Transfers in	6,832,903	5,626,851	6,458,723	5,683,661	4,985,609	6,043,796	6,474,312	7,536,323	8,235,360	5,417,206
Transfers out	(5,131,569)	(4,557,029)	(4,817,065)	(8,950,187)	(4,496,102)	(4,408,322)	(5,136,073)	(4,627,341)	(7,249,644)	(5,488,027)
Total other financing sources (uses)	8,976,334	15,624,822	1,612,930	3,382,521	489,507	1,635,474	1,338,239	2,908,982	985,716	(70,821)
Net change in fund balances	\$ 3,632,996	\$ (556,429)	\$ 130,154	\$ 957,714	\$ (546,802)	\$ (1,715,781)	\$ (582,031)	\$ 159,143	\$ (5,160,205)	\$ (8,683,139)
Debt service as a percentage of noncapital expenditures	4.93%	10.16%	5.37%	5.39%	5.76%	5.73%	6.04%	6.26%	7.06%	12.35%

Notes:

Source: City of Salem Finance Department

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

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

(3) Principal retirement includes one-time balloon payment of \$2,715,000.

**TABLE 5
UNAUDITED**

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

Fiscal Year	Real Estate		Personal Property		Machinery and Tools		Public Service Corporation		Mobile Homes		Total Taxable Assessed Value	Total Direct Tax Rate
	Assessed Value	Direct Tax Rate	Assessed Value	Direct Tax Rate	Assessed Value	Direct Tax Rate	Assessed Value	Direct Tax Rate	Assessed Value	Direct Tax Rate		
2014	\$ 2,003,007,334	\$1.18	\$ 276,846,201	\$3.20	\$ 87,702,667	\$3.20	\$ 41,408,575	\$1.18	\$ 1,249,050	\$1.18	\$ 2,410,213,827	\$1.49
2013	1,997,447,800	1.18	267,755,307	3.20	84,169,172	3.20	42,281,759	1.18	1,431,949	1.18	2,393,085,987	1.47
2012	1,977,986,400	1.18	267,877,285	3.20	90,287,324	3.20	37,468,284	1.18	1,668,743	1.18	2,375,288,036	1.48
2011	1,973,655,843	1.18	265,450,351	3.20	80,706,659	3.20	37,993,502	1.18	1,460,966	1.18	2,359,267,321	1.48
2010	1,940,941,700	1.18	262,153,501	3.20	79,120,695	3.20	36,874,789	1.18	1,543,032	1.18	2,320,633,717	1.48
2009	1,912,957,600	1.18	263,305,279	3.20	80,517,625	3.20	36,468,242	1.18	1,655,642	1.18	2,294,904,388	1.48
2008	1,805,483,900	1.18	263,662,393	3.20	82,535,751	3.20	36,451,099	1.18	1,780,273	1.18	2,189,913,416	1.50
2007	1,601,239,600	1.18	254,765,656	3.20	86,685,532	3.20	34,992,259	1.18	1,632,022	1.18	1,979,315,069	1.52
2006	1,572,732,200	1.18	262,141,563	3.20	86,409,864	3.20	33,586,047	1.18	1,855,348	1.18	1,956,725,022	1.54
2005	1,414,891,600	1.18	253,619,878	3.20	82,714,938	3.20	35,032,203	1.18	2,186,076	1.18	1,788,444,695	1.55

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

**TABLE 6
UNAUDITED**

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

Calendar Year Ended December 31,	Taxes Levied for the Calendar Year	Collected within the Calendar Year of the Levy		Supplemental Assessments & Exonerations Levied in Subsequent Years	Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy			Amount	Percentage of Levy
2014	\$ 32,905,743	\$ 31,229,276	94.91%	\$ -	\$ -	\$ 31,229,276	94.91%
2013	32,537,416	30,854,728	94.83%	161,584	1,326,452	32,181,180	98.42%
2012	32,672,916	31,351,991	95.96%	68,999	1,023,084	32,375,075	98.88%
2011	32,104,079	30,836,144	96.05%	112,323	1,073,786	31,909,930	99.05%
2010	31,627,310	30,440,194	96.25%	311,261	1,315,208	31,755,402	99.43%
2009	31,336,233	30,288,062	96.66%	124,862	1,091,290	31,379,352	99.74%
2008	29,846,597	28,917,802	96.89%	217,549	1,085,520	30,003,322	99.80%
2007	27,357,053	26,652,952	97.43%	361,155	1,022,100	27,675,052	99.84%
2006	27,035,930	26,209,290	96.94%	423,942	1,212,590	27,421,880	99.86%
2005	24,789,091	24,282,081	97.95%	235,208	724,206	25,006,287	99.93%

Note:

Source: City of Salem Finance Department

**TABLE 7
UNAUDITED**

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

Taxpayer	2014			2005		
	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	1.81%	\$ 29,879,400	1	2.13%
Lewis Gale Clinic/HRT	22,095,300	2	1.11%	22,977,300	2	1.63%
Yokohama Industries	13,946,300	3	0.70%	16,144,500	3	1.14%
Lowe's/VALO LLC	12,462,800	4	0.62%			
U.S. Food Service, Inc.	10,708,600	5	0.54%	13,310,500	4	0.95%
General Electric	10,655,700	6	0.53%	10,974,200	5	0.78%
Chateau Riviera Apartments/CSW Associates	9,694,200	7	0.49%	7,812,700	7	0.56%
Spartan Square, Inc.	8,953,000	8	0.45%	6,096,800	9	0.44%
Salem Terrace/White Whale	8,361,700	9	0.42%			
Carthy Corporation/Carter Machinery	7,586,000	10	0.38%			
Home Shopping/Stuart McGuire				8,866,900	6	0.63%
Rowe Furniture/Salem Frame				7,457,600	8	0.53%
Wal-Mart, Inc.				6,060,000	10	0.43%

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**

Customer	2014			2005		
	Services Billed	Rank	Percentage of Total Services Billed	Services Billed	Rank	Percentage of Total Services Billed
Lewis-Gale Hospital HCA	\$1,981,687	1	5.01%	\$797,427	1	4.07%
Roanoke College	1,449,142	2	3.67%	528,219	3	2.70%
Graham White	854,244	3	2.16%	461,645	4	2.36%
Rowe Furniture/Salem Frame	853,484	4	2.16%	404,048	5	2.06%
U.S. Food Service, Inc.	734,552	5	1.86%	528,821	2	2.70%
Kroger	574,816	6	1.45%	265,055	8	1.35%
Sewell Products	513,463	7	1.30%	194,343		
Carter Machinery/CCarthy Corporation	500,626	8	1.27%	246,565	9	1.26%
Wal-Mart	361,840	9	0.92%	166,064	10	0.85%
Old Virginia Brick Co	349,814	10	0.88%	282,345	7	1.44%
Valleydale Foods	-			355,719	6	1.82%

Note:

Source: City of Salem Finance Department

TABLE 9
UNAUDITED

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

Fiscal Year	Governmental Activities			Total	Business-Type Activities	Total Primary Government
	General Obligation Bonds	Other Long-term Debt			General Obligation Bonds	
	(1)	(1)				
2014	\$ 37,512,037	\$ -	\$ 37,512,037	\$ 48,367,163	\$ 85,879,200	
2013	32,884,551	-	32,884,551	50,872,551	83,757,102	
2012	26,095,236	-	26,095,236	53,877,529	79,972,765	
2011	28,033,897	-	28,033,897	55,710,739	83,744,636	
2010	24,066,428	125,000	24,191,428	56,518,876	80,710,304	
2009	26,534,546	250,000	26,784,546	59,416,149	86,200,695	
2008	29,028,442	375,000	29,403,442	62,254,430	91,657,872	
2007	31,515,845	500,000	32,015,845	64,951,116	96,966,961	
2006	31,498,210	625,000	32,123,210	66,855,732	98,978,942	
2005	34,236,234	750,000	34,986,234	40,495,352	75,481,586	

Fiscal Year	Total Taxable Assessed Value	Percentage of Estimated Actual Value of Taxable Property	Population	Bonded Debt Per Capita	Per Capita Personal Income	Percentage of Bonded Debt Per Capita to Per Capita Personal Income
	(2)		(3)		(3)	
2014	\$ 2,410,213,827	3.56%	25,299	\$ 3,395	\$ 42,288	8.00%
2013	2,393,085,987	3.50%	25,267	3,315	40,688	8.00%
2012	2,375,288,036	3.37%	25,145	3,180	39,866	8.00%
2011	2,359,267,321	3.55%	24,970	3,354	39,866	8.00%
2010	2,320,633,717	3.48%	24,860	3,247	39,866	8.00%
2009	2,294,904,388	3.76%	24,684	3,492	39,525	9.00%
2008	2,189,913,416	4.19%	24,673	3,715	40,760	9.00%
2007	1,979,315,069	4.90%	24,482	3,961	39,479	10.00%
2006	1,956,725,022	5.06%	24,508	4,039	38,194	11.00%
2005	1,788,444,695	4.22%	24,310	3,105	36,611	8.00%

Notes:

Source: City of Salem Finance Department

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

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

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

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

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

TABLE 10
UNAUDITED

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

Fiscal Year	Assessed Value of Real Property (1)	Debt Limit 10% of Assessed Value	Amount of Debt Applicable to Limit			Net Debt Applicable to Limit (3)	Legal Debt Margin
			Total General Obligation Bonds	Total Other Long-term Debt	Enterprise Bonds (2)		
2014	\$ 2,044,415,909	\$ 204,441,591	\$ 85,879,200	\$ -	\$ (48,367,163)	\$ 37,512,037	18.35%
2013	2,039,729,559	203,972,956	83,757,102	-	(50,872,551)	\$ 32,884,551	16.12%
2012	2,015,454,684	201,545,468	79,972,765	-	(53,877,529)	\$ 26,095,236	12.95%
2011	2,011,649,345	201,164,935	83,744,636	-	(55,710,739)	\$ 28,033,897	13.94%
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%

Notes:

Source: City of Salem Finance Department

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

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

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

**TABLE 11
UNAUDITED**

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

Fiscal Year Ended	Population	Total Personal Income (In Thousands)	Per Capita Personal Income	Public School Enrollment	Unemployment Rate
(1)	(2)	(3)	(3)	(4)	(5)
2014	25,299	\$ 4,984,547	\$ 42,288	3,770	5.2%
2013	25,267	4,789,030	40,688	3,823	6.6%
2012	25,145	4,672,291	39,866	3,867	6.5%
2011	24,970	4,672,291	39,866	3,892	6.1%
2010	24,860	4,672,291	39,866	3,907	7.2%
2009	24,684	4,620,761	39,525	3,905	6.3%
2008	24,673	4,743,543	40,760	3,911	3.6%
2007	24,482	4,563,905	39,479	3,966	3.0%
2006	24,508	4,392,229	38,194	3,902	2.9%
2005	24,310	4,157,343	36,611	3,882	2.5%

Notes:

(1) Population, public school enrollment and unemployment rate figures are based on fiscal years ending June 30. Per capita personal income figures are as of March 2013.

(2) Population is based on Intercensal estimates of the resident population for counties of Virginia: April 1, 2000 to July 1, 2010. US Census Bureau, Population Division. Population for 2012 and 2013 were obtained from U.S. Census Bureau Population Estimates Program.

(3) Bureau of Economic Analysis (BEA). Total personal income reported is for Roanoke County and the City of Salem. No data is available for the City of Salem only. Per capital personal income was computed using Census Bureau midyear population estimates.

(4) Supervisor of Business Services, School Division

(5) Virginia Employment Commission

**TABLE 12
UNAUDITED**

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

Employer	2014			2005		
	Employees	Rank	Percentage of Total City Employment (1)	Employees	Rank	Percentage of Total City Employment (1)
Veterans Administration Medical Center	1,912	1	8.75%	1,506	1	6.59%
Lewis-Gale Hospital HCA	1,445	2	6.62%	1,480	2	6.48%
Yokohama Industries	950	3	4.35%	1,115	3	4.88%
General Electric	804	4	3.68%	1,085	5	4.75%
Lewis-Gale Clinic	583	5	2.67%	1,100	4	4.82%
City of Salem Schools	562	6	2.57%	550	6	2.41%
Virginia Department of Transportation	486	7	2.23%			
Roanoke College	495	8	2.27%	462	8	2.02%
City of Salem	491	9	2.25%	521	7	2.28%
U.S. Food Service, Inc.	419	10	1.92%	465	9	2.04%
Carter Machinery/Carthy Corporation				340	10	1.49%

Notes:

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

(1) Calculated using data provided by Virginia Employment Commission

**TABLE 13
UNAUDITED**

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

Function	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General government	67	66	66	69	67	69	71	69	67	67
Judicial administration	19	19	21	20	20	20	20	20	19	19
Public safety	159	162	160	161	162	167	165	164	162	159
Public works	94	94	100	105	110	112	113	111	115	115
Parks, recreation and cultural	31	32	32	32	33	33	26	25	25	20
Community development	3	3	3	3	3	3	3	3	4	2
Electric	27	26	26	28	29	29	29	29	28	29
Water and sewage	49	49	51	52	53	58	58	59	58	60
Civic Center	17	17	18	18	17	18	20	19	19	20
Catering and concessions	4	4	4	4	4	5	5	5	5	5
Total	470	472	481	492	498	514	510	504	502	496

Notes:

Source: City of Salem Finance Department

TABLE 14
UNAUDITED

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

Function	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General government										
<i>Finance</i>										
Accounts payable checks issued	9,280	8,937	11,002	12,260	13,595	12,104	13,991	14,617	15,638	16,307
<i>Human resources</i>										
Positions filled (full-time and temporary)	184	142	146	143	129	257	244	201	246	233
<i>Registrar</i>										
Number of registered voters	16,695	16,625	16,678	16,436	16,309	16,258	15,897	15,524	14,995	15,652
<i>Fleet</i>										
Pieces of equipment maintained	576	572	573	565	551	560	600	558	527	517
Judicial administration										
<i>Sheriff</i>										
Inmates housed	2,885	2,776	2,668	2,587	2,343	1,494	1,294	1,296	1,125	1,067
Inmate transports	1,240	1,062	1,069	1,276	1,879	1,594	1,545	1,427	1,391	1,315
Courts worked	699	686	648	691	676	695	624	639	611	593
Public safety										
<i>Police</i>										
Calls for service	32,203	39,519	36,549	33,903	34,342	35,159	34,526	33,776	30,163	30,442
Accidents	1,053	905	919	1,063	975	1,024	1,300	1,329	1,221	1,263
DUI Arrests	68	107	62	95	129	122	146	176	159	124
<i>Fire</i>										
Emergency responses - fire	3,181	3,337	3,241	3,661	3,270	3,441	3,083	2,715	3,006	2,537
Emergency responses - medic units	3,446	3,569	3,358	3,632	3,335	3,596	3,085	2,982	3,289	2,934
Hazardous conditions responses	77	125	105	137	134	161	182	146	82	101
<i>Building inspections</i>										
Residential construction permits	198	106	122	123	130	148	169	336	309	319
Commercial construction permits	148	110	116	124	63	71	103	93	92	139
Public works										
<i>Refuse collection</i>										
Refuse collected (tons per year)	82,905	80,609	81,427	81,485	83,607	88,365	77,027	90,405	81,379	84,270
Tons recycled	1,386	2,315	2,844	1,764	3,883	4,841	4,623	4,724	2,154	3,594
<i>Other public works</i>										
Tons of asphalt used in resurfacing	639	5,770	7,507	5,821	3,616	5,185	6,958	14,510	9,111	11,966
Square yards of milling completed	10,718	92,988	143,962	99,960	39,959	80,155	68,091	84,386	58,605	25,480
Tons of salt used	769	1,098	183	817	1,389	176	170	277	901	705
Leaves collected (loads)	293	316	369	494	507	448	323	421	422	604
Parks, recreation and cultural										
<i>Parks and recreation</i>										
Tournaments hosted	58	62	58	49	53	50	54	57	59	54
Special events held	24	24	24	24	25	24	24	25	21	18
Youth sports teams	164	170	205	225	210	195	252	186	184	219
Adult sports teams	29	39	37	44	49	48	59	48	40	40
<i>Library</i>										
Circulation	252,237	271,600	295,911	285,337	290,309	276,578	264,184	241,816	233,852	232,892
Children's program attendance	3,616	3,924	4,926	6,891	7,129	8,792	7,647	4,591	3,580	4,164
Patron visits to the library	195,878	211,605	226,696	232,559	245,807	239,745	233,524	234,379	228,560	217,477
New patrons	1,138	1,373	1,315	1,288	1,417	1,648	1,694	1,694	1,510	1,537
Internet sessions	28,965	33,885	51,033	52,397	58,517	50,711	62,650	55,689	32,650	25,834
Electric										
Number of customer accounts	13,204	13,198	13,202	13,163	13,131	13,175	13,130	13,032	12,968	12,856
Water										
Number of customer accounts	9,372	9,375	9,365	9,341	9,301	9,304	9,256	9,170	9,107	9,055
Million gallons sold to customers	876	838	955	1,004	977	1,003	1,067	1,043	1,090	1,097
Sewage										
Number of customer accounts	8,824	8,823	8,803	8,764	8,717	8,706	8,664	8,561	8,513	8,461
Waste/water treated (million gallons/day)	7.8	7.0	7.0	6.5	8.3	6.2	5.7	8.1	6.8	9.2
Civic Center										
Concerts	9	11	13	13	9	9	9	13	6	8
Meetings	721	614	792	936	1,156	1,216	1,295	1,081	1,209	1,282
Tickets sold	82,929	83,638	87,006	102,678	103,891	112,997	99,581	147,491	163,972	129,248
Arena utilization days	191	175	173	178	179	202	219	201	175	203

Notes:

Source: Various City of Salem Departments

TABLE 15
UNAUDITED

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

Function	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Public safety										
Police station	1	1	1	1	1	1	1	1	1	1
Law enforcement vehicles	48	47	47	47	46	49	50	48	45	42
Fire stations	3	3	3	3	3	3	3	3	3	3
Fire trucks	6	6	6	6	6	6	7	6	5	5
Ambulances	4	4	4	5	5	5	5	5	4	3
Public works										
Primary streets (lane miles)	68	68	68	68	68	68	68	68	65	65
Secondary streets (lane miles)	272	272	272	272	272	272	272	270	225	225
Alleys (lane miles)	12	12	12	12	12	12	12	12	11	11
Garbage trucks	14	13	12	12	12	12	13	13	10	11
Parks, recreation and cultural										
Community center/senior center	1	1	1	1	1	1	1	1	3	3
Parks/athletic fields	15	15	15	15	15	15	15	15	15	15
Acres of parks maintained	495	495	495	495	495	495	495	495	495	495
Library	1	1	1	1	1	1	1	1	1	1
Golf course	1	1	1	1	1	1	1	1	1	1
Dog park	1	1	1	0	0	0	0	0	0	0
Electric										
Substations	11	11	11	11	11	11	11	11	7	7
Overhead distribution lines (miles)	172	172	172	172	172	171	158	158	159	161
Underground distribution lines (miles)	38	38	38	38	38	38	33	33	33	31
Transmission lines (miles)	17	17	17	17	17	17	17	17	23	23
Water and sewage										
Water treatment plant	1	1	1	1	1	1	1	1	1	2
Water distribution lines (miles)	175	175	175	182	182	181	182	181	181	180
Sanitary sewer lines (miles)	170	170	177	177	177	171	176	176	174	174

Notes:

Source: City of Salem Finance Department

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COMPLIANCE SECTION



The compliance section of the City of Salem, Virginia's Comprehensive Annual Financial Report presents a schedule of expenditures of federal awards. Also included are reports from the independent auditors.

CITY OF SALEM, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2014

<u>Federal Grantor</u>	Federal CFDA Number	Federal Expenditures
<i>Pass-through Grantor: Commonwealth of Virginia</i>		
Program Title		
<u>Department of Agriculture</u>		
<i>Department of Agriculture and Nutrition Service</i>		
Supplemental Nutrition Assistance Program	10.551	\$ 7,043
<i>Department of Agriculture and Consumer Services</i>		
Food Distribution – Commodities	10.555	113,458
<i>Department of Education</i>		
National School Breakfast Program	10.553	138,819
National School Lunch Program	10.555	532,136
<u>Department of Justice</u>		
<i>Direct Payments</i>		
Bulletproof Vest Partnership Program	16.607	3,845
Byrne Justice Assistance Grant	16.738	1,857
Equitable Sharing Program	16.922	110,016
<i>Department of Criminal Justice Services</i>		
Crime Victim Assistance	16.575	53,063
<u>Department of Transportation</u>		
<i>Department of Transportation</i>		
Highway Planning and Construction	20.205	216,695
<i>Division of Motor Vehicles</i>		
State and Community Highway Safety	20.600	14,145
Alcohol Open Container Requirements	20.607	11,097
National Priority Safety Programs	20.616	3,901
<u>Department of Education</u>		
<i>Department of Education</i>		
Education Consolidation Improvement Act of 1981:		
Title I: Grants to Local Educational Agencies	84.010	453,052
Title I: Perkins Career and Technical Education	84.048	44,372
Title II: Part A, Improving Teacher Quality	84.367	110,600
Elementary and Secondary Education Act (ESEA):		
Special Education – Grants to States	84.027	700,716
Special Education – Preschool Grants	84.173	6,547
Vocational Education:		
Adult Education	84.002	350,904
Special Projects:		
Carol White PEP Grant	84.215	167,316
English Language Acquisition	84.365	4,905
<u>Department of Homeland Security</u>		
<i>Department of Emergency Management</i>		
Emergency Management Performance Grant	97.042	1,665
Total Expenditures of Federal Awards		<u><u>\$ 3,046,152</u></u>

Note 1: Basis of Accounting

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

Note 2: Nonmonetary Assistance

Nonmonetary assistance is reported in the Schedule of Expenditures of Federal Awards at the fair market value of the food commodities disbursed. At June 30, 2014, the Component Unit – School Division had food commodities in inventory of \$37,486.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Salem, Virginia (the "City"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 19, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 19, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of Salem, Virginia's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2014. 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.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Salem, Virginia, complied, in all material respects, with the types of compliance 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, 2014.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 19, 2014

CITY OF SALEM, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2014

As more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the 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, 2014

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the basic financial statements.
2. **No significant deficiencies** related to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. **No instances of noncompliance material** to the basic financial statements were disclosed during the audit.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by *OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings** relating to major programs.
7. The programs tested as major programs include:

<u>Name of Programs</u>	<u>CFDA#</u>
Adult Education	84.002
Special Education – Grants to States	84.027
Special Education – Preschool Grants	84.173

8. The **threshold for** distinguishing Types A and B programs was **\$300,000**.
9. The 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**

Rosemarie B. Jordan, CPA

Director of Finance

Accounting/Accounts Payable/Purchasing

Vickie L. Akers

Accounting Assistant

Wendy D. Boggess

Buyer

Kathryn K. Fox, CPA

Senior Accountant

Yen T. Ha

Senior Accountant

Amy R. Morris, CPA

Senior Accountant

Mary Ann Penney, CPA

Accounting Supervisor

Tammy H. Todd, CPA

Assistant Director of Finance

Karen M. Vaught

Accounting Technician

Administrative

Alyson R. Chaisson

Finance Administrative Secretary/

Accounting Technician

Payroll

Tara N. Pugh

Payroll Technician

Carrington R. Sumner

Payroll Manager