

CITY OF SALEM, VIRGINIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT YEAR ENDED JUNE 30, 2009

DEPARTMENT OF FINANCE

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INTRODUCTORY SECTION

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CITY OF SALEM, VA

November 23, 2009

**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, 2009. The charter requires the City to issue an annual report on its financial position and activities and that the report be audited by an independent firm of certified public accountants. This report was prepared by the Department of Finance in conformity with generally accepted accounting principles (GAAP) as promulgated by the Government Accounting Standards Board (GASB).

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

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

Management's discussion and analysis (MD&A) on page 19 provides a narrative introduction, overview and analysis to assist users in interpreting the basic financial statements as required by GAAP. This letter is meant to complement the MD&A and should be read in conjunction with it.

Profile of the Government

Salem is located at the southern end of the Shenandoah Valley, approximately 185 miles west of Richmond and 235 miles southwest of Washington, DC. Its position in the southeastern United States gives the City ready access, within a 500-mile radius, to nearly two-thirds of the total population of the United States. In addition, the City lies at the region's crossroads of major rail and highway systems, making it a part of the principal trade, industrial, transportation, medical, and cultural center of western Virginia.

Chartered by the Commonwealth of Virginia as a town in 1806 and as a city in 1968, Salem encompasses a land area of 14.3 square miles and operates under a council-manager form of government. The City's 2009 estimated population, 25,209, accounts for approximately 8.5% of the population in its metropolitan statistical area (MSA), which includes the neighboring City of Roanoke and Counties of Botetourt, Craig, Franklin and Roanoke.

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

The financial reporting entity reflected in the CAFR, which is more fully described in Note 1 to the basic financial statements, conforms to the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39. The accounting and reporting principles of the GASB are based on the fundamental concept that publicly elected officials are accountable to their constituents, and the financial statements should emphasize the primary government and permit financial statement users to distinguish between the primary government and its component units. There are several commissions and authorities where the City's accountability is limited to appointments to, or seats on, the respective boards. The City does not exercise financial or administrative control over these entities, so they are excluded from this report.

The City's reporting entity includes one discretely presented component unit, the City of Salem School Division. A component unit is a legally separate entity, which meets one of three conditions; the governing board is appointed by the primary government, the entity is fiscally dependent on the primary government, or excluding the entity could potentially result in misleading financial reporting. A five-member School Board appointed by City Council supervises operations. 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

While the current national economy is experiencing turmoil in the housing market, Salem's real estate assessments reflected moderate growth in fiscal year 2009. Salem's real estate revenue tends to react slower to changes in economic conditions. The assessment that was effective July 1, 2008 was done prior to the economic downturn, and thus reflects increases in reassessment values. It is anticipated that residential assessments will remain level in fiscal year 2010 and decline slightly in fiscal year 2011. Slight increases in assessments of commercial properties are likely in fiscal year 2010. Salem continues to monitor the number of foreclosures and residential properties are staying on the market longer before selling.

General Fund revenues increased approximately \$1.6 million or 2.6% from the previous year due to increases in property tax revenue, charges for services and intergovernmental revenue. Establishment of several new businesses contributed to a 2.6% increase in business personal property tax. Revenue for waste collection and disposal increased, offset by a corresponding increase in transportation and disposal costs. Federal grant monies totaling \$623,000 were received to purchase residential structures located in flood plain areas. These increases are partially offset by declines in other local taxes and revenue from use of money and property. As expected, lower consumer spending due to the current economic conditions resulted in a decline in sales tax revenue of \$340,000 or 5.75%. Interest earnings declined \$339,000, largely due to lower interest rates in fiscal year 2009.

In addition to a decline in some local tax revenues resulting from the current recession, funding from the Commonwealth of Virginia was reduced by \$152,528 to alleviate budget issues at the state level. Funding for the police department, constitutional offices, registrar, library and Comprehensive Services for At Risk Youth and Families were areas included in these cuts. The State will be cutting \$152,797 in fiscal year 2010 in these same areas and will also reduce funding provided to the School Division. For fiscal year 2010, state cuts in school funding will be partially alleviated with funding received from the American Recovery and Reinvestment Act. However, this funding source is available only in fiscal years 2010 and 2011.

In fiscal year 2009, the City was able to meet the goals of maintaining service levels to citizens and provide funding for employee compensation and benefits. However, to deal with the budgetary issues that arose during the year, Salem implemented a hiring freeze and postponed certain capital equipment purchases, which have continued in fiscal year 2010.

Expenditures increased approximately \$4 million from the prior year. Development of the City's new data center continued as planned, with equipment purchases totaling \$1,231,000 in fiscal year 2009. Nondepartmental expenditures increased \$1.4 million as anticipated, due to contributions to fund the annual required contribution for other postemployment benefits. No contribution was required in the

previous fiscal year. Contributions to the school increased approximately \$425,000 or 2.4%, as was originally budgeted. Community development expenditures were up \$678,000 due to the purchase of structures located in the flood plain, which was funded with federal grant monies. Public Safety, Public Works and Health and Welfare expenditures remained level with the prior year.

Salem offers health insurance benefits to its retirees, which were previously funded on a “pay as you go” basis. New funding and reporting requirements for other postemployment benefits became effective July 1, 2008 which required Salem to contribute additional amounts for retiree health insurance benefits. Salem was able to partially fund the annual required contribution for other postemployment benefits at June 30, 2009 and incurred a liability for the remaining portion.

Despite financial challenges during fiscal year 2009, Salem continues to provide an atmosphere and quality of life conducive to families and businesses. Over the years, Salem has been able to maintain stable property tax rates. Salem’s unemployment rate of 6.3% is higher than previous years, but well below the national unemployment rate. A strong educational system providing a well-educated and skilled workforce along with generally lower operating costs is a key reason why employers have chosen to relocate in Salem and the rest of the Valley. The City’s effort to retain existing business and industry is an integral part of its economic development efforts.

Salem has a large and diverse economic base that has enabled the City to fare better than many other cities during the current recessionary times. This base consists of industrial manufacturing, medical facilities, wholesale/retail trade, agriculture, hotel and motel services, higher education, rail transportation, banking services and regional utility services. Included in the manufacturing process are hi-tech electronics, medical equipment, tires, furniture, steel and motor manufacturing, tool and die, and railroad equipment, just to name a few. The largest employers include such companies as Veterans Administration Medical Center, Lewis-Gale Hospital HCA, General Electric, Virginia Department of Transportation, and Yokohama Industries. The top employers in Salem provide over 8,400 jobs to Salem’s citizens and those of the surrounding valley.

Construction of a new Lowe’s Home Improvement store is underway at the former West Salem Plaza with a scheduled opening date of January 2010. The store will have 117,000 square feet of retail sales space with a 31,600 square foot garden center. A store this size represents an average investment in the community of approximately \$18.5 million and will create up to 175 new jobs. It is anticipated that the new store will generate at least \$625,000 in new tax dollars each year.

Construction began on Salem Terrace, an apartment-style assisted living facility. Once completed, Salem Terrace will offer 76 units and represent an investment of \$7.6 million. Construction of the new Member One Credit Union began at the site of the former Snuggery Restaurant on West Main Street. Construction of a mixed use building was completed in Downtown Salem. The building includes

several efficiency apartments on the second and third floors while the first floor houses offices and a public laundromat. Renovations at the Riverwalk Apartment Complex (formerly Salem Ridge Apartments) began in October 2008. The \$4 million upgrade includes new vinyl siding, windows in all units, roofing and landscaping around the complex. Oak Park Apartments, which offers 144 rental units, is undergoing a complete renovation.

Construction of Comfort Suites, located on Wildwood Road, was completed in the fall of 2008 and offers 72 guest rooms. The new Holiday Inn Express, a 75-bed hotel located on Russell Drive, opened in late spring. Both hotels sit strategically close to Interstate 81. Baja Bistro, the valley's first fresh mex grille opened for business in February. Hibachi Express and Nancy's Candy also opened during fiscal year 2009. Taco Bell, located on West Main Street, completed major renovations.

Construction of a new dormitory and renovation of an existing dormitory was completed at Roanoke College in the fall of 2009. The new dormitory was constructed to connect two existing dormitories. Roanoke College was named 2009 Campus of the Year by Campus Activities Magazine because of the large number of social and academic programs available to students on campus. Roanoke College saw a record number of freshmen enroll this fall.

The past year has seen construction continue in a number of residential subdivisions, while at a slower pace than previous years. In North Oaks, 15 of the planned 62 homes are completed or under construction. Twelve homes have been constructed in Wyndstone, with 12 lots still available for construction. Construction continued at Cliffview Townhomes, Ross Street Townhomes and the Rivendell and Carey Avenue subdivisions. In fiscal year 2009, 34 new homes were constructed in the City with an assessed value of \$6.95 million. The number of new homes constructed has declined from the previous year.

Major Initiatives and Accomplishments

Salem City Council and Management are committed to making Salem a great place to live, work, and raise a family. To that end, the City and School Board work diligently to provide one of the finest school systems not only in the region but throughout the Commonwealth. Salem School Division is noted as a high achieving school division based on the standardized testing and the percentage of students who attend post secondary educational institutions. All six schools were fully accredited by the State and by the Southern Association of Colleges and Schools and all met the benchmarks under the *No Child Left Behind Act* based upon testing in the 2008-2009 school year.

Salem works hard in the areas of economic development and is committed to creating jobs for its citizens and to strengthening and diversifying its economy. Three successful businesses are located at Salem Commerce Park and space for several more is available. Redevelopment of the West Salem

Plaza property began in October of 2008 with the construction of Lowe's Home Improvement Store along with other retail space.

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

In November 2008, the Salem Avalanche, a class A advanced Carolina League baseball franchise, announced a name change to the Salem Red Sox. The team signed a player development contract with the Boston Red Sox and became the club's top Class A affiliate. A new logo was unveiled featuring the Red Sox brand. In spite of the poor economy, nearly a quarter of a million fans attended Red Sox games this season as Salem welcomed the Red Sox to town. Game attendance was up compared to the 2008 season. Improvements were made to the Salem Memorial Stadium including new signage, painting and seating tarps to create a more intimate fan experience.

Chef's Circle, a new event hosted by the City, was held each Saturday during the summer of 2009 at the Salem Farmer's Market. Patrons were able to watch chefs from local restaurants prepare dishes made almost exclusively with fresh ingredients purchased from Farmer's Market vendors. The mobile kitchen was salvaged from a home that was being torn down due to its location in the flood plain. The City's Street and Maintenance Department removed the kitchen and customized it to fit on a trailer that transports it back and forth to the Market. The kitchen is equipped with a hydraulic system which allows it to be lowered down to the ground, level with patrons. Being able to salvage the kitchen and do all of the remodeling work in-house is a testament to Salem's ingenuity.

Salem Municipal Golf Course received a makeover during the winter of fiscal year 2009. The aging artificial turf greens were replaced with original sand greens, which are a heavy mix of sand, clay and oil that resembles the infield of a baseball diamond. A similar mixture was in place when the course opened in 1919. Golfers have played the course in record numbers since the change was made.

The City continued work on several major projects during fiscal year 2009. Construction continued on the new electric department service center and administration building. The building has more than 30,000 feet of space for offices, storage and a warehouse and includes 16 truck bays. Phase one of this project was completed in the spring of 2009. Construction on the remaining areas is anticipated to be completed by March 2010. The City's new data center, which is also housed at this facility, was partially complete as of June 30th. The data center centralizes all technology-related

operations for both the City and School Division. Its implementation provided upgrades to both system infrastructure and communication infrastructure allowing for greater efficiency, redundancy and reduction in long-term costs. It is the foundation for all new technologies allowing the City and School Division to better serve citizens, businesses and employees.

The Colorado Street Bridge replacement project continued in fiscal year 2009. This project is funded by federal, state and local monies and is anticipated to cost almost \$3.5 million. Construction is expected to be completed in July 2010. In fiscal year 2009, design work continued on Phase II of the Roanoke River Greenway project. Phase II is funded with Transportation Enhancement funds and will connect the trail from the new Colorado Street bridge to Rotary Park on Virginia Route 419. Construction began in August 2009. Funds from the American Recovery and Reinvestment Act were awarded to construct Phase III of the Roanoke River Greenway which will extend the greenway approximately 1.3 miles from Eddy Street to Mill Lane. Construction on Phase III is anticipated to begin in the summer of 2010.

Construction of a new water line is underway on Red Lane to replace a line that is over 70 years old and located under interstate 81, making it inaccessible for maintenance. The new line runs under the bridge on Red Lane and is easily accessible for maintenance and repairs. Improvements are also underway on Penguin Lane to connect homes and business served by an aging booster station to Western Virginia Water Authority lines. The old system was not reliable and could cause major problems in the event of station failure as several hotels and other businesses are served by this line. A sanitary sewer evaluation study is underway to identify any problems with or areas of the City's sewer system that need rehabilitation. Phase I has been completed, with four additional phases planned.

Construction of the Western Virginia Regional Jail was completed during fiscal year 2009. The jail is a 264,000 square foot facility constructed on 42.7 acres with capacity to house 605 inmates. An additional 200 beds can be double bunked to increase capacity to 805 inmates. Several green features were included in the design of the jail to help protect the environment and reduce energy costs. The jail employs approximately 194 people. The Western Virginia Regional Jail Authority is a partnership between the City and the Counties of Roanoke, Montgomery and Franklin.

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 15th.

The budget function is used as a management tool, including performance objectives, goals and long-range planning, as well as maintaining budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Activities of the general fund and debt service fund are included in the annual budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level. The government also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts lapse at year-end. However, encumbrances generally are re-appropriated as part of the following year's budget.

The City faced financial issues in fiscal year 2009 and anticipates that fiscal years 2010 and 2011 will continue to bring fiscal challenges. General Fund revenues for fiscal year 2010 are projected to decline 1.6% compared to fiscal year 2009 revenue. In addition to cuts in state aid to localities, the economic downturn is affecting other revenue sources such as sales tax and other local taxes. Real estate taxes are expected to remain level and decline in fiscal years 2010 and 2011, respectively. As part of the City's budget process, cuts in capital expenditures, travel and training and other miscellaneous categories were made in almost every City department for fiscal year 2010. In addition, the City will not provide raises to employees and the hiring freeze will remain in effect to offset declining revenues. The City will continue to closely monitor revenue and expenditures during fiscal year 2010 and modify budgeted amounts as needed.

It is the City's policy to maintain healthy reserves in all funds, but 2009 has been a struggle. Fund balance in the General Fund was reduced by almost \$1.6 million largely due to planned expenditures incurred to fund other postemployment benefits. Cost cutting measures remain in place for fiscal year 2010 to prevent further decreases in fund balance. Enterprise funds also saw decreases in net assets. However, a rate study is underway to determine the appropriate rates for electric, water and sewer services and rate increases to customers are anticipated in 2010.

The City is reviewing the health insurance plan currently in place for both active and retired City employees. Given the financial impact of GASB 45, the City anticipates changes in the health plan applicable to retirees. The City plans to incorporate any health plan changes in the fiscal year 2011 budget.

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

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 2008. This represents the twenty-first year Salem has earned this distinction. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. We believe this report conforms to the Certificate of Achievement Program requirements and standards and are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

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

Respectfully submitted,



Kevin S. Boggess
City Manager



Frank P. Turk
Director of Finance

**CITY OF SALEM, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
JUNE 30, 2009**

MEMBERS OF CITY COUNCIL

Byron R. Foley Mayor
John C. Givens..... Vice-Mayor
Lisa D. Garst Member
Jane W. Johnson Member
William D. Jones Member

GENERAL CITY GOVERNMENT

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

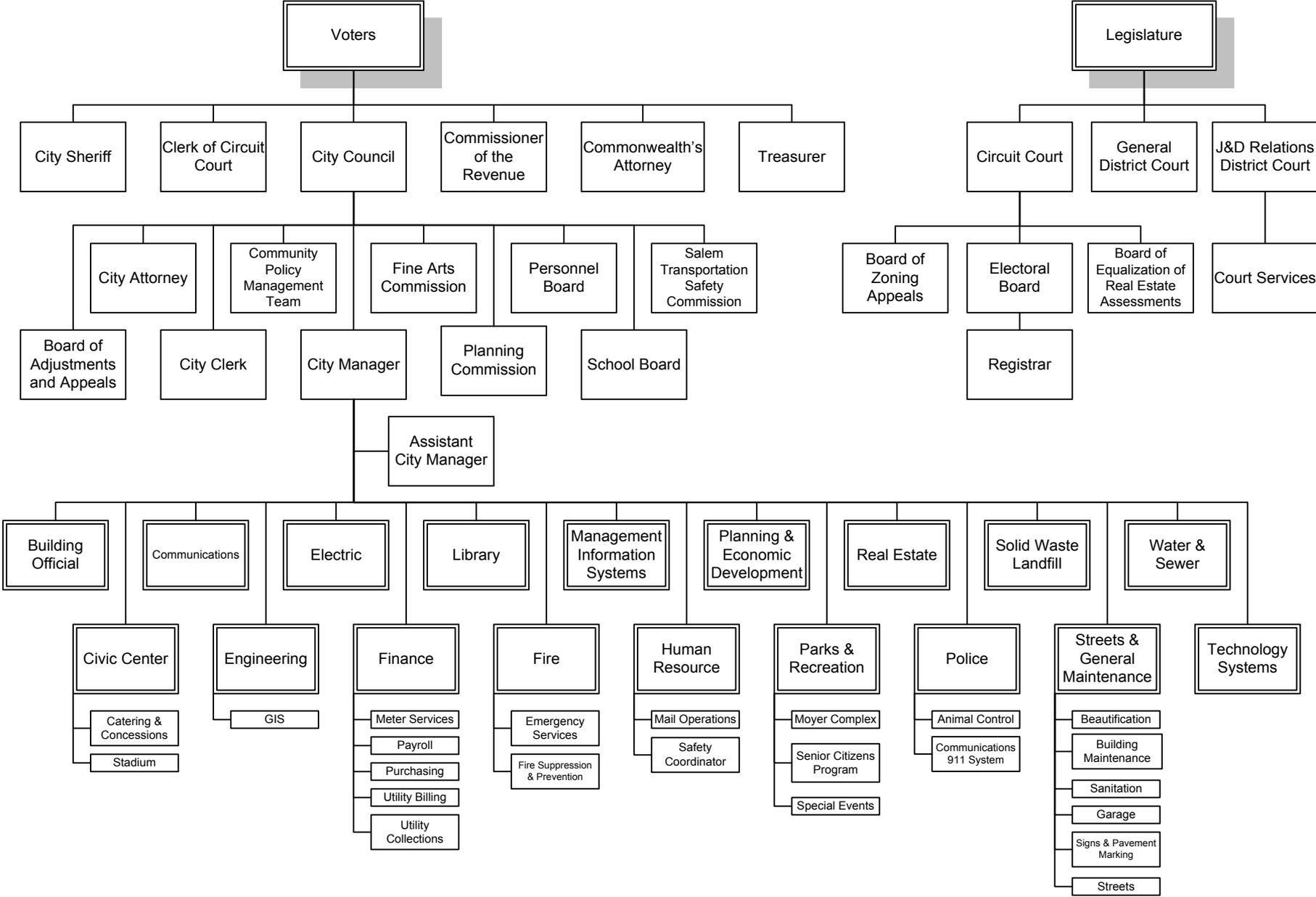
MEMBERS OF SCHOOL BOARD

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

SCHOOL ADMINISTRATION

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

CITY OF SALEM, VIRGINIA
 ORGANIZATIONAL CHART
 JUNE 30, 2009



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Salem
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

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



President

Executive Director

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Salem, Virginia ("City"), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 12 to the financial statements, the City adopted the provisions of GASB Statement No. 45, *Financial Reporting for Postemployment Benefits Other Than Pension Plans*, in 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2009 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the required supplementary information on pages 19 through 30 and 67 through 68, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Roanoke, Virginia
November 23, 2009

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009**

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, 2009. It should be read in conjunction with the transmittal letter and the City's basic financial statements.

FINANCIAL HIGHLIGHTS

- As of June 30, 2009, the City of Salem's primary government had \$143.3 million in total net assets, which decreased by \$574,399 from prior year. Unrestricted net assets available to fund future expenses were \$12.6 million or 8.8% of total net assets and decreased by \$3.1 million from prior year.
- As of June 30, 2009, the governmental activities had \$79.2 million in total net assets, which increased by \$377,071 from prior year. Unrestricted net assets available to fund future expenses were \$(10.7) million or (13.5)% of total net assets and decreased by \$1.1 million from prior year.
- As of June 30, 2009, the business-type activities had \$64.1 million in total net assets, which decreased by \$951,470 from prior year. Unrestricted net assets available to fund future expenses were \$23.3 million or 36.3% of total net assets and decreased by \$2 million from prior year.
- As of June 30, 2009, the general fund had \$6.4 million in total fund balance, which decreased by \$1.6 million from prior year. This was primarily a reduction of unreserved fund balances available to fund future expenditures which were \$5.5 million or 85.9% of total fund balance.
- The City implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which was effective July 1, 2008. The City partially funded its actuarially determined OPEB costs in the amount of \$1.1 million, which include both normal costs and amortization of the unfunded accrued liability.

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 of the City's finances. The government-wide financial statements focus on the City as a whole and provide both short-term and long-term information about the City's overall financial status. The fund financials focus on the individual parts of City government, reporting the City's operations in more detail than the government-wide statements. Presentation of both perspectives provides the user a broader overview, enhances the basis for comparisons, and better reflects the City's accountability.

Government-Wide Financial Statements

The government-wide financial statements begin on page 33 and include the Statement of Net Assets and the Statement of Activities. These statements provide information about the City as a whole using the accrual basis of accounting, which is the method used by most private-sector enterprises. All current year revenues and expenses are reported in the Statement of Activities regardless of when cash is received or paid. These statements allow readers to answer the question "Is the City's financial position, as a whole, better or worse as a result of the year's activities?"

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

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

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

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

Fund Financial Statements

The fund financial statements begin on page 35 and provide detailed information about the most significant funds, rather than the City as a whole. The City has three types of funds.

Governmental funds – Most of the City's basic services are included in governmental funds. Fund based statements for these funds focus on how resources flow into and out of the funds and the balances left at year end that are available for future spending. These funds are reported on the modified accrual basis of accounting, which measures cash and other liquid assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term overview that helps the reader determine the financial resources that can be spent in the near future to finance the City's programs. The City's governmental funds include the general fund, debt service fund, and capital projects fund. The differences between governmental activities as reported in the government-wide and fund financial statements are reconciled in Exhibits 3 and 4.

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

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

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

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

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

Summary of Net Assets

The following table presents a condensed summary of net assets.

	Summary of Net Assets, as restated (In Millions)							
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>		<u>Component-Unit School Division</u>	
	2009	2008	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 10.7	\$12.3	\$ 30.1	\$36.6	\$ 40.8	\$ 48.9	\$ 8.8	\$ 7.2
Capital assets, net	101.0	100.5	101.1	97.8	202.1	198.3	38.5	39.8
Total assets	111.7	112.8	131.2	134.4	242.9	247.2	47.3	47.0
Current and other liabilities	3.3	3.4	7.4	7.2	10.7	10.6	4.4	4.3
Long-term liabilities	29.2	30.5	59.7	62.2	88.9	92.7	0.9	0.8
Total liabilities	32.5	33.9	67.1	69.4	99.6	103.3	5.3	5.1
Invested in capital assets, net of related debt	89.9	88.5	40.8	39.7	130.7	128.2	38.5	39.8
Unrestricted	(10.7)	(9.6)	23.3	25.3	12.6	15.7	3.5	2.1
Total net assets	\$ 79.2	\$78.9	\$ 64.1	\$65.0	\$143.3	\$143.9	\$42.0	\$41.9

The primary government net assets decreased from \$143.9 million to \$143.3 million. The composition of this decrease was an increase of \$377,071 in the governmental activities offset by a decrease of \$951,470 in business-type activities. A detailed description of the changes in revenues and expenses that create the differences in net assets is discussed in the next section.

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

The primary government's unrestricted net assets, the portion of net assets that can be used to finance the daily operations of the City was \$12.6 million, which decreased by \$3.1 million from prior year. The City assumes all debt issued for school improvements, while the School Division records the related asset. As such, the City included \$15.8 million of School Division bonds and other debt in governmental activities long-term liabilities which directly reduces unrestricted net assets. In the current year, the City chose to finance several large capital asset projects, including technology upgrades and construction on the new electric building, with its reserve cash balances rather than through the issuance of bonds or other debt. Furthermore, the City financed a \$1.1 million contribution for other postemployment benefits into a qualified trust from reserve cash balances.

Net assets are reported as restricted when constraints on asset use are externally imposed by creditors, grantors, contributors, regulators, or are imposed by law through constitutional provisions or enabling legislation. The City had no restricted net assets as of June 30, 2009.

As of June 30, 2009, the component unit had \$42 million in total net assets, which increased by \$43,095 from prior year. Unrestricted net assets available to fund future expenses were \$3.5 million or 8.3% of total net assets and increased by \$1.4 million from prior year.

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

Summary of Changes in Net Assets

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

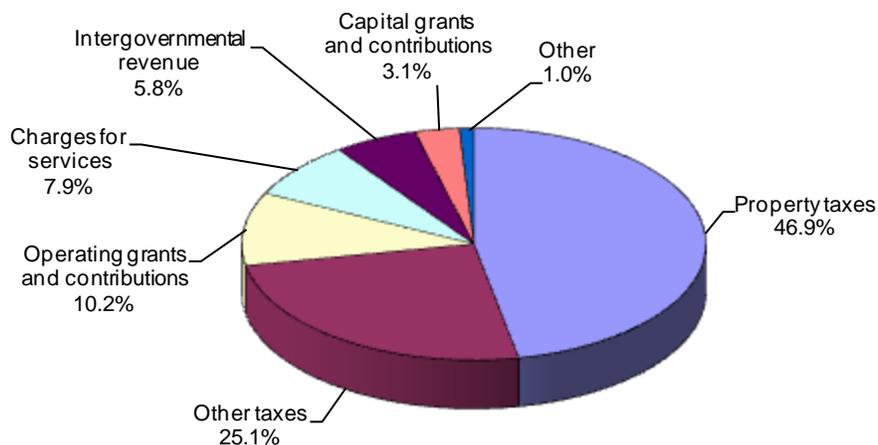
**Summary of Changes in Net Assets, as restated
(In Millions)**

	Governmental Activities		Business-type Activities		Total Primary Government		Component-Unit School Division	
	2009	2008	2009	2008	2009	2008	2009	2008
Revenues								
<i>Program Revenues:</i>								
Charges for services	\$ 5.3	\$ 4.8	\$ 43.8	\$ 44.6	\$ 49.1	\$ 49.4	\$ 1.6	\$ 1.5
Operating grants and contributions	6.8	6.6	-	-	6.8	6.6	6.7	6.8
Capital grants and contributions	2.1	1.4	-	-	2.1	1.4	-	-
<i>General Revenues:</i>								
Property taxes	31.3	30.1	-	-	31.3	30.1	-	-
Meals tax	2.4	2.5	-	-	2.4	2.5	-	-
Local sales and use tax	5.6	5.9	-	-	5.6	5.9	-	-
Utility taxes	1.1	1.2	-	-	1.1	1.2	-	-
Business license tax	4.8	4.7	-	-	4.8	4.7	-	-
Other taxes	2.9	2.4	-	-	2.9	2.4	-	-
Intergovernmental revenue	3.9	4.0	-	-	3.9	4.0	-	-
Investment earnings	0.2	0.6	0.2	0.7	0.4	1.3	-	-
Gain on sale of property	-	-	0.2	-	0.2	-	-	-
Payments from Salem City	-	-	-	-	-	-	18.4	18.0
State aid - unrestricted	-	-	-	-	-	-	16.0	14.1
Other	0.4	0.8	-	0.1	0.4	0.9	0.4	0.6
Total Revenues	\$ 66.8	\$ 65.0	\$ 44.2	\$ 45.4	\$ 111.0	\$ 110.4	\$ 43.1	\$ 41.0
Expenses								
General government administration	\$ 6.0	\$ 5.0			\$ 6.0	\$ 5.0	\$ -	\$ -
Judicial administration	1.9	1.7			1.9	1.7	-	-
Public safety	15.9	15.0			15.9	15.0	-	-
Public works	14.9	14.1			14.9	14.1	-	-
Health and welfare	2.4	2.5			2.4	2.5	-	-
Education	18.4	18.0			18.4	18.0	43.0	41.5
Parks, recreation and cultural	5.6	5.7			5.6	5.7	-	-
Community development	1.8	1.1			1.8	1.1	-	-
Interest on long-term debt	1.2	1.3			1.2	1.3	-	-
Electric			\$ 28.8	\$ 26.5	28.8	26.5	-	-
Water and sewage			11.3	11.2	11.3	11.2	-	-
Civic center			2.4	2.4	2.4	2.4	-	-
Catering and concessions			1.0	1.1	1.0	1.1	-	-
Total expenses	68.1	64.4	43.5	41.2	111.6	105.6	43.0	41.5
Excess (Deficiency) before transfers	(1.3)	0.6	0.7	4.2	(0.6)	4.8	0.1	(0.5)
Transfers	1.6	1.6	(1.6)	(1.6)	-	-	-	-
Increase (Decrease) in net assets	0.3	2.2	(0.9)	2.6	(0.6)	4.8	0.1	(0.5)
Net Assets, Beginning	78.9	76.7	65.0	62.4	143.9	139.1	41.9	42.4
Net Assets, Ending	\$ 79.2	\$ 78.9	\$ 64.1	\$ 65.0	\$ 143.3	\$ 143.9	\$ 42.0	\$ 41.9

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Governmental Activities – Revenues

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



Property taxes, which were 46.9% of total governmental activities revenue, include real estate tax, the local portion of personal property tax, machinery and tools tax and public service corporation taxes. These revenues increased \$1.2 million from prior year primarily due to higher real estate assessments effective July 1, 2008, before the market declined.

Other taxes, which were 25.1% of total governmental activities revenue, include sales taxes, business and professional occupational license taxes, meals taxes, utility taxes, lodging taxes, motor vehicle taxes, cigarette taxes, and other taxes. These revenues increased \$134,573 from prior year primarily due to a reclassification of cigarette taxes to this category from the other revenue category, an increase in business and occupational license taxes from several new businesses coupled with increased oversight by the Commissioner of the Revenue, and an increase in lodging tax related to the opening of a Comfort Suites and Holiday Inn Express. These increases were offset by a reduction in local sales tax from decreased consumer spending related to the lower economic levels.

Operating grants and contributions, which were 10.2% of total governmental activities revenue, include social service programs, street maintenance funds, reimbursement for constitutional officers, funding received under House Bill 599 for law enforcement, and other grants and contributions. These revenues increased \$150,288 from prior year primarily due to additional street and highway maintenance funds received based on an increase in lane miles located within the City.

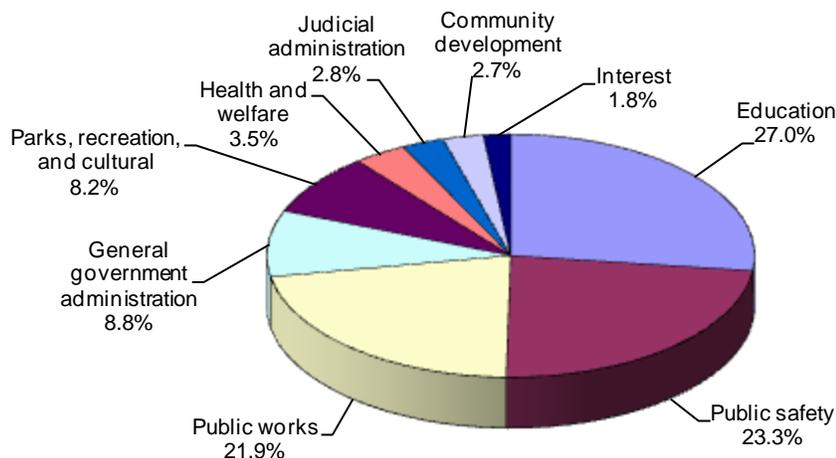
Charges for services, which were 7.9% of total governmental activities revenue, include fines, court fees, inspection fees, garbage collection fees, recreation fees, and other program-based fees. These revenues increased \$503,798 from prior year primarily due to a full year of fees under the solid waste disposal contract with Botetourt County, which began in the previous year.

Intergovernmental revenue, which was 5.8% of governmental activities revenue, includes funding from the Commonwealth under PPTRA, telecommunication taxes, mobile home titling tax, and other non-program related grants. These revenues decreased \$169,941 from prior year primarily due to a reduction in the telecommunications taxes received along with the City's decision to return funds for State budget cuts in a lump sum rather than allow the State to allocate the budget cuts to various programs. These decreases were offset by a reclassification of the PPTRA unearned revenue to this category from the property taxes category.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Governmental Activities – Expenses

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



The City implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which was effective July 1, 2008. The City partially funded its actuarially determined OPEB costs in the amount of \$1.1 million, which include both normal costs and amortization of the unfunded accrued liability. This expense was allocated based on full-time equivalent city government employees by functional area.

Education expenses totaling \$18,420,000 or 27% of total governmental activities, represents the largest allocation of resources. These expenses increased by \$425,000 providing additional support to the School Division.

Public safety expenses, which were 23.3% of total governmental activities expenses, include operations of the labor-intensive police and fire departments, along with expenses of emergency medical services, communications (E911 call center), and the cost of juvenile justice programs. These expenses increased by \$883,706 primarily due to the OPEB expense.

Public works expenses, which were 21.9% of total governmental activities expenses, include engineering, solid waste management, building maintenance, street paving, traffic engineering and street maintenance. These expenses increased by \$839,054 primarily due to the additional costs related to the Botetourt County waste disposal contract. In addition, depreciation charged to this functional area was significantly higher due to a change in asset life for traffic signals and the transfer of assets from the general government to better align service vehicles with their functional area.

General government administration expenses, which were 8.8% of total governmental activities expenses, include charges for administrative departments. These expenses increased \$905,856 primarily due to the creation of the Technology Systems and Communications Departments. Technology Systems is responsible for the new data center, network infrastructure and software acquisition, while Communication's mission is to better disseminate information to City employees and citizens and increase advertising campaigns to draw more people to the City.

Parks, recreation and cultural expenses, which were 8.2% of total governmental activities expenses, include maintenance of city parks, the library, and costs for City-wide recreational and athletic programs and events. These expenses decreased by \$101,153 primarily due to a reduction in funding provided to the Salem Arts Society. In the prior year, the City made a significant contribution to support construction and renovations to the museum, which will be completed in 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Business-type Activities

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

Component Unit – School Division Activities

The School Division incurred total expenses of \$43,003,585 for the year ended June 30, 2009. This amount represents an increase of \$1,518,312 or 3.7% from prior year. The increase was a result of increased state funding due to re-benchmarking for "Standards of Quality" (SOQ) in the first year of the biennium. These SOQ account increases of \$1.9 million were offset by decreases in sales tax and lottery proceeds. Additional funding provided by the City increased by \$425,000 and totaled \$18,420,000, representing 42.8% of total revenue. The additional funding was utilized to provide salary increases for employees and continue the level of excellence in education Salem is accustomed to.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

As of June 30, 2009, the governmental funds had \$6.5 million in total fund balance, which decreased by \$1.7 million from prior year. Unreserved fund balances available to fund future expenditures were \$3.5 million or 53.1% of total fund balance and decreased by \$479,791 from prior year. Unreserved fund balance is available to purchase capital equipment, pay self-insured healthcare claims, pay for future years' capital projects expenditures and provide for unforeseen circumstances. The remainder of fund balance is reserved for inventory, prepaid items, and encumbrances because it has already been committed to liquidate contracts and purchase orders outstanding at year end.

General Fund

The general fund is the chief operating fund of the City. As of June 30, 2009, the general fund had \$6.4 million in total fund balance, which decreased by \$1.6 million from prior year. Unreserved fund balances available to fund future expenditures were \$5.5 million or 85.7% of total fund balance and decreased by \$1.6 million from prior year. As a measure of the general fund's liquidity, it may be useful to compare both total fund balance and unreserved fund balance to total fund expenditures. Total fund balance to total fund expenditures is 9.9% for 2009, which is down from 13.2% in the prior year. Unreserved fund balance to total fund expenditures is 8.5% for 2009, which is down from 11.7% in the prior year.

City Council has stated its intent to increase the undesignated general fund balance to a minimum of 15% of general fund revenues. Undesignated fund balance to total fund revenues is 6.8%, which is down from 9.1% in the prior year, and short of City Council's goal. However, due to the state of the economy and the implementation of GASB 45 related to other postemployment benefits, a decline was expected for the current year.

Property taxes, which were 48.6% of total general fund revenue, increased \$1.3 million from prior year primarily due to higher real estate assessments effective July 1, 2008, before the market declined.

Other taxes, which were 26.0% of total general fund revenue, decreased by \$290,195 from prior year due to a reduction in local sales tax from decreased consumer spending. This decrease was offset by an increase in business and occupational license taxes from several new businesses coupled with increased oversight by the Commissioner of the Revenue and an increase in lodging tax related to the opening of a Comfort Suites and Holiday Inn Express.

Intergovernmental revenue, which is 16.6% of total general fund revenue, increased \$412,591 from prior year primarily due to FEMA grant money used to acquire five properties in the flood plain and additional street and highway maintenance funds. These increases were offset by a reduction in the telecommunications taxes received and return of funds for State budget cuts.

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

Charges for services, which were 7.1% of total general fund revenue, increased \$447,909 from prior year primarily due to additional fees under the Botetourt County waste disposal contract.

Education expenditures, which were 28.5% of total general fund expenditures, increased by \$425,000 for additional operating support provided to the School Division.

Public safety expenditures, which were 22.3% of total general fund expenditures, declined slightly from last year. This decrease was a result of reductions in maintenance and capital purchases along with City-wide cost containment measures. These decreases were offset somewhat by increases in salaries and wages. Although the City was under a hiring freeze, public safety departments were exempt from the hiring freeze and continued normal operations.

Public works expenditures, which were 18.8% of total general fund expenditures, decreased by \$42,669 from prior year primarily due to reductions in maintenance and capital purchases as a result of City-wide cost containment measures.

General government administration expenditures, which were 9.9% of total general fund expenditures, increased \$1.5 million primarily due to creation of the Technology Systems Department to operate the new data center and guide the transition to a new generation of technology infrastructure and software systems.

Parks, recreation and cultural expenditures, which were 7.3% of total general fund expenditures, increased by \$252,311 primarily due to baseball stadium improvements to welcome the Red Sox and create a more intimate atmosphere among the fans.

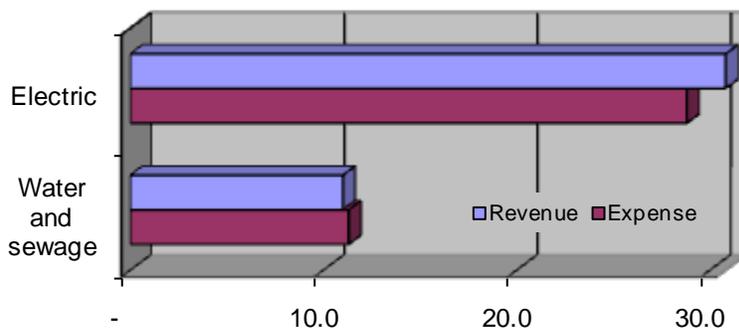
Non-departmental expenditures, which were 5.2% of total general fund expenditures, increased \$1.4 million primarily due to the OPEB expenditures.

Capital Projects Fund

During fiscal year 2009, the capital projects fund total fund balance decreased by \$137,949. The negative unreserved fund balance of \$2 million will be offset by future funding from the Commonwealth for current projects. Construction costs of \$1.2 million were incurred for the Colorado Street Bridge project. Expenditures of \$248,800 were incurred for the construction of Phase I and design for Phase II of the Roanoke River Greenway project. Revenue from the state of \$1.5 million helped support these projects.

Proprietary Funds

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



Electric Fund

As of June 30, 2009, the electric fund had \$35.9 million in total net assets, which decreased by \$300,238 from prior year. Net assets invested in capital assets, net of related debt were \$12.6 million or 35% of total net assets and increased \$265,948 from prior year. Unrestricted net assets available to fund future expenses were \$23.4 million or 65% of total net assets and decreased by \$566,186 from prior year.

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

For fiscal year 2009, operating revenue was \$30.9 million and decreased by \$137,632 from prior year primarily due to a reduction in other income. Operating expenses were \$28.7 million and increased by \$2.6 million from prior year primarily due to increases in purchased power rates, materials and supplies, expendable equipment and small tools to furnish the new electric department building and depreciation expense related to the prior year electric system improvements. Net nonoperating revenues were \$114,865 and decreased by \$190,188 from prior year primarily due to a decrease in interest income from depleting bond proceeds offset by increased capitalized interest. Transfers to the general fund were \$2.6 million and represent a payment in lieu of taxes and funding assistance for the technology upgrades.

Water and Sewage Fund

As of June 30, 2009, the water and sewage fund had \$25.8 million in total net assets. Net assets invested in capital assets, net of related debt were \$25.5 million or 98.9% of total net assets and increased \$984,693 from prior year. Unrestricted net assets available to fund future expenses were \$295,487 or 1.1% of total net assets and decreased by \$1 million from prior year.

For fiscal year 2009, operating revenue was \$11 million and decreased by \$588,103 from prior year primarily due to a decline in consumption levels related to the weather and in other income. Operating expenses were \$9.7 million and increased by \$196,717 from prior year primarily due to increases in depreciation expense related to prior year Western Virginia Water Authority capital improvements. Net nonoperating expenses were \$1.4 million and decreased by \$298,673 from prior year primarily due to a gain on sale of land and buildings on Roanoke Street to a development company. Capital contributions received were \$8,475 and decreased by \$110,898 from prior year primarily because there were no public improvement bond donations in the current year.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

**Budgetary Highlights for 2009
(In Millions)**

	Original Budget	Budget As Amended	Actual
Revenues/Transfers In	\$ 67.0	\$ 68.0	\$ 67.3
Expenditures	(62.9)	(65.0)	(64.5)
Transfers Out	(4.5)	(4.4)	(4.4)
Use of Fund Balance	\$ (0.4)	\$ (1.4)	\$ (1.6)

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, 2008.
- To re-appropriate grants, donations and other revenues authorized in fiscal year 2008 or earlier, but not expended or encumbered as of June 30, 2008.
- To appropriate grants, donations, and other revenues accepted or adjusted in fiscal year 2009 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, increased 2.9% from \$198.3 million to \$202.1 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	
	2009	2008	2009	2008	2009	2008
Land	\$ 5.5	\$ 4.8	\$ 1.4	\$ 1.4	\$ 6.9	\$ 6.2
Construction in progress	4.0	1.3	16.2	9.3	20.2	10.6
Machinery and equipment	4.9	5.5	2.5	2.8	7.4	8.3
Buildings and improvements	27.6	28.1	3.4	3.6	31.0	31.7
Public domain infrastructure	59.0	60.8	-	-	59.0	60.8
Distribution and transmission	-	-	17.3	17.9	17.3	17.9
Utility plant	-	-	35.0	36.8	35.0	36.8
Sewage treatment contract	-	-	25.3	26.0	25.3	26.0
Total	<u>\$ 101.0</u>	<u>\$ 100.5</u>	<u>\$ 101.1</u>	<u>\$ 97.8</u>	<u>\$ 202.1</u>	<u>\$ 198.3</u>

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

- \$1.2 million was spent for the continuation of the Colorado Street Bridge replacement. This project is expected to cost almost \$3.5 million and will be funded by federal, state and local monies. It is expected to be completed in July 2010.
- \$1.2 million was spent on equipment upgrades to overhaul the City's technology backbone. A new data center was constructed that will house new blade servers and other technology equipment for the City. The data center is expected to be complete in winter of fiscal year 2010.
- \$685,189 was spent to acquire five properties in the flood plain. The houses were razed to create open land for better flood management.
- \$397,737 was spent to replace one traffic signal and upgrade 14 other traffic signals throughout the City. All traffic loops are being replaced with cameras to improve traffic flow.
- \$202,675 was spent renovating the baseball stadium to welcome the Red Sox and create a more intimate atmosphere among the fans.
- \$193,208 was spent to replace aging storm drain infrastructure at five locations throughout the City. These improvements will improve water flow and reduce flooding.

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

- \$5.7 million was spent for the construction of the new electric department building. This project began in fiscal year 2008 and is expected to cost over \$13 million. The project was funded through general obligation public improvement bonds issued in fiscal year 2006. Phase I, which encompassed the administrative offices, was completed this year and Phase II, which encompasses the warehouse and garage and is expected to be complete in winter of fiscal year 2010.
- \$638,608 was spent on Penguin Lane, Red Lane, and Leemount and Keesling water line projects. The Penguin Lane water line will provide fire protection and provide a secondary reliable source of water to the neighborhood. The Red Lane water line is constructed under the I81 overpass to replace the water line that flows under I81 and will allow access to the line for

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

future maintenance. The Leemount and Keelsing water line will increase water capacity and fire protection in the neighborhood by replacing 2" pipes with 6" pipes.

- \$352,254 was spent on the general rehabilitation of the City's sewage system by replacing sewer manholes and lines.
- \$299,456 was spent developing plans to rehabilitate the downtown and Roanoke River sewer sheds, which will eliminate sewer overflows and stop infiltration into the sewage system.

LONG-TERM DEBT

At June 30, 2009, the City's long-term liabilities, excluding compensated absences, landfill liability, other postemployment benefit liabilities, bond discounts and bond costs, totaled \$86.2 million. This amount was comprised of \$26.8 million related to governmental activities (including \$15.8 million for debt held on behalf of the School Division) and \$59.4 million related to business-type activities. The City made \$5.5 million in principal payments and amortized \$143,707 in bond issuance costs, discounts and premiums.

The City currently maintains 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 \$26.8 million is below the legal debt limit of \$194.9 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, estimated landfill liability, and other postemployment liabilities. Additional information concerning the City's long-term liabilities is presented in Note 8 of the financial statements and Table 9 of the statistical section.

Interest charges for fiscal year 2009 were \$1.2 million or 1.8% of total governmental activities expenses.

FACTORS INFLUENCING FUTURE BUDGETS

The City's unemployment rate of 6.3% is significantly higher than previous years, but well below the national average of 9.7%. Salem has an advantage in its diversified job market, with the highest number of people employed in the healthcare/social assistance and manufacturing industries. Healthcare is less recession-prone than other employment sectors and actually added jobs in the most recent 12-month period. (Source: Virginia Employment Commission) Veterans Administration Medical Center and Lewis-Gale Hospital HCA provide over 3,000 jobs in Salem. The construction of the new Lowe's Home Improvement Center scheduled to be completed in January 2010 will bring additional jobs and shoppers to Salem.

Decreases in consumer spending have caused a decline in sales tax revenue. Other local taxes including admissions tax, meals tax and communications tax also dropped from the previous year due to the current economic conditions. Current year real estate assessments were implemented prior to the economic downturn and reflect limited growth. However, lower home sale values are expected to negatively impact the ongoing reassessment of residential property. To deal with revenue shortfalls at the state level, funding to the City was cut by \$152,528 in 2009 and will be cut by \$152,797 in fiscal year 2010. Rather than reducing funding for the police department, constitutional offices, registrar, library and Comprehensive Services for At Risk Youth and Families, the City chose to return funds to the State under its local option program.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

In an effort to offset declining revenues, the City instituted a hiring freeze and delayed certain capital expenditures in fiscal year 2009. In addition to continuing both of these cost containment measures, employee raises were not budgeted in fiscal year 2010. Providing adequate funding for education remains a priority for the City and the contribution to the School Division remains fully funded in fiscal year 2010.

State funding provided to the School Division was cut \$1.8 million in fiscal year 2010. State Fiscal Stabilization Funds, received under the American Reinvestment and Recovery Act (ARRA) of 2009, restored approximately \$1.4 million to the School Division. The resulting budget decrease of approximately \$400,000 was accomplished by budget cuts including reductions in instructional supplies, repair and replacement costs and delaying purchases of school buses and other capital outlay. While ARRA funding alleviates some budget issues in the current biennium, this is only a temporary solution. Beginning in fiscal year 2012, the School Division budget will need to be balanced with funding provided by state and local sources.

The City is in the fourth 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. The cost to purchase electricity increased \$1.8 million or 9.4% from the previous year. To offset these rising costs of wholesale electricity, the City increased rates charged to customers for electricity approximately 10% on September 1, 2009. A rate study is currently underway to determine appropriate water and sewage rates, given current operating costs and capital needs.

As required by GASB 45, which was effective in fiscal year 2009 for the City and School Division, the City actuarially determined the liability associated with other postemployment benefits for retirees. This resulted in annual required contributions of \$3,418,200 and \$277,617 for City and School Division, respectively. The City was able to partially fund its annual required contribution, and accrued a liability of \$1,165,890 for the remaining portion. The annual required contribution for the School Division was fully funded for fiscal year 2009. The City and School Division are currently reviewing health insurance benefits for both current employees and retirees.

Economic conditions will continue to affect state and local funding in the upcoming year. The City will actively monitor revenue estimates and make budget adjustments as needed. Capital needs must be addressed to continue to maintain the high level of service provided to customers, which is a challenge in lean budget years.

REQUESTS FOR INFORMATION

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

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

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BASIC FINANCIAL STATEMENTS

CITY OF SALEM, VIRGINIA
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 2,304,296	\$ 19,388,973	\$ 21,693,269	\$ 7,910,256
Investments	-	4,127,176	4,127,176	-
Receivables, net	2,694,822	4,816,367	7,511,189	2,495
Due from component unit	1,155	-	1,155	-
Due from other governmental units	5,085,968	-	5,085,968	781,577
Inventories	540,166	1,703,192	2,243,358	60,389
Prepaid items	2,175	68,338	70,513	-
<i>Restricted assets:</i>				
Cash and cash equivalents	134,875	-	134,875	-
<i>Capital assets:</i>				
Nondepreciable	9,518,674	17,600,776	27,119,450	1,274,818
Depreciable, net	91,449,065	83,498,587	174,947,652	37,222,899
Total assets	<u>111,731,196</u>	<u>131,203,409</u>	<u>242,934,605</u>	<u>47,252,434</u>
LIABILITIES				
Accounts payable and accrued liabilities	1,718,780	5,480,812	7,199,592	526,537
Accrued payroll and related liabilities	991,040	298,194	1,289,234	3,604,829
Accrued interest	226,870	950,500	1,177,370	-
Self insurance claims liability	273,324	73,489	346,813	271,339
Due to primary government	-	-	-	1,155
Unearned revenue	104,966	101,867	206,833	16,476
Customer security deposits	-	486,920	486,920	-
<i>Long-term liabilities due in less than one year:</i>				
Bonds payable	2,468,118	2,897,273	5,365,391	-
Other debt	125,000	-	125,000	-
Compensated absences	1,753,407	479,658	2,233,065	335,593
Landfill closure and postclosure liability	10,000	-	10,000	-
<i>Long-term liabilities due in more than one year:</i>				
Bonds payable	23,673,003	55,953,318	79,626,321	-
Other debt	125,000	-	125,000	-
Compensated absences	100,665	119,365	220,030	499,335
Other postemployment benefits	918,838	247,052	1,165,890	-
Total liabilities	<u>32,489,011</u>	<u>67,088,448</u>	<u>99,577,459</u>	<u>5,255,264</u>
NET ASSETS				
Invested in capital assets, net of related debt	89,946,841	40,790,077	130,736,918	38,497,717
Unrestricted	<u>(10,704,656)</u>	<u>23,324,884</u>	<u>12,620,228</u>	<u>3,499,453</u>
Total net assets	<u>\$ 79,242,185</u>	<u>\$ 64,114,961</u>	<u>\$ 143,357,146</u>	<u>\$ 41,997,170</u>

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

**CITY OF SALEM, VIRGINIA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary Government:								
<i>Governmental activities:</i>								
General government administration	\$ 5,937,208	\$ 125,643	\$ 598,553	\$ -	\$ (5,213,012)		\$ (5,213,012)	
Judicial administration	1,897,961	233,363	998,237	-	(666,361)		(666,361)	
Public safety	15,932,421	1,107,794	1,099,951	-	(13,724,676)		(13,724,676)	
Public works	14,906,728	3,627,290	3,349,852	1,221,084	(6,708,502)		(6,708,502)	
Health and welfare	2,354,803	-	536,666	-	(1,818,137)		(1,818,137)	
Education	18,420,000	-	-	-	(18,420,000)		(18,420,000)	
Parks, recreation, and cultural	5,620,844	194,647	180,093	275,429	(4,970,675)		(4,970,675)	
Community development	1,830,327	33,641	-	622,879	(1,173,807)		(1,173,807)	
Interest on long-term debt	1,188,350	-	-	-	(1,188,350)		(1,188,350)	
Total governmental activities	68,088,643	5,322,378	6,763,352	2,119,392	(53,883,521)		(53,883,521)	
<i>Business-type activities:</i>								
Electric	28,763,182	30,863,283	-	-		\$ 2,100,101	2,100,101	
Water and sewage	11,253,172	10,981,350	-	-		(271,822)	(271,822)	
Civic Center	2,440,459	919,781	-	-		(1,520,678)	(1,520,678)	
Catering and concessions	1,033,658	994,016	-	-		(39,642)	(39,642)	
Total business-type activities	43,490,471	43,758,430	-	-		267,959	267,959	
Total primary government	\$ 111,579,114	\$ 49,080,808	\$ 6,763,352	\$ 2,119,392	\$ (53,883,521)	\$ 267,959	\$ (53,615,562)	
Component Unit:								
School division	\$ 43,003,585	\$ 1,557,348	\$ 6,683,475	\$ -				\$ (34,762,762)
General revenues:								
Property taxes					31,335,765	-	31,335,765	-
Meals tax					2,448,064	-	2,448,064	-
Local sales and use taxes					5,568,978	-	5,568,978	-
Utility taxes					1,123,616	-	1,123,616	-
Business license tax					4,827,348	-	4,827,348	-
Other taxes					2,856,119	-	2,856,119	-
Intergovernmental revenue not restricted					3,860,269	-	3,860,269	-
Unrestricted investment earnings					213,671	179,714	393,385	-
Gain on sale of property					24,624	205,932	230,556	-
Payments from City of Salem					-	-	-	18,420,000
State aid - unrestricted					-	-	-	15,967,532
Other					375,139	21,924	397,063	418,325
Transfers					1,626,999	(1,626,999)	-	-
Total general revenues and transfers					54,260,592	(1,219,429)	53,041,163	34,805,857
Change in net assets					377,071	(951,470)	(574,399)	43,095
Net assets, beginning					78,865,114	65,066,431	143,931,545	41,954,075
Net assets, ending					\$ 79,242,185	\$ 64,114,961	\$ 143,357,146	\$ 41,997,170

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

**CITY OF SALEM, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009**

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,304,296	\$ -	\$ -	\$ 2,304,296
Cash and cash equivalents, restricted	2,500	-	132,375	134,875
Receivables, net	2,694,822	-	-	2,694,822
Due from other funds	595,000	-	-	595,000
Due from component unit	1,155	-	-	1,155
Due from other governmental units	4,460,657	-	625,311	5,085,968
Inventories	540,166	-	-	540,166
Prepaid items	2,175	-	-	2,175
Total assets	<u>\$ 10,600,771</u>	<u>\$ -</u>	<u>\$ 757,686</u>	<u>\$ 11,358,457</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 1,664,777	\$ -	\$ 64,003	\$ 1,728,780
Accrued payroll and related liabilities	991,040	-	-	991,040
Self insurance claims liability	273,324	-	-	273,324
Due to other funds	-	-	595,000	595,000
Deferred revenue	1,268,866	-	-	1,268,866
Total liabilities	<u>4,198,007</u>	<u>-</u>	<u>659,003</u>	<u>4,857,010</u>
FUND BALANCES				
<i>Reserved for:</i>				
Inventories	540,166	-	-	540,166
Prepaid items	2,175	-	-	2,175
Encumbrances	373,886	-	2,130,298	2,504,184
<i>Unreserved:</i>				
Designated for uninsured claims	1,106,319	-	-	1,106,319
Undesignated	4,380,218	-	(2,031,615)	2,348,603
Total fund balances	<u>6,402,764</u>	<u>-</u>	<u>98,683</u>	<u>6,501,447</u>
Total liabilities and fund balances	<u>\$ 10,600,771</u>	<u>\$ -</u>	<u>\$ 757,686</u>	

RECONCILIATION TO THE STATEMENT OF NET ASSETS

Capital assets used in governmental activities are not considered current financial resources and, therefore, are not reported in the governmental funds.	100,967,739
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	1,163,900
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable	(26,534,546)
Other debt	(250,000)
Bond discounts	12,458
Bond issuance costs	380,967
Accrued interest	(226,870)
Compensated absences	(1,854,072)
Other postemployment benefits	(918,838)
Net assets of governmental activities	<u>\$ 79,242,185</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, 2009

	General	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
General property taxes	\$ 31,448,771	\$ -	\$ -	\$ 31,448,771
Other local taxes	16,824,126	-	-	16,824,126
Permits, privilege fees, and regulatory licenses	228,687	-	-	228,687
Fines and forfeitures	171,056	-	-	171,056
Revenue from use of money and property	539,930	-	-	539,930
Charges for services	4,602,745	-	-	4,602,745
Other	195,505	-	-	195,505
Intergovernmental	10,759,067	295,753	1,471,227	12,526,047
Total revenues	<u>64,769,887</u>	<u>295,753</u>	<u>1,471,227</u>	<u>66,536,867</u>
EXPENDITURES				
<i>Current:</i>				
General government administration	6,380,771	-	-	6,380,771
Judicial administration	1,723,427	-	-	1,723,427
Public safety	14,371,192	-	-	14,371,192
Public works	12,113,469	-	-	12,113,469
Health and welfare	2,315,841	-	-	2,315,841
Education	18,420,000	-	-	18,420,000
Parks, recreation, and cultural	4,716,767	-	-	4,716,767
Community development	1,148,291	-	-	1,148,291
Non-departmental	3,349,639	-	-	3,349,639
Capital projects	-	-	1,624,611	1,624,611
<i>Debt service:</i>				
Principal retirement	-	2,618,896	-	2,618,896
Interest	-	1,105,218	-	1,105,218
Total expenditures	<u>64,539,397</u>	<u>3,724,114</u>	<u>1,624,611</u>	<u>69,888,122</u>
Excess (deficiency) of revenues over expenditures	<u>230,490</u>	<u>(3,428,361)</u>	<u>(153,384)</u>	<u>(3,351,255)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	2,600,000	3,428,361	15,435	6,043,796
Transfers out	(4,408,322)	-	-	(4,408,322)
Total other financing sources (uses)	<u>(1,808,322)</u>	<u>3,428,361</u>	<u>15,435</u>	<u>1,635,474</u>
Net change in fund balances	<u>(1,577,832)</u>	<u>-</u>	<u>(137,949)</u>	<u>(1,715,781)</u>
Fund balances, beginning	<u>7,980,596</u>	<u>-</u>	<u>236,632</u>	
Fund balances, ending	<u>\$ 6,402,764</u>	<u>\$ -</u>	<u>\$ 98,683</u>	

RECONCILIATION TO THE STATEMENT OF ACTIVITIES

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate the cost of those assets over the life of the assets.	4,844,925
Capital outlay	4,844,925
Capital donated	25,286
Depreciation expense	(4,205,225)
Net capital transfer to proprietary fund	(8,475)
Governmental funds report proceeds from the sale of a capital asset as an increase in financial resources while governmental activities report the gain or loss on the sale of capital asset.	
Proceeds from sale of assets	(32,482)
Loss from sale of assets	(123,449)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as fund revenues.	276,895
Repayment of bond principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the statement of net assets.	
Principal payments	2,618,896
Amortization of current year bond discounts	(1,779)
Amortization of current year bond issuance costs	(90,121)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Change in accrued interest payable	14,995
Change in compensated absences	(307,776)
Change in other postemployment benefits	(918,838)
Change in net assets of governmental activities	<u>\$ 377,071</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, 2009

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
General property taxes	\$ 31,772,399	\$ 31,172,006	\$ 31,448,771	\$ 276,765
Other local taxes	17,544,632	16,984,632	16,824,126	(160,506)
Permits, privilege fees, and regulatory licenses	304,500	239,500	228,687	(10,813)
Fines and forfeitures	160,000	150,000	171,056	21,056
Revenue from use of money and property	852,000	647,000	539,930	(107,070)
Charges for services	5,261,550	5,288,050	4,602,745	(685,305)
Other	42,000	129,500	195,505	66,005
Intergovernmental	9,499,802	10,767,737	10,759,067	(8,670)
Total revenues	<u>65,436,883</u>	<u>65,378,425</u>	<u>64,769,887</u>	<u>(608,538)</u>
EXPENDITURES				
General government administration	6,466,784	6,518,069	6,380,771	137,298
Judicial administration	1,707,195	1,744,514	1,723,427	21,087
Public safety	14,042,249	14,520,988	14,371,192	149,796
Public works	12,768,265	12,193,462	12,113,469	79,993
Health and welfare	1,539,430	2,328,620	2,315,841	12,779
Education	18,420,000	18,420,000	18,420,000	-
Parks, recreation, and cultural	4,781,526	4,767,526	4,716,767	50,759
Community development	473,293	1,153,718	1,148,291	5,427
Non-departmental	2,687,754	3,359,101	3,349,639	9,462
Total expenditures	<u>62,886,496</u>	<u>65,005,998</u>	<u>64,539,397</u>	<u>466,601</u>
Excess of revenues over expenditures	<u>2,550,387</u>	<u>372,427</u>	<u>230,490</u>	<u>(141,937)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,500,000	2,600,000	2,600,000	-
Transfers out	(4,450,387)	(4,408,322)	(4,408,322)	-
Total other financing uses	<u>(2,950,387)</u>	<u>(1,808,322)</u>	<u>(1,808,322)</u>	<u>-</u>
Net change in fund balances	<u>\$ (400,000)</u>	<u>\$ (1,435,895)</u>	<u>\$ (1,577,832)</u>	<u>\$ (141,937)</u>

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

CITY OF SALEM, VIRGINIA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2009

	Business-type Activities - Enterprise Funds			
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total Proprietary Funds
ASSETS				
<i>Current assets:</i>				
Cash and cash equivalents	\$ 19,145,302	\$ 43,258	\$ 200,413	\$ 19,388,973
Investments	4,127,176	-	-	4,127,176
Receivables, net	3,393,172	1,233,790	189,405	4,816,367
Due from other funds	935,000	-	-	935,000
Inventories	1,395,340	284,302	23,550	1,703,192
Prepaid items	194	505	67,639	68,338
Total current assets	<u>28,996,184</u>	<u>1,561,855</u>	<u>481,007</u>	<u>31,039,046</u>
<i>Capital assets:</i>				
Capital assets, nondepreciable	14,083,588	3,340,535	176,653	17,600,776
Capital assets, depreciable, net	19,354,077	61,589,197	2,555,313	83,498,587
Total noncurrent assets	<u>33,437,665</u>	<u>64,929,732</u>	<u>2,731,966</u>	<u>101,099,363</u>
Total assets	<u>62,433,849</u>	<u>66,491,587</u>	<u>3,212,973</u>	<u>132,138,409</u>
LIABILITIES				
<i>Current liabilities:</i>				
Accounts payable and accrued liabilities	4,582,436	740,246	158,130	5,480,812
Accrued payroll and related liabilities	92,904	114,543	90,747	298,194
Accrued interest	256,230	694,270	-	950,500
Self insurance claims liability	19,387	38,739	15,363	73,489
Due to other funds	-	650,000	285,000	935,000
Unearned revenue	-	-	101,867	101,867
Customer security deposits	486,920	-	-	486,920
Bonds payable	583,237	2,314,036	-	2,897,273
Compensated absences	202,086	192,399	85,173	479,658
Total current liabilities	<u>6,223,200</u>	<u>4,744,233</u>	<u>736,280</u>	<u>11,703,713</u>
<i>Long-term liabilities:</i>				
Bonds payable	20,106,732	35,846,586	-	55,953,318
Compensated absences	67,786	6,612	44,967	119,365
Other postemployment benefits	65,173	130,230	51,649	247,052
Total noncurrent liabilities	<u>20,239,691</u>	<u>35,983,428</u>	<u>96,616</u>	<u>56,319,735</u>
Total liabilities	<u>26,462,891</u>	<u>40,727,661</u>	<u>832,896</u>	<u>68,023,448</u>
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	12,589,672	25,468,439	2,731,966	40,790,077
Unrestricted	23,381,286	295,487	(351,889)	23,324,884
Total net assets	<u>\$ 35,970,958</u>	<u>\$ 25,763,926</u>	<u>\$ 2,380,077</u>	<u>\$ 64,114,961</u>

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

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2009

	Business-type Activities - Enterprise Funds			Total Proprietary Funds
	Electric	Water and Sewage	Nonmajor Proprietary Funds	
OPERATING REVENUES				
Charges for services	\$ 30,328,587	\$ 10,514,598	\$ 1,848,879	\$ 42,692,064
Connections and transfers	12,096	86,084	-	98,180
Penalties	84,829	168,939	-	253,768
Pole rentals	148,657	-	-	148,657
Commissions	-	-	19,951	19,951
Equipment rental credits	266,005	168,966	-	434,971
Other	23,109	42,763	44,967	110,839
Total operating revenues	<u>30,863,283</u>	<u>10,981,350</u>	<u>1,913,797</u>	<u>43,758,430</u>
OPERATING EXPENSES				
Salaries	-	1,894,165	1,416,774	3,310,939
Fringe benefits	-	845,266	545,920	1,391,186
Labor charged to capital improvements	-	(464,688)	-	(464,688)
Show expenses	-	-	150,572	150,572
Maintenance	-	1,193,032	169,258	1,362,290
Billing and collection	373,415	511,284	-	884,699
Professional services	59,166	19,480	28,146	106,792
Insurance	39,113	50,873	10,981	100,967
Purchased power	23,253,887	-	-	23,253,887
Distribution - operations	1,098,131	-	-	1,098,131
Distribution - maintenance	1,254,945	-	-	1,254,945
Administration	801,975	227,123	23,160	1,052,258
Travel and training	-	18,148	18,281	36,429
Materials and supplies	-	371,829	316,701	688,530
Expendable equipment and small tools	324,296	11,168	6,288	341,752
Utilities	-	331,309	247,368	578,677
Miscellaneous	213,635	2,095	3,903	219,633
Depreciation	1,252,557	2,850,483	315,648	4,418,688
Amortization	7,266	93,944	-	101,210
Treatment of sewage	-	1,715,609	-	1,715,609
Commissions	-	-	219,183	219,183
Total operating expenses	<u>28,678,386</u>	<u>9,671,120</u>	<u>3,472,183</u>	<u>41,821,689</u>
Operating income (loss)	<u>2,184,897</u>	<u>1,310,230</u>	<u>(1,558,386)</u>	<u>1,936,741</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	177,737	-	1,977	179,714
Interest expense	(72,030)	(1,582,052)	-	(1,654,082)
Increase in fair value of investments	21,924	-	-	21,924
Gain (loss) on sale of capital assets	(12,766)	205,082	(1,084)	191,232
Net nonoperating revenue (expenses)	<u>114,865</u>	<u>(1,376,970)</u>	<u>893</u>	<u>(1,261,212)</u>
Income (loss) before contributions and transfers	<u>2,299,762</u>	<u>(66,740)</u>	<u>(1,557,493)</u>	<u>675,529</u>
Capital contributions in	-	8,475	-	8,475
Transfers in	-	-	964,526	964,526
Transfers out	(2,600,000)	-	-	(2,600,000)
Change in net assets	<u>(300,238)</u>	<u>(58,265)</u>	<u>(592,967)</u>	<u>(951,470)</u>
Net assets, beginning	<u>36,271,196</u>	<u>25,822,191</u>	<u>2,973,044</u>	<u>65,066,431</u>
Net assets, ending	<u>\$ 35,970,958</u>	<u>\$ 25,763,926</u>	<u>\$ 2,380,077</u>	<u>\$ 64,114,961</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, 2009**

	Business-type Activities - Enterprise Funds			
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total Proprietary Funds
OPERATING ACTIVITIES				
Receipts from customers	\$ 30,891,643	\$ 11,382,488	\$ 1,855,378	\$ 44,129,509
Payments to suppliers	(25,911,372)	(4,490,558)	(1,252,418)	(31,654,348)
Payments to employees	(1,528,160)	(2,134,249)	(1,879,840)	(5,542,249)
Other receipts	23,109	42,763	64,918	130,790
Net cash provided by (used in) operating activities	<u>3,475,220</u>	<u>4,800,444</u>	<u>(1,211,962)</u>	<u>7,063,702</u>
NONCAPITAL FINANCING ACTIVITIES				
Interfund transfers	<u>(3,135,000)</u>	<u>250,000</u>	<u>1,249,526</u>	<u>(1,635,474)</u>
Net cash provided by (used in) noncapital financing activities	<u>(3,135,000)</u>	<u>250,000</u>	<u>1,249,526</u>	<u>(1,635,474)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sale of capital assets	-	288,533	850	289,383
Purchases of capital assets	(4,930,811)	(1,405,009)	(69,268)	(6,405,088)
Principal paid on capital debt	(556,320)	(2,281,961)	-	(2,838,281)
Interest paid on capital debt	(941,911)	(1,658,178)	-	(2,600,089)
Funds paid for additional bond issuance costs	-	(17,500)	-	(17,500)
Net cash used in capital and related financing activities	<u>(6,429,042)</u>	<u>(5,074,115)</u>	<u>(68,418)</u>	<u>(11,571,575)</u>
INVESTING ACTIVITIES				
Proceeds from the sale of investments	(402,846)	-	-	(402,846)
Interest received	177,737	-	1,977	179,714
Net cash provided by (used in) investing activities	<u>(225,109)</u>	<u>-</u>	<u>1,977</u>	<u>(223,132)</u>
Net decrease in cash and cash equivalents	(6,313,931)	(23,671)	(28,877)	(6,366,479)
CASH AND CASH EQUIVALENTS				
Beginning	25,459,233	66,929	229,290	25,755,452
Ending	<u>\$ 19,145,302</u>	<u>\$ 43,258</u>	<u>\$ 200,413</u>	<u>\$ 19,388,973</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ 2,184,897	\$ 1,310,230	\$ (1,558,386)	\$ 1,936,741
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation and amortization	1,259,823	2,944,427	315,648	4,519,898
Change in assets and liabilities				
(Increase) decrease in:				
Receivables, net	93,693	448,901	52,584	595,178
Inventories	41,061	(31,890)	(3,553)	5,618
Prepaid items	(194)	(505)	10,598	9,899
(Decrease) increase in:				
Accounts payable and accrued liabilities	(181,616)	(22,293)	(71,220)	(275,129)
Accrued payroll and related liabilities	8,406	4,726	(5,618)	7,514
Self insurance claims liability	8,048	16,080	5,598	29,726
Unearned revenue	-	(5,000)	(46,085)	(51,085)
Customer security deposits payable	(42,224)	-	-	(42,224)
Compensated absences	38,153	5,538	36,823	80,514
Other postemployment benefits	65,173	130,230	51,649	247,052
Net cash provided by (used in) operating activities	<u>\$ 3,475,220</u>	<u>\$ 4,800,444</u>	<u>\$ (1,211,962)</u>	<u>\$ 7,063,702</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital assets financed with accounts payable	\$ 364,949	\$ 88,863	\$ -	\$ 453,812
NONCASH INVESTING ACTIVITIES				
Unrealized gain on investments	\$ 21,924	\$ -	\$ -	\$ 21,924

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

**CITY OF SALEM, VIRGINIA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2009**

	OPEB Trust Fund	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 795,062
Investments held by trustee, fair value	936,912	-
Receivables, net	-	136,010
Due from Commonwealth of Virginia	-	71,706
Total assets	<u>936,912</u>	<u>1,002,778</u>
LIABILITIES		
Accounts payable	-	70,911
Liability to agency	-	931,867
Total liabilities	<u>-</u>	<u>1,002,778</u>
NET ASSETS		
Held in Trust for other postemployment benefits	<u>\$ 936,912</u>	<u>\$ -</u>

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

**CITY OF SALEM, VIRGINIA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2009**

	OPEB Trust Fund
ADDITIONS	
Employer Contributions	\$ 941,910
Investment income	2
Total additions	941,912
DEDUCTIONS	
Administrative expenses	(5,000)
Total deductions	(5,000)
Net increase in plan net assets	936,912
Net assets held In trust for other postemployment benefits, beginning	-
Net assets held In trust for other postemployment benefits, ending	\$ 936,912

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

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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 state-wide restrictions and tax limits. The City of Salem is the primary government of the reporting entity.

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

Discretely Presented Component Unit

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

During the current year, the City provided \$18,420,000 of operating support to the School Division and made debt service payments of \$1,981,577 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 normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from the legally separate *component unit* for which the primary government is financially accountable.

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

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

Fund Financial Statements

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

1. Summary of Significant Accounting Policies (Continued)

Fund Financial Statements (Continued)

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

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

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

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

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

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

- The *OPEB trust fund* accounts for the assets held for, and costs of, other postemployment benefits (OPEBs). This fund was created as a part of the implementation of GASB Statement No. 45 in fiscal year 2009.
- The *agency funds* are used to account for monies held on behalf of the Cardinal Criminal Justice Academy and Court-Community Corrections Program in a custodial capacity.

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 recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Taxes, such as property, real estate, and sales, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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. As part of the reconciliation process, non-departmental indirect expenditures are allocated to functional expenses based on a percent of functional expenditures. The reconciliations are presented at the bottom of the governmental fund financial statements.

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

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

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

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

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, 2009**

1. Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (Continued)

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

Amendment – The City Manager is authorized to transfer amounts within and between departments and categories. In addition, City Council may approve budget amendments. During the year, City Council approved \$2,077,437 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.

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

Encumbrances

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

Deposits and Investments

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

Allowance for Uncollectible Accounts

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

Property Taxes

The City levies *real estate taxes* on all real estate within its boundaries, except that exempted by statute, each year as of July 1 based on 100% of estimated fair market value of the property. The City reassesses all property annually. Real estate taxes are due in equal semiannual payments on December 5 and June 5 and are considered delinquent after each due date. Real estate taxes become a lien on real property the first day of the levy year. The tax rate for 2009 was \$1.18 per \$100 of assessed value.

The City levies *personal property taxes* on motor vehicles and business and other tangible personal property each year as of January 1. Personal property taxes are due the following May 31 and are considered delinquent after the due date. Personal property taxes do not create a lien on property; however, City vehicle decals, which are required by law for all vehicles garaged in the City, may not be issued to any individual having outstanding personal property taxes. Personal property transactions during the year are taxed on a prorated basis. The tax rate for 2009 was \$3.20 per \$100 of assessed value.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

1. Summary of Significant Accounting Policies (Continued)

Interfund Receivables and Payables

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

Inventory

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

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

Prepaid Items

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

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 of more than \$0 for land, \$5,000 for machinery and equipment or \$10,000 for buildings, plant, and infrastructure and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value on the date of donation.

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

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

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

The City capitalizes net interest costs on funds borrowed to finance the construction of proprietary capital assets. Capital asset additions included \$859,167 of net capitalized interest for the current year.

Surety Bond Payable

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

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. Summary of Significant Accounting Policies (Continued)

Unearned and Deferred Revenue

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

In the balance sheet, deferred revenue arises when assets are recognized but are not available to finance expenditures of the current fiscal period or when assets are received before revenue recognition criteria is satisfied. Deferred revenue primarily consists of property taxes and grants not collected within the 60-day availability period, retiree health insurance premiums billed in advance, advertising, event deposits, rentals, and property taxes collected that are not yet due.

Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bonds payable are reported net of the applicable bond premium or discount. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

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

Compensated Absences

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

Other Postemployment Benefits

The City adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Effective July 1, 2008, the City's policy is to partially fund actuarially determined OPEB costs, which include both normal costs and amortization of unfunded accrued liability, by contributing to the Virginia Pooled OPEB Trust. The OPEB Trust Fund assets and investments are recorded at fair value. The Trust Board of Trustees establishes investment objectives, risk tolerance and asset allocation policies in light of the investment policy, market and economic conditions, and generally prevailing prudent investment practices. Further information regarding the City's adoption of GASB 45, effective July 1, 2008, is included in Notes 2 and 12, and Exhibit 12.

Fund Equity

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

1. Summary of Significant Accounting Policies (Continued)

Estimates

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

2. Deposits and Investments

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

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

	Primary Government	Component Unit
Cash and cash equivalents	\$ 21,693,269	#REF!
Investments	4,127,176	-
Cash and cash equivalents, restricted	134,875	-
	\$ 25,955,320	#REF!

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

Deposits

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

Investments

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

During the year, the City had invested bond proceeds subject to rebate of arbitrage earnings in the SNAP, which is designed to assist local governments in complying with the arbitrage rebate requirements of the Tax Reform Act of 1986. These programs provide comprehensive investment management, accounting and arbitrage rebate calculation services for proceeds of general obligation and revenue tax-exempt financing of Virginia counties, cities and towns. As of June 30, 2009, all funds in SNAP had been liquidated.

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

2. Deposits and Investments (Continued)

Custodial Credit Risk

This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Although the City does not have a formal policy addressing custodial credit risk, the City adheres to State guidelines. As required by the *Code of Virginia*, all security holdings with maturities over 30 days may not be held in safekeeping with the counterparty to the investment transaction. As of June 30, 2009, all of the City's investments are held in a bank's trust department in the City's name by the City's designated custodian.

Credit Risk

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

As of June 30, 2009, the portfolio was invested in securities with the following ratings:

	<u>Percentage of Portfolio</u>
Aaa rated securities	92%
A2 rated securities	4%
Money market account	4%

Concentration of Credit Risk

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

As of June 30, 2009, the portions of the City's investment portfolio with a single issuer that exceed 5% of the total portfolio are as follows:

	<u>Percentage of Portfolio</u>
Other Federal Obligations	38%
Corporate Obligations	32%
Federal Home Loan Bank	15%
U.S. Treasury Bills	8%

Interest Rate Risk

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

2. Deposits and Investments (Continued)

Interest Rate Risk (Continued)

As of June 30, 2009, the fair value and weighted average maturity of the investments were as follows:

	<u>Fair Value</u>	<u>Average Maturity*</u>
Corporate Obligations	\$ 1,373,851	313
U.S. Treasury Bills	361,797	721
Other Federal Obligations	1,635,030	172
Federal National Mortgage Association	129,722	356
Federal Home Loan Bank	626,776	344
Total Investments	<u>\$ 4,127,176</u>	
Portfolio weighted average maturity		<u>299</u>

* Average maturity is in days.

OPEB Trust Fund

The City is a participant in the Virginia Pooled OPEB Trust. Funds of participating jurisdictions are pooled and invested in the name of the Virginia Pooled OPEB Trust. The City's share in this pool is reported as an asset on the statement of fiduciary net assets of the OPEB Trust Fund statement (Exhibit 9). The Board of Trustees of the Virginia Pooled OPEB Trust has adopted an investment policy to achieve a compound annualized total rate of return over a market cycle, including current income and capital appreciation, in excess of 5% after inflation, in a manner consistent with prudent risk-taking. Investment decisions for the funds' assets are made by the Board of Trustees. The Board of Trustees establishes investment objectives, risk tolerance and asset allocation policies in light of the investment policy, market and economic conditions, and generally prevailing prudent investment practices. The Board of Trustees also monitors the investments to ensure adherence to the adopted policies and guidelines. In addition, the Trustees review, monitor, and evaluate the performance of the investments and its investment advisors in light of available investment opportunities, market conditions, and publicly available indices for the generally accepted evaluation and measurement of such performance.

Specific investment information for the Virginia Pooled OPEB Trust can be obtained by writing to VML/VACo Finance Program, 1108 East Main Street, Richmond, Virginia 23219.

3. Receivables

Receivables are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>			<u>Component Unit</u>
	General	Electric	Water and Sewage	Nonmajor Proprietary	School Division
Tax receivables	\$ 1,784,750	\$ -	\$ -	\$ -	\$ -
Account receivables	-	3,526,262	1,295,244	198,573	-
Other receivables	1,429,416	-	-	-	2,495
Gross receivables	<u>3,214,166</u>	<u>3,526,262</u>	<u>1,295,244</u>	<u>198,573</u>	<u>2,495</u>
Allowance for uncollectibles	(519,344)	(133,090)	(61,454)	(9,168)	-
Receivables, net	<u>\$ 2,694,822</u>	<u>\$ 3,393,172</u>	<u>\$ 1,233,790</u>	<u>\$ 189,405</u>	<u>\$ 2,495</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

4. Interfund Balances and Transfers

The composition of the interfund balances is as follows:

	Due from (fund)			
	Capital Projects	Water and Sewage	Nonmajor Proprietary	Total
Due to (fund)				
General fund	\$ 595,000	\$ -	\$ -	\$ 595,000
Electric	-	650,000	285,000	935,000
Total	<u>\$ 595,000</u>	<u>\$ 650,000</u>	<u>\$ 285,000</u>	<u>\$ 1,530,000</u>

The amount due to the general fund was a short-term loan to capital projects that will be subsequently reimbursed through State funding. The amounts due to the electric fund were short-term loans made to the other funds to fund operations.

The composition of the interfund transfers is as follows:

	Transfer from (fund)		
	General	Electric	Total
Transfer to (fund)			
General	\$ -	\$ 2,600,000	\$ 2,600,000
Debt Service	3,428,361	-	3,428,361
Capital Projects	15,435	-	15,435
Nonmajor Enterprise	964,526	-	964,526
Total	<u>\$ 4,408,322</u>	<u>\$ 2,600,000</u>	<u>\$ 7,008,322</u>

Transfers to the general fund included a payment in lieu of taxes and funding assistance for technology equipment in the data center. Transfers to the debt service fund included principal and interest payments on general governmental and school debt. Transfers to capital projects and nonmajor enterprise funds were made to fund projects and operations, respectively.

The general fund transferred capital assets of \$8,475 to the water and sewage fund, which is a reconciling item for interfund transfers for the governmental funds between Exhibit 2 and Exhibit 4.

5. Due from Other Governmental Units

Amounts due from other governmental units are as follows:

	Governmental Activities	Component Unit
Commonwealth of Virginia		
Personal property tax	\$ 2,588,707	\$ -
Local sales tax	898,976	-
Colorado Street Bridge funding	594,887	-
State sales tax	-	514,205
Comprehensive Services Act	472,003	-
Communications tax	161,714	-
Public safety grants	123,567	-
Constitutional officers reimbursement	96,073	-
Greenway project funding	30,424	-
Other	119,617	1,000
Federal government		
School funds	-	266,372
	<u>\$ 5,085,968</u>	<u>\$ 781,577</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

6. Capital Assets

Capital asset activity for the year is as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	\$ 4,826,117	\$ 685,189	\$ -	\$ 5,511,306
Construction in progress	1,293,680	2,902,987	(189,299)	4,007,368
Capital assets, nondepreciable	<u>6,119,797</u>	<u>3,588,176</u>	<u>(189,299)</u>	<u>9,518,674</u>
Capital assets, depreciable				
Machinery and equipment	16,436,989	636,503	(537,871)	16,535,621
Buildings and improvements	38,539,674	383,865	(22,782)	38,900,757
Public domain infrastructure	88,086,644	627,189	(149,637)	88,564,196
Capital assets, depreciable	<u>143,063,307</u>	<u>1,647,557</u>	<u>(710,290)</u>	<u>144,000,574</u>
Accumulated depreciation				
Machinery and equipment	(10,921,956)	(1,226,421)	487,064	(11,661,313)
Buildings and improvements	(10,452,746)	(877,185)	8,322	(11,321,609)
Public domain infrastructure	(27,341,244)	(2,277,843)	50,500	(29,568,587)
Accumulated depreciation	<u>(48,715,946)</u>	<u>(4,381,449)</u>	<u>545,886</u>	<u>(52,551,509)</u>
Capital assets, depreciable, net	<u>94,347,361</u>	<u>(2,733,892)</u>	<u>(164,404)</u>	<u>91,449,065</u>
Capital assets, net	<u>\$ 100,467,158</u>	<u>\$ 854,284</u>	<u>\$ (353,703)</u>	<u>\$ 100,967,739</u>

Business-type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	\$ 1,361,115	\$ 19,000	\$ (2,163)	\$ 1,377,952
Construction in progress	9,287,538	7,068,204	(132,918)	16,222,824
Capital assets, nondepreciable	<u>10,648,653</u>	<u>7,087,204</u>	<u>(135,081)</u>	<u>17,600,776</u>
Capital assets, depreciable				
Machinery and equipment	6,693,495	265,178	(194,747)	6,763,926
Buildings and improvements	7,553,020	125,998	(218,184)	7,460,834
Distribution and transmission	32,665,874	348,561	-	33,014,435
Utility plant	71,977,050	156,544	-	72,133,594
Sewage treatment contract	28,843,397	-	-	28,843,397
Capital assets, depreciable	<u>147,732,836</u>	<u>896,281</u>	<u>(412,931)</u>	<u>148,216,186</u>
Accumulated depreciation				
Machinery and equipment	(3,930,204)	(547,201)	186,058	(4,291,347)
Buildings and improvements	(3,938,350)	(279,684)	130,885	(4,087,149)
Distribution and transmission	(14,715,732)	(911,186)	-	(15,626,918)
Utility plant	(35,216,763)	(1,958,219)	-	(37,174,982)
Sewage treatment contract	(2,770,349)	(766,854)	-	(3,537,203)
Accumulated depreciation	<u>(60,571,398)</u>	<u>(4,463,144)</u>	<u>316,943</u>	<u>(64,717,599)</u>
Capital assets, depreciable, net	<u>87,161,438</u>	<u>(3,566,863)</u>	<u>(95,988)</u>	<u>83,498,587</u>
Capital assets, net	<u>\$ 97,810,091</u>	<u>\$ 3,520,341</u>	<u>\$ (231,069)</u>	<u>\$ 101,099,363</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

6. Capital Assets (Continued)

Component Unit	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	\$ 1,123,637	\$ -	\$ -	\$ 1,123,637
Construction in progress	327,466	109,582	(285,867)	151,181
Capital assets, nondepreciable	<u>1,451,103</u>	<u>109,582</u>	<u>(285,867)</u>	<u>1,274,818</u>
Capital assets, depreciable				
Buildings and improvements	51,829,045	400,285	(149,050)	52,080,280
Furniture and equipment	5,222,913	132,531	(189,745)	5,165,699
Capital assets, depreciable	<u>57,051,958</u>	<u>532,816</u>	<u>(338,795)</u>	<u>57,245,979</u>
Accumulated depreciation				
Buildings and improvements	(15,739,891)	(1,297,278)	80,230	(16,956,939)
Furniture and equipment	(2,926,470)	(327,628)	187,957	(3,066,141)
Accumulated depreciation	<u>(18,666,361)</u>	<u>(1,624,906)</u>	<u>268,187</u>	<u>(20,023,080)</u>
Capital assets, depreciable, net	<u>38,385,597</u>	<u>(1,092,090)</u>	<u>(70,608)</u>	<u>37,222,899</u>
Capital assets, net	<u>\$ 39,836,700</u>	<u>\$ (982,508)</u>	<u>\$ (356,475)</u>	<u>\$ 38,497,717</u>

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

Governmental Activities		Business-type Activities	
General government administration	\$ 101,827	Electric	\$ 1,252,557
Judicial administration	43,688	Water and sewage	2,850,483
Public safety	691,790	Civic Center	302,425
Public works	2,654,831	Catering	13,223
Parks, recreation, and cultural	711,352	Total depreciation expense	<u>\$ 4,418,688</u>
Community development	1,737		
Total depreciation expense	<u>\$ 4,205,225</u>		

Depreciation expense is less than increases in accumulated depreciation shown in the capital asset activity tables because the tables include accumulated depreciation for assets transferred into the funds. Current year accumulated depreciation for assets transferred into the funds was \$176,224 for governmental activities and \$44,456 for business-type activities.

7. Unearned and Deferred Revenue

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

	Governmental Activities	Business-type Activities	Component Unit
Charges for services and fees	\$ 72,698	\$ 101,867	\$ 16,476
Taxes paid for subsequent year	32,268	-	-
Unearned revenue	<u>\$ 104,966</u>	<u>\$ 101,867</u>	<u>\$ 16,476</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

7. Unearned and Deferred Revenue (Continued)

Deferred revenue reported in the governmental funds is as follows:

	Unavailable	Unearned	Total
Delinquent property taxes receivable	\$ 932,508	\$ -	\$ 932,508
Charges for services and fees	231,392	72,698	304,090
Taxes paid for subsequent year	-	32,268	32,268
Deferred revenue	<u>\$ 1,163,900</u>	<u>\$ 104,966</u>	<u>\$ 1,268,866</u>

8. Long-Term Liabilities

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

Prior Year Defeasances of Debt

In prior years, the City defeased certain general obligation bonds by placing the proceeds in irrevocable trusts to provide for all future debt service on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On June 30, 2009, \$25,195,000 of bonds were considered defeased. The deferred costs are being amortized over the life of the new bonds.

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds	\$ 29,028,442	\$ -	\$ (2,493,896)	\$ 26,534,546	\$ 2,468,118
Bond discounts	(14,237)	-	1,779	(12,458)	
Bond issuance costs	(471,088)	-	90,121	(380,967)	
Bonds payable	28,543,117	-	(2,401,996)	26,141,121	2,468,118
Other debt	375,000	-	(125,000)	250,000	125,000
Compensated absences	1,546,296	\$ 2,061,183	(1,753,407)	1,854,072	1,753,407
Landfill closure liability	78,546	-	(68,546)	10,000	10,000
Other postemployment benefits	-	2,693,884	(1,775,046)	918,838	
	<u>\$ 30,542,959</u>	<u>\$ 4,755,067</u>	<u>\$ (6,123,995)</u>	<u>\$ 29,174,031</u>	<u>\$ 4,356,525</u>
Business-type Activities					
General obligation bonds	\$ 62,254,430	\$ -	\$ (2,838,281)	\$ 59,416,149	\$ 2,897,273
Bond premiums	942,540	-	(49,403)	893,137	
Bond issuance costs	(1,542,405)	(17,500)	101,210	(1,458,695)	
Bonds payable	61,654,565	(17,500)	(2,786,474)	58,850,591	2,897,273
Compensated absences	518,509	\$ 560,172	(479,658)	599,023	479,658
Other postemployment benefits	-	724,316	(477,264)	247,052	
	<u>\$ 62,173,074</u>	<u>\$ 1,266,988</u>	<u>\$ (3,743,396)</u>	<u>\$ 59,696,666</u>	<u>\$ 3,376,931</u>
Component Unit					
Compensated absences	803,728	\$ 83,272	(52,072)	834,928	335,593
Other postemployment benefits	-	277,617	(277,617)	-	
	<u>\$ 803,728</u>	<u>\$ 360,889</u>	<u>\$ (329,689)</u>	<u>\$ 834,928</u>	<u>\$ 335,593</u>

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

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
<u>Bonds payable</u>						
1999 Public Improvement	4.0-4.9%	04-99	04-19	\$ 17,000,000	\$ 2,500,000	\$ 6,000,000
2002 Public Improvement	4.5-5.0%	01-02	01-12	23,000,000	-	2,165,000
2003A Public Improvement	2.0-4.5%	10-03	10-23	22,000,000	16,500,000	-
2003B Refunding	2.0-3.5%	10-03	12-12	5,700,000	2,395,000	-
2004 Refunding	1.5-3.5%	03-04	04-16	9,640,000	2,764,340	3,475,660
2004A Public Improvement	3.0%	04-04	07-26	11,052,222	-	10,190,694
2006A Public Improvement	4.0-5.0%	05-06	04-31	25,000,000	2,375,206	20,749,795
2007A Refunding	4.0-5.0%	02-07	01-27	17,045,000	-	16,835,000
					<u>26,534,546</u>	<u>59,416,149</u>
			Bond premiums		-	893,137
			Bond discounts		(12,458)	-
			Bond issuance costs		(380,967)	(1,458,695)
					<u>\$ 26,141,121</u>	<u>\$ 58,850,591</u>
<u>Other debt</u>						
State Literary Fund Loan	4.0%	01-91	02-11	\$ 2,500,000	\$ 250,000	\$ -

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

Fiscal Year	Governmental Activities				Business-type Activities	
	Bonds payable		Other debt		Bonds payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 2,468,118	\$ 1,019,642	\$ 125,000	\$ 10,000	\$ 2,897,273	\$ 2,496,439
2011	2,442,415	941,216	125,000	5,000	2,951,589	2,389,302
2012	2,421,617	859,860	-	-	3,016,411	2,277,752
2013	2,428,053	772,458	-	-	3,084,424	2,155,124
2014	1,825,573	689,735	-	-	3,141,789	2,036,437
2015-2019	7,887,554	2,391,143	-	-	15,373,762	8,218,084
2020-2024	6,053,615	919,025	-	-	14,058,413	5,061,455
2025-2029	686,113	169,597	-	-	12,083,975	1,955,581
2030-2031	321,488	22,105	-	-	2,808,513	193,110
	<u>\$ 26,534,546</u>	<u>\$ 7,784,781</u>	<u>\$ 250,000</u>	<u>\$ 15,000</u>	<u>\$ 59,416,149</u>	<u>\$ 26,783,284</u>

9. Landfill Closure and Post-Closure Care Costs

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

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 §65.2-100 et. seq. of the *Code of Virginia*. Premiums are based upon covered payroll, job rates, and claims experience. Total premiums for the current year were \$457,824 and \$111,288 for the City and School Division, respectively.

General Liability and Other

The City provides general liability and other insurance through Selective Insurance Company of America. General liability and business automobile have a \$2,000,000 limit. Boiler and machinery coverage and property insurance are covered as per statement of values. The City maintains an additional \$5,000,000 umbrella policy over all forms of liability. In addition, both police professional liability and public officials liability insurance with a \$1,000,000 limit are covered through a policy with the Commonwealth of Virginia. Total premiums for the current fiscal year were \$448,514.

The School Division provides general liability and other insurance through the Virginia Municipal League (VML) Self Insurance Association. General liability and business automobile have a \$1,000,000 limit. Boiler and machinery coverage and property insurance are covered as per statement of values. The School Division maintains an additional \$4,000,000 umbrella policy over all forms of liability. Total premiums for the current fiscal year were \$124,395.

Healthcare

The City's professionally administered self-insurance program provides health coverage for employees of the City and School Division on a cost-reimbursement basis. All active employees with dependents, retired City employees with dependents and retired School employees pay a premium equivalent for participation. The City is obligated for claims payments under the program. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$125,000 per covered individual and approximately \$6,115,557 in the aggregate.

During the current fiscal year total claims expense of \$4,977,225, which did not exceed the stop loss provisions, was incurred. This represents claims processed and an estimate, based on plan experience prior and subsequent to year end, for claims incurred but not reported (IBNR) as of June 30, 2009. The designated portion of fund balance for self-insurance equaled \$1,106,319 at year end. The estimated liability for both the City and School Division including reported and IBNR claims was \$618,152 at year end.

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

Year Ended June 30	Liability July 1	Claims and Changes in Estimates	Claim Payments	Liability June 30
2009	\$ 342,503	\$ 4,977,225	\$ 4,701,576	\$ 618,152
2008	\$ 370,380	\$ 5,048,740	\$ 5,076,617	\$ 342,503
2007	\$ 650,201	\$ 5,879,714	\$ 6,159,535	\$ 370,380

Other

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

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

11. Pension Plan

Plan Description

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

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 with 5 years of service for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with 30 years of service if elected by the employer (age 50 with 25 years of service for participating local law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service (1.85% for sheriffs and, if the employer elects, other employees in hazardous duty positions receiving enhanced benefits). Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for an annual cost-of-living adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5% per year. AFC is defined as the highest consecutive 36 months of reported compensation. Sheriffs and participating law enforcement officers and firefighters may also receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the VRS. A copy of that report is available on their website at <http://www.varetire.org/Pdf/Publications/2008annurept.pdf> or obtained by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. This 5% member contribution has been assumed by both the City and School Division. In addition, the City and School Division are required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The City's and School Division's non-professional contribution rates for the year ended June 30, 2009 were 14.85% and 10.70% of the annual covered payroll, respectively (including the employee share of 5% paid by the employer).

For the three years ended June 30, 2009, 2008, and 2007, total employer and employee contributions made to the VRS statewide teacher cost-sharing pool for professional employees by the School Division were \$3,034,194, \$3,199,428, and \$2,921,443 representing 13.81%, 15.30%, and 14.20% of annual covered payroll, respectively (including the employee share of 5% paid by the employer).

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

11. Pension Plan (Continued)

Annual Pension Cost

For the fiscal year ended June 30, 2009, the City's and School Division's annual pension cost of \$3,540,033 and \$162,549, 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, 2009	\$ 3,540,033	100%	\$ -
	June 30, 2008	\$ 3,529,121	100%	\$ -
	June 30, 2007	\$ 5,397,504	100%	\$ -
School Division Non-Professional Staff	June 30, 2009	\$ 162,549	100%	\$ -
	June 30, 2008	\$ 146,761	100%	\$ -
	June 30, 2007	\$ 143,720	100%	\$ -

The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) an investment rate of return (net of administrative expenses) of 7.5%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.5% per year. Both the investment rate of return and the projected salary increases also include an inflation component of 2.5%. 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 actuarial accrued liabilities are being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2007 was 20 years.

Funded Status and Funding Progress

As of June 30, 2008, the most recent actuarial valuation date for the City, the plan was 91.1% funded. The actuarial accrued liability for benefits was \$143,763,718, and the actuarial value of assets was \$130,949,044, resulting in an unfunded actuarial accrued liability (UAAL) of \$12,814,674. The covered payroll (annual payroll of active employees covered by the plan) was \$22,986,624, and ratio of the UAAL to the covered payroll was 55.7%.

As of June 30, 2008, the most recent actuarial valuation date for the School Division's non-professional employees, the plan was 102.7% funded. The actuarial accrued liability for benefits was \$3,973,551, and the actuarial value of assets was \$4,082,565, resulting in an unfunded actuarial accrued liability (UAAL) of \$(109,014). The covered payroll (annual payroll of active employees covered by the plan) was \$1,440,433, and ratio of the UAAL to the covered payroll was (7.6)%.

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

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

12. Other Postemployment Benefits

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

Plan Description

The City and School Division participate in a single-employer defined benefit healthcare plan (Retiree Health Plan) that is administered by the City. The Retiree Health Plan provides eligible retirees and their dependents medical insurance through continued participation in the City's plan, which creates a benefit to the retiree from a lower insurance rate by blending the retirees with the active employees. This lower rate results in an implicit benefit that qualifies as an other postemployment benefit as defined by GASB 45. All retirees are eligible for this benefit until the month the retiree turns age 65, or otherwise becomes eligible for Medicare. Medicare eligible retirees are provided access to a Medicare Health Supplement and Part D Drug Plan. 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.

Funding Policy

Currently, the City pays the entire single-rate premium equivalent for 118 pre-65 retirees and 105 Medicare Health Supplement and Part D Drug Plan retirees. City retirees are required to pay the premium equivalent for eligible dependents. The School Division does not pay the premium equivalent for its retirees.

The City's required contribution is based on projected pay-as-you-go financing of \$1,315,400. The City contributed an additional \$936,910 to a qualified trust as defined by GASB 45 to fund a portion of the annual required contribution of \$3,418,200 for the City, for fiscal year ended June 30, 2009. The School Division's required contribution is based on projected pay-as-you-go financing of \$148,000. The City contributed an additional \$129,617 on behalf of the School Division, to a qualified trust as defined by GASB 45 to fully fund the annual required contribution of \$277,617 for the School Division, for fiscal year ended June 30, 2009.

It is the City's and School Board's intent to review its policies regarding retiree health benefits to develop a sustainable plan, balancing retiree needs and the City's and School Board's ability to pay. It is the City's intention to fully fund the annual required contribution beginning June 1, 2010. The School Division already fully funds the annual required contribution.

Annual OPEB Cost and Net OPEB Obligation

The City's and School Division's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. 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 liabilities (or funding excess) over a period not to exceed 30 years.

The City's annual OPEB cost (expense) of \$3,418,200 was equal to the ARC for the fiscal year. During fiscal year 2009, the City contributed \$2,252,310, an amount sufficient to fund 65.9% of the ARC. The School Division's annual OPEB cost (expense) of \$277,617 was equal to the ARC for the fiscal year. During fiscal year 2009, the City contributed \$277,617 on behalf of the School Division to fully fund their ARC.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

12. Other Postemployment Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The following table presents the OPEB cost for the year, the amount contributed and changes in the OPEB Plan for the fiscal year ended June 30, 2009:

	<u>City of Salem</u>	<u>School Division</u>
Annual required contribution	\$ 3,418,200	\$ 277,617
Interest on net OPEB obligation	-	-
Adjustment to annual required contribution	-	-
Annual OPEB cost	3,418,200	277,617
Contributions made	(2,252,310)	(277,617)
Increase in net OPEB obligation	1,165,890	-
Net OPEB obligation, beginning	-	-
Net OPEB obligation, ending	<u>\$ 1,165,890</u>	<u>\$ -</u>

The City's and School Division's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year June 30, 2009, was as follows:

	<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
City of Salem	6/30/2009	\$ 3,418,200	65.9%	\$ 1,165,890
School Division	6/30/2009	\$ 277,617	100.0%	\$ -

Funded Status and Funding Progress

As of July 1, 2008, the City's most recent actuarial valuation date, the unfunded actuarial accrued liability (UAAL) for benefits was \$37,824,191, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$22,986,624, and the ratio of the UAAL to the covered payroll was 164.5%.

As of July 1, 2008, the School Division's most recent actuarial valuation date, the unfunded actuarial accrued liability (UAAL) for benefits was \$2,594,210, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$23,411,425, and the ratio of the UAAL to the covered payroll was 11.1%.

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 annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

12. Other Postemployment Benefits (Continued)

Methods and Assumptions (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. 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.

In the July 1, 2008 City and School Division actuarial valuations, the projected unit credit cost method was used. The actuarial assumptions included a 5.7% and 7% investment rate of return (net of administrative expenses) for the City and School Division, respectively. Because the City and School Division has begun funding the plan, the rate of return was based on the projected returns of the Virginia Pooled OPEB Trust. Annual healthcare costs are assumed to increase 9% in the first year of valuation. Future annual increases are assumed to grade uniformly to 5% over a nine-year period. The UAAL is being amortized as a level dollar amount over an open basis. The remaining amortization period at July 1, 2008 was 30 years.

13. 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>
Electric Department Service Center	\$ 9,482,198	\$ 1,798,886
Colorado Street Bridge Replacement	1,246,618	2,009,294
Penguin Lane Water Line Pressure Zone Improvements	367,340	1,562
Sewer and Manhole Rehabilitation	329,839	20,662
East Salem and West Salem Classroom Renovations	20,500	209,832
East Salem, G.W. Carver and Salem High Storefronts	16,400	62,967
Salem High Welding Shop Renovations	14,111	66,517
	<u>\$ 11,477,006</u>	<u>\$ 4,169,720</u>

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.

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, 2009**

13. Commitments and Contingencies (Continued)

Electrical Service

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.

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 AEP'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, 2008 expensed in the current fiscal year was \$1,570,855. The agreement expires May 31, 2026 with two possible five-year period renewals and may be terminated under certain circumstances.

Water and Wastewater Treatment Contract

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

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

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

Special 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.

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.

14. Jointly Governed Organizations

The following entities are considered to be jointly governed and the City has no ongoing financial responsibility or interest in them. As such they are excluded from the accompanying financial statements.

Roanoke Valley Regional Board

The City of Salem School Division, along with Counties of Botetourt, Craig and Franklin and the City of Roanoke jointly participate in a regional education program for severely handicapped students operated by the Roanoke Valley Regional Board (Regional Board). The Regional Board is composed of five members, one from each participating locality. The School Division has control over budget and financing of the venture only to the extent of representation by the Regional Board member appointed. Each locality's financial obligation is based on their proportionate share of students attending the regional program. For the year ended June 30, 2009, the City's proportionate share was \$409,095, which was paid by the School Division. Financial statements may be obtained from the Roanoke Valley Regional Board at 12 Barron Drive, Suite 1, Troutville, Virginia 24175.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

14. Jointly Governed Organizations (Continued)

Roanoke Valley Detention Commission

The Counties of Botetourt, Craig, and Roanoke and the Cities of Roanoke and Salem formed the Roanoke Valley Detention Commission (Commission) to renovate, expand and operate a detention facility for juveniles. The Commission is governed by a six-member board. Each locality's financial obligation is based on the number of juveniles housed at the facility. The Commission has the authority to issue debt and such debt is the responsibility of the Commission. For the year ended June 30, 2009, the City remitted \$133,984 in per diem charges. Financial statements may be obtained from the Roanoke Valley Detention Commission at 498 Coyner Springs Road, Roanoke, Virginia 24012.

Blue Ridge Behavioral Healthcare

The Counties of Botetourt, Craig, and Roanoke and the Cities of Roanoke and Salem formed Blue Ridge Behavioral Healthcare (BRBH) to provide a system of comprehensive community mental health, mental retardation and substance abuse services. BRBH is governed by a sixteen-member board. Each locality's financial obligation is based on the type and amount of services performed for individuals in the locality. For the year ended June 30, 2009, the City remitted \$115,000 to BRBH. Financial statements may be obtained from Blue Ridge Behavioral Healthcare at 301 Elm Street, Roanoke Virginia, 24016.

Western Virginia Regional Jail Authority

The City, along with the Counties of Franklin, Montgomery and Roanoke formed the Western Virginia Regional Jail Authority on May 25, 2005 for the purpose of developing and operating a regional jail for the benefit of Member Jurisdictions. The Board consists of three representatives from each of the Member Jurisdictions. The Member Jurisdictions will each be responsible for a per diem cost based on prisoner days used. For the year ended June 30, 2009, the City paid \$74,960 of the total annual operating costs of the facility. Financial statements may be obtained from Western Virginia Regional Jail Authority at 5885 West River Road, Salem, Virginia 24153.

Roanoke Valley Regional Fire/EMS Training Center

The City, along with the County of Roanoke, the City of Roanoke and the Town of Vinton, jointly operate a fire/EMS training center (Center). The Center is governed by a committee designated by the participating jurisdictions. New fire/EMS recruits are required to take a five-month training course at the facility before being assigned to a station. After completion of the training, the new recruits are state certified. Each jurisdiction is responsible for a percentage of the annual operating costs of the facility. The City of Salem is responsible for 8% of the annual operating costs. For the year ended June 30, 2009, the City paid \$7,090 of the total annual operating costs of the facility. Financial statements may be obtained from the Roanoke Valley Regional Fire/EMS Training Center at 1220 Kessler Mill Road, Salem, Virginia 24153.

Fifth Planning District Disability Services Board

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

15. New Accounting Standards

The GASB has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes accounting and financial reporting requirements for intangible assets including easements, water rights, timber rights, patents, trademarks and computer software. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. Management has not completed the process of evaluating the impact that will result from adoption of the standard, and is therefore unable to disclose the impact of adoption.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

15. New Accounting Standards (Continued)

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN
JUNE 30, 2009

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, 2008	\$ 130,949,044	\$ 143,763,718	\$ 12,814,674	91.1%	\$ 22,986,624	55.7%
June 30, 2007	\$ 121,024,346	\$ 142,383,864	\$ 21,359,518	85.0%	\$ 35,317,550	60.5%
June 30, 2006	\$ 106,097,930	\$ 128,345,085	\$ 22,247,155	82.7%	\$ 33,208,954	67.0%

**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, 2008	\$ 4,082,565	\$ 3,973,551	\$ (109,014)	102.7%	\$ 1,440,433	-7.6%
June 30, 2007	\$ 3,709,263	\$ 3,723,947	\$ 14,684	99.6%	\$ 1,389,211	1.1%
June 30, 2006	\$ 3,272,166	\$ 3,308,571	\$ 36,405	98.9%	\$ 1,364,503	2.7%

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2009**

City of Salem

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as of Percentage of Covered Payroll ((b-a)/c)
July 1, 2008	\$ -	\$ 37,824,191	\$ 37,824,191	0.0%	\$ 22,986,624	164.5%

**Component Unit
School Division**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as of Percentage of Covered Payroll ((b-a)/c)
July 1, 2008	\$ -	\$ 2,594,210	\$ 2,594,210	0.0%	\$ 23,411,425	11.1%

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OTHER SUPPLEMENTARY INFORMATION

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF NET ASSETS
NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2009

	Business-type Activities - Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
ASSETS			
<i>Current assets:</i>			
Cash and cash equivalents	\$ 5,211	\$ 195,202	\$ 200,413
Receivables, net	138,109	51,296	189,405
Inventories	-	23,550	23,550
Prepaid items	67,639	-	67,639
Total current assets	<u>210,959</u>	<u>270,048</u>	<u>481,007</u>
<i>Capital assets:</i>			
Capital assets, nondepreciable	176,653	-	176,653
Capital assets, depreciable, net	2,504,430	50,883	2,555,313
Total noncurrent assets	<u>2,681,083</u>	<u>50,883</u>	<u>2,731,966</u>
Total assets	<u>2,892,042</u>	<u>320,931</u>	<u>3,212,973</u>
LIABILITIES			
<i>Current liabilities:</i>			
Accounts payable and accrued liabilities	129,339	28,791	158,130
Accrued payroll and related liabilities	63,594	27,153	90,747
Self insurance claims liability	12,034	3,329	15,363
Due to other funds	285,000	-	285,000
Unearned revenue	99,969	1,898	101,867
Compensated absences	68,648	16,525	85,173
Total current liabilities	<u>658,584</u>	<u>77,696</u>	<u>736,280</u>
<i>Long-term liabilities:</i>			
Compensated absences	21,065	23,902	44,967
Other postemployment benefits	40,456	11,193	51,649
Total noncurrent liabilities	<u>61,521</u>	<u>35,095</u>	<u>96,616</u>
Total liabilities	<u>720,105</u>	<u>112,791</u>	<u>832,896</u>
NET ASSETS (DEFICIT)			
Invested in capital assets, net of related debt	2,681,083	50,883	2,731,966
Unrestricted	(509,146)	157,257	(351,889)
Total net assets	<u>\$ 2,171,937</u>	<u>\$ 208,140</u>	<u>\$ 2,380,077</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2009

	Business-type Activities - Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
OPERATING REVENUES			
Charges for services	\$ 879,301	\$ 969,578	\$ 1,848,879
Commissions	19,951	-	19,951
Other	20,529	24,438	44,967
Total operating revenues	<u>919,781</u>	<u>994,016</u>	<u>1,913,797</u>
OPERATING EXPENSES			
Salaries	1,046,807	369,967	1,416,774
Fringe benefits	423,780	122,140	545,920
Show expenses	150,572	-	150,572
Maintenance	167,168	2,090	169,258
Professional services	5,522	22,624	28,146
Insurance	10,981	-	10,981
Administration	15,291	7,869	23,160
Travel and training	11,557	6,724	18,281
Materials and supplies	52,515	264,186	316,701
Expendable equipment and small tools	5,073	1,215	6,288
Utilities	246,834	534	247,368
Miscellaneous	-	3,903	3,903
Depreciation	302,425	13,223	315,648
Commissions	-	219,183	219,183
Total operating expenses	<u>2,438,525</u>	<u>1,033,658</u>	<u>3,472,183</u>
Operating loss	<u>(1,518,744)</u>	<u>(39,642)</u>	<u>(1,558,386)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	1,977	-	1,977
Loss on sale of capital assets	(1,084)	-	(1,084)
Net nonoperating revenue	<u>893</u>	<u>-</u>	<u>893</u>
Loss before transfers	<u>(1,517,851)</u>	<u>(39,642)</u>	<u>(1,557,493)</u>
Transfers in	<u>964,526</u>	<u>-</u>	<u>964,526</u>
Change in net assets	<u>(553,325)</u>	<u>(39,642)</u>	<u>(592,967)</u>
Net assets, beginning	<u>2,725,262</u>	<u>247,782</u>	<u>2,973,044</u>
Net assets, ending	<u>\$ 2,171,937</u>	<u>\$ 208,140</u>	<u>\$ 2,380,077</u>

**CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2009**

	Business-type Activities - Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
OPERATING ACTIVITIES			
Receipts from customers	\$ 858,232	\$ 997,146	\$ 1,855,378
Payments to suppliers	(676,325)	(576,093)	(1,252,418)
Payments to employees	(1,405,906)	(473,934)	(1,879,840)
Other receipts	40,480	24,438	64,918
Net cash used in operating activities	<u>(1,183,519)</u>	<u>(28,443)</u>	<u>(1,211,962)</u>
NONCAPITAL FINANCING ACTIVITIES			
Interfund transfers	1,234,526	15,000	1,249,526
Net cash provided by noncapital financing activities	<u>1,234,526</u>	<u>15,000</u>	<u>1,249,526</u>
CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from sale of capital assets	850	-	850
Purchases of capital assets	(51,955)	(17,313)	(69,268)
Net cash used in capital and related financing activities	<u>(51,105)</u>	<u>(17,313)</u>	<u>(68,418)</u>
INVESTING ACTIVITIES			
Interest received	1,977	-	1,977
Net cash provided by investing activities	<u>1,977</u>	<u>-</u>	<u>1,977</u>
Net increase (decrease) in cash and cash equivalents	1,879	(30,756)	(28,877)
CASH AND CASH EQUIVALENTS			
Beginning	3,332	225,958	229,290
Ending	<u>\$ 5,211</u>	<u>\$ 195,202</u>	<u>\$ 200,413</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES			
Operating loss	\$ (1,518,744)	\$ (39,642)	\$ (1,558,386)
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation	302,425	13,223	315,648
Change in assets and liabilities			
(Increase) decrease in:			
Receivables, net	26,414	26,170	52,584
Inventories	-	(3,553)	(3,553)
Prepaid items	10,598	-	10,598
(Decrease) increase in:			
Accounts payable and accrued liabilities	(25,632)	(45,588)	(71,220)
Accrued payroll and related liabilities	(1,971)	(3,647)	(5,618)
Self insurance claims liability	4,222	1,376	5,598
Unearned revenue	(47,483)	1,398	(46,085)
Compensated absences	26,196	10,627	36,823
Other postemployment benefits	40,456	11,193	51,649
Net cash used in operating activities	<u>\$ (1,183,519)</u>	<u>\$ (28,443)</u>	<u>\$ (1,211,962)</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2009

	Cardinal Criminal Justice Academy	Court- Community Corrections Program	Total Agency Funds
ASSETS			
Cash and cash equivalents	\$ 438,397	\$ 356,665	\$ 795,062
Receivables, net	136,010	-	136,010
Due from Commonwealth of Virginia	-	71,706	71,706
Total assets	<u>\$ 574,407</u>	<u>\$ 428,371</u>	<u>\$ 1,002,778</u>
LIABILITIES			
Accounts payable	\$ 4,045	\$ 66,866	\$ 70,911
Liability to agency	570,362	361,505	931,867
Total liabilities	<u>\$ 574,407</u>	<u>\$ 428,371</u>	<u>\$ 1,002,778</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
YEAR ENDED JUNE 30, 2009

<i>Cardinal Criminal Justice Academy</i>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
ASSETS				
Cash and cash equivalents	\$ 427,411	\$ 679,074	\$ (668,088)	\$ 438,397
Receivables, net	-	136,010	-	136,010
Total assets	<u>\$ 427,411</u>	<u>\$ 815,084</u>	<u>\$ (668,088)</u>	<u>\$ 574,407</u>
LIABILITIES				
Accounts payable	\$ 5,675	\$ 5,062	\$ (6,692)	\$ 4,045
Liability to agency	421,736	810,022	(661,396)	570,362
Total liabilities	<u>\$ 427,411</u>	<u>\$ 815,084</u>	<u>\$ (668,088)</u>	<u>\$ 574,407</u>
<i>Court Community Corrections Program</i>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
ASSETS				
Cash and cash equivalents	\$ 327,097	\$ 2,403,530	\$ (2,373,962)	\$ 356,665
Receivables, net	118,907	-	(118,907)	-
Grant receivable	975	-	(975)	-
Due from Commonwealth of Virginia	70,017	141,710	(140,021)	71,706
Total assets	<u>\$ 516,996</u>	<u>\$ 2,545,240</u>	<u>\$ (2,633,865)</u>	<u>\$ 428,371</u>
LIABILITIES				
Accounts payable	\$ 72,306	\$ 1,699,106	\$ (1,704,546)	\$ 66,866
Liability to agency	444,690	846,134	(929,319)	361,505
Total liabilities	<u>\$ 516,996</u>	<u>\$ 2,545,240</u>	<u>\$ (2,633,865)</u>	<u>\$ 428,371</u>
<i>Total Agency Funds</i>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
ASSETS				
Cash and cash equivalents	\$ 754,508	\$ 3,082,604	\$ (3,042,050)	\$ 795,062
Receivables, net	118,907	136,010	(118,907)	136,010
Grant receivable	975	-	(975)	-
Due from Commonwealth of Virginia	70,017	141,710	(140,021)	71,706
Total assets	<u>\$ 944,407</u>	<u>\$ 3,360,324</u>	<u>\$ (3,301,953)</u>	<u>\$ 1,002,778</u>
LIABILITIES				
Accounts payable	\$ 77,981	\$ 1,704,168	\$ (1,711,238)	\$ 70,911
Liability to agency	866,426	1,656,156	(1,590,715)	931,867
Total liabilities	<u>\$ 944,407</u>	<u>\$ 3,360,324</u>	<u>\$ (3,301,953)</u>	<u>\$ 1,002,778</u>

STATISTICAL SECTION

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

Contents	Page
Financial Trends	77
<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	82
<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	86
<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	88
<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	90
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.</i>	

TABLE 1
UNAUDITED

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

	2009	2008	2007	2006 (1)	2005 (1)	2004 (1)	2003 (1)
Governmental Activities							
Invested in capital assets, net of related debt	\$ 89,946,841	\$ 88,463,741	\$ 85,853,628	\$ 88,112,343	\$ 89,479,130	\$ 88,551,933	\$ 76,959,696
Restricted	-	-	-	-	-	2,313,457	2,473,586
Unrestricted	(10,704,656)	(9,598,627)	(9,132,365)	(12,509,444)	(12,674,607)	(15,644,583)	(3,239,660)
Total governmental net assets	<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>	<u>\$ 75,220,807</u>	<u>\$ 76,193,622</u>
Business-type activities							
Invested in capital assets, net of related debt	\$ 40,790,077	\$ 39,787,750	\$ 41,636,232	\$ 36,954,684	\$ 36,501,799	\$ 31,689,583	\$ 23,078,380
Unrestricted	23,324,884	25,278,681	20,760,143 (2)	21,804,567	21,839,306	24,685,946	31,038,458
Total business-type activities net assets	<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>	<u>\$ 56,375,529</u>	<u>\$ 54,116,838</u>
Primary government							
Invested in capital assets, net of related debt	\$ 130,736,918	\$ 128,251,491	\$ 127,489,860	\$ 125,067,027	\$ 125,980,929	\$ 120,241,516	\$ 100,038,076
Restricted	-	-	-	-	-	2,313,457	2,473,586
Unrestricted	12,620,228	15,680,054	11,627,778	9,295,123	9,164,699	9,041,363	27,798,798
Total primary government net assets	<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>	<u>\$ 131,596,336</u>	<u>\$ 130,310,460</u>

Notes:

Source: City of Salem Finance Department

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

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

(2) As restated.

TABLE 2
UNAUDITED

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

	2009	2008	2007	2006	2005	2004	2003
Expenses							
<i>Governmental activities</i>							
General government administration	\$ 5,937,208	\$ 5,031,352	\$ 4,803,246	\$ 5,107,268	\$ 4,283,754	\$ 4,402,755	\$ 4,156,677
Judicial administration	1,897,961	1,687,507	1,540,762	1,457,720	1,292,722	1,224,425	1,190,643
Public safety	15,932,421	15,048,715	13,869,676	13,547,191	11,535,321	10,574,969	10,409,689
Public works	14,906,728	14,067,674	13,476,019	12,443,334	10,789,008	9,603,482	9,471,217
Health and welfare	2,354,803	2,450,245	2,193,126	2,055,166	1,823,783	1,419,802	1,217,958
Education	18,420,000	17,995,000	17,095,000	16,266,005	15,618,081	29,340,564 (1)	14,747,635
Parks, recreation and cultural	5,620,844	5,721,997	5,796,220	5,239,517	3,851,575	4,257,005	3,697,241
Community development	1,830,327	1,122,221	1,022,096	933,002	513,272	842,963	1,290,922
Nondepartmental	-	-	-	-	2,424,022	1,788,744	2,253,821
Interest on long-term debt	1,188,350	1,263,858	1,202,201	1,267,296	1,478,103	1,339,037	1,045,306
Total governmental activities	<u>68,088,643</u>	<u>64,388,569</u>	<u>60,998,346</u>	<u>58,316,499</u>	<u>53,609,641</u>	<u>64,793,746</u>	<u>49,481,109</u>
<i>Business-type activities</i>							
Electric	28,763,182	26,505,160	24,308,309 (2)	24,692,031	16,311,434	15,116,855	16,810,659
Water and sewage	11,253,172	11,150,046	10,991,783 (2)	10,836,280	9,502,885	7,305,334	7,427,270
Civic Center	2,440,459	2,435,383	2,563,090	2,364,891	2,199,589	2,096,344	1,856,562
Catering and concessions	1,033,658	1,081,528	1,103,860	1,036,737	960,320	953,609	932,823
Total business-type activities expenses	<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>	<u>25,472,142</u>	<u>27,027,314</u>
Total primary government expenses	<u>\$ 111,579,114</u>	<u>\$ 105,560,686</u>	<u>\$ 99,965,388</u>	<u>\$ 97,246,438</u>	<u>\$ 82,583,869</u>	<u>\$ 90,265,888</u>	<u>\$ 76,508,423</u>
Program Revenues							
<i>Governmental activities</i>							
Charges for services							
Public safety	\$ 1,107,794	\$ 1,048,587	\$ 1,148,627	\$ 1,315,417	\$ 1,083,694	\$ 532,717	\$ 553,437
Public works	3,627,290	3,203,179	2,892,913	1,799,284	1,821,717	1,805,400	1,781,202
Other activities	587,294	566,814	535,125	471,137	415,225	508,282	426,281
Operating grants and contributions	6,763,352	6,613,064	7,024,034	6,038,168	5,979,520	5,359,113	5,557,143
Capital grants and contributions	2,119,392	1,359,606	1,168,709	6,392,874	314,789	3,260,581	300,000
Total governmental activities program revenues	<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>	<u>11,466,093</u>	<u>8,618,063</u>
<i>Business-type activities</i>							
Charges for services							
Electric	30,863,283	31,000,915	29,300,625	27,699,386	20,192,965	20,092,111	19,640,717
Water and sewage	10,981,350	11,569,453	10,740,194	9,529,125	8,510,106	8,368,156	7,663,093
Civic Center	919,781	937,520	1,006,344	793,716	887,312	862,129	716,643
Catering and concessions	994,016	1,048,994	1,097,172	991,208	967,446	975,666	995,280
Total business-type activities program revenues	<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>	<u>30,298,062</u>	<u>29,015,733</u>
Total primary government program revenues	<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>	<u>\$ 41,764,155</u>	<u>\$ 37,633,796</u>
Net (expense) revenue							
Governmental activities	\$ (53,883,521)	\$ (51,597,319)	\$ (48,228,938)	\$ (42,299,619)	\$ (43,994,696)	\$ (53,327,653)	\$ (40,863,046)
Business-type activities	267,959	3,384,765	3,177,293	83,496	1,583,601	4,825,920	1,988,419
Total primary government net expense	<u>\$ (53,615,562)</u>	<u>\$ (48,212,554)</u>	<u>\$ (45,051,645)</u>	<u>\$ (42,216,123)</u>	<u>\$ (42,411,095)</u>	<u>\$ (48,501,733)</u>	<u>\$ (38,874,627)</u>

TABLE 2
CONTINUED

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

	2009	2008	2007	2006	2005	2004	2003
General Revenues and Other Changes in Net Assets							
<i>Governmental activities:</i>							
Taxes							
Property taxes	\$ 31,335,765	\$ 30,082,026	\$ 27,606,560	\$ 27,161,942	\$ 25,062,245	\$ 24,868,585	\$ 23,353,997
Meals tax	2,448,064	2,546,104	2,397,412	2,351,010	2,190,099	2,091,998	2,055,706
Local sales and use taxes	5,568,978	5,908,920	5,711,940	5,634,585	5,601,846	5,397,710	4,996,579
Utility taxes	1,123,616	1,156,775	1,228,975	1,372,250	1,339,238	1,122,167	1,141,696
Business license tax	4,827,348	4,714,965	4,258,059	3,866,585	4,032,843	3,647,786	3,496,933
Other taxes	2,856,119	2,362,788	2,700,657	2,625,066	2,486,633	2,484,614	2,233,301
Intergovernmental revenue not restricted	3,860,269	4,030,210	3,878,955	3,523,634	3,597,191	3,213,462	3,243,932
Unrestricted investment earnings	213,671	568,689	789,526	556,039	501,808	394,977	319,062
Gain on sale of property	24,624	5,715	-	402,089	571,311	-	-
Other	375,139	812,702	279,223	218,274	266,019	285,750	302,877
Transfers	1,626,999	1,552,276	495,995	975,685	(70,821)	236,756	226,527
Total governmental activities	<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>	<u>43,743,805</u>	<u>41,370,610</u>
<i>Business-type activities:</i>							
Unrestricted investment earnings	179,714	706,658	928,710	271,303	311,154	110,832	369,743
Gain on sale of property	205,932	-	6,967	-	-	-	-
Other	21,924	130,909	20,149	-	-	-	-
Transfers	(1,626,999)	(1,552,276)	(495,995)	(975,685)	70,821	(236,756)	(226,527)
Total business-type activities	<u>(1,219,429)</u>	<u>(714,709)</u>	<u>459,831</u>	<u>(704,382)</u>	<u>381,975</u>	<u>(125,924)</u>	<u>143,216</u>
Total primary government	<u>\$ 53,041,163</u>	<u>\$ 53,026,461</u>	<u>\$ 49,807,133</u>	<u>\$ 47,982,777</u>	<u>\$ 45,960,387</u>	<u>\$ 43,617,881</u>	<u>\$ 41,513,826</u>
Changes in Net Assets							
Governmental activities	\$ 377,071	\$ 2,143,851	\$ 1,118,364	\$ 6,387,540	\$ 1,583,716	\$ (9,583,848)	\$ 507,564
Business-type activities	(951,470)	2,670,056	3,637,124	(620,886)	1,965,576	4,699,996	2,131,635
Total primary government	<u>(574,399)</u>	<u>\$ 4,813,907</u>	<u>\$ 4,755,488</u>	<u>\$ 5,766,654</u>	<u>\$ 3,549,292</u>	<u>\$ (4,883,852)</u>	<u>\$ 2,639,199</u>

Notes:

Source: City of Salem Finance Department

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

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

(2) As restated.

**TABLE 3
UNAUDITED**

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
General Fund										
Reserved	\$ 916,227	\$ 893,623	\$ 1,357,034	\$ 1,431,926	\$ 1,179,343	\$ 1,009,767	\$ 745,321	\$ 811,145	\$ 967,680	\$ 857,533
Unreserved	5,486,537	7,086,974	6,547,440	6,419,834	10,534,365	11,124,617	10,319,757	7,785,113	8,494,384	8,290,010
Total general fund	<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>	<u>\$ 12,134,384</u>	<u>\$ 11,065,078</u>	<u>\$ 8,596,258</u>	<u>\$ 9,462,064</u>	<u>\$ 9,147,543</u>
 All Other Governmental Funds										
Reserved	\$ 2,130,298	\$ 3,388,893	\$ 1,083,915	\$ 1,251,705	\$ 3,777,959	\$ 7,434,079	\$ 2,920,546	\$ 2,639,011	\$ 702,166	\$ 980,723
<i>Unreserved, reported in:</i>										
Capital projects fund	(2,031,615)	(3,152,261)	(189,129)	(463,348)	(1,691,345)	2,914,998	(305,531)	-	-	-
Total all other governmental funds	<u>\$ 98,683</u>	<u>\$ 236,632</u>	<u>\$ 894,786</u>	<u>\$ 788,357</u>	<u>\$ 2,086,614</u>	<u>\$ 10,349,077</u>	<u>\$ 2,615,015</u>	<u>\$ 2,639,011</u>	<u>\$ 702,166</u>	<u>\$ 980,723</u>

Note:

Source: City of Salem Finance Department

**TABLE 4
UNAUDITED**

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Revenue										
Taxes	\$ 48,272,897	\$ 47,254,766	\$ 44,555,391	\$ 44,037,357	\$ 41,593,054	\$ 40,747,374	\$ 38,137,448	\$ 36,436,995	\$ 35,323,279	\$ 35,547,144
Permits, privilege fees, and regulatory licenses	228,687	303,958	293,004	294,314	286,150	308,511	257,796	269,237	237,722	268,517
Fines and forfeitures	171,056	159,489	159,363	150,860	162,207	197,297	170,922	156,128	159,404	162,188
Revenue from use of money and property	539,930	786,455	1,434,893	1,385,122	1,861,432	579,303	482,878	928,857	1,197,369	1,103,489
Charges for services	4,602,745	4,154,836	3,915,569	2,959,842	2,749,670	2,186,113	2,168,506	1,967,128	1,950,211	2,146,002
Other	195,505	152,478	47,673	32,544	43,796	53,590	385,733	1,385,165	1,142,483	1,099,482
Intergovernmental	12,526,047	10,859,986	10,336,870	8,720,129	8,765,664	7,764,376	8,562,593	8,400,270	7,663,260	7,146,529
Total revenues	<u>66,536,867</u>	<u>63,671,968</u>	<u>60,742,763</u>	<u>57,580,168</u>	<u>55,461,973</u>	<u>51,836,564</u>	<u>50,165,876</u>	<u>49,543,780</u>	<u>47,673,728</u>	<u>47,473,351</u>
Expenditures										
General government administration	6,380,771	4,891,569	4,694,442	4,994,542	4,386,061	4,005,851	3,555,873	3,330,674	3,511,823	3,145,638
Judicial administration	1,723,427	1,649,871	1,506,395	1,321,052	1,256,107	1,207,990	1,172,370	1,185,883	1,152,094	1,090,282
Public safety	14,371,192	14,397,297	13,358,739	12,707,985	11,670,171	10,740,352	10,103,738	9,706,080	9,058,667	8,610,382
Public works	12,113,469	12,156,138	11,434,040	9,400,116	9,777,021	8,879,090	8,514,725	9,491,691	8,036,110	7,791,651
Health and welfare	2,315,841	2,410,340	2,163,687	1,918,490	1,823,783	1,419,802	1,217,958	1,858,199	1,541,957	1,455,984
Education	18,420,000	17,995,000	17,095,000	16,266,005	15,618,081	15,340,564	14,747,635	14,851,000	15,552,599	15,005,469
Parks, recreation, and cultural	4,716,767	4,464,456	4,354,144	4,316,920	4,037,410	3,696,621	3,336,510	3,549,487	3,238,115	3,136,048
Community development	1,148,291	469,835	639,535	815,991	513,272	842,963	1,290,922	843,615	662,157	508,435
Non-departmental	3,349,639	1,976,756	1,769,127	3,610,694	2,424,022	1,788,744	2,253,821	1,669,551	1,163,257	2,002,046
Capital projects	1,624,611	1,397,376	2,750,335	4,325,562	5,519,655	14,604,233	76,230	819,507	1,379,692	589,119
<i>Debt service:</i>										
Principal retirement	2,618,896	2,612,403	2,607,365	2,863,024	5,616,505 (2)	1,055,518	1,628,985	1,969,433	903,164	944,572
Interest and fiscal charges	1,105,218	1,171,197	1,119,793	1,185,708	1,432,203	1,150,476	1,063,168	1,160,076	430,350	481,247
Total expenditures	<u>69,888,122</u>	<u>65,592,238</u>	<u>63,492,602</u>	<u>63,726,089</u>	<u>64,074,291</u>	<u>64,732,204</u>	<u>48,961,935</u>	<u>50,435,196</u>	<u>46,629,985</u>	<u>44,760,873</u>
Excess (deficiency) of revenues over expenditures	(3,351,255)	(1,920,270)	(2,749,839)	(6,145,921)	(8,612,318)	(12,895,640)	1,203,941	(891,416)	1,043,743	2,712,478
Other Financing Sources (Uses)										
Proceeds from borrowing	-	-	-	-	-	31,970,540	-	-	-	-
Payments to bond escrow agents	-	-	-	-	-	(10,508,287)	-	-	-	-
Transfers in	6,043,796	6,474,312	7,536,323	8,235,360	5,417,206	4,252,823	3,993,355	2,862,517	2,189,014	1,825,819
Transfers out	(4,408,322)	(5,136,073)	(4,627,341)	(7,249,644)	(5,488,027)	(4,016,067)	(3,766,828)	(3,875,163)	(3,196,793)	(2,359,721)
Total other financing sources (uses)	<u>1,635,474</u>	<u>1,338,239</u>	<u>2,908,982</u>	<u>985,716</u>	<u>(70,821)</u>	<u>21,699,009</u>	<u>226,527</u>	<u>(1,012,646)</u>	<u>(1,007,779)</u>	<u>(533,902)</u>
Net change in fund balances	<u>\$ (1,715,781)</u>	<u>\$ (582,031)</u>	<u>\$ 159,143</u>	<u>\$ (5,160,205)</u>	<u>\$ (8,683,139)</u>	<u>\$ 8,803,369</u>	<u>\$ 1,430,468</u>	<u>\$ (1,904,062)</u>	<u>\$ 35,964</u>	<u>\$ 2,178,576</u>
Debt service as a percentage of noncapital expenditures (1)	6.07%	6.43%	6.68%	7.06%	12.35% (3)	4.60%	5.68%	6.51%	3.09%	3.36%

Notes:

Source: City of Salem Finance Department

(1) Debt service as a percentage of noncapital expenditures is the sum of debt service divided by the net of other expenditures less capital outlay presented as a reconciling item from the Statement of Revenues Expenditures, and Changes in Fund Balance to the Statement of Activities.

(2) Includes one-time balloon payment of \$2,715,000.

(3) Net of balloon payment, percentage equals 7.59%.

TABLE 5
UNAUDITED

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

Fiscal Year Ended June 30,	Real Estate	Personal Property	Machinery and Tools	Public Service Corporation	Mobile Homes	Total Taxable Assessed Value	Total Direct Tax Rate
2009	\$ 1,912,957,600	\$ 263,305,279	\$ 80,517,625	\$ 36,468,242	\$ 1,655,642	\$ 2,294,904,388	1.48
2008	1,805,483,900	263,662,393	82,535,751	36,451,099	1,780,273	2,189,913,416	1.50
2007	1,601,239,600	254,765,656	86,685,532	34,992,259	1,632,022	1,979,315,069	1.52
2006	1,572,732,200	262,141,563	86,409,864	33,586,047	1,855,348	1,956,725,022	1.54
2005	1,414,891,600	253,619,878	82,714,938	35,032,203	2,186,076	1,788,444,695	1.55
2004	1,386,790,100	250,218,290	88,317,031	35,658,160	2,092,797	1,763,076,378	1.56
2003	1,276,162,600	262,415,563	75,075,156	36,825,471	2,257,457	1,652,736,247	1.60
2002	1,260,133,200	257,336,535	81,289,685	35,119,042	2,573,480	1,636,451,942	1.60
2001	1,159,955,100	291,662,164	79,003,832	33,842,393	2,782,250	1,567,245,739	1.66
2000	1,132,465,500	252,607,101	87,609,659	30,630,006	3,311,164	1,506,623,430	1.65

Note:

Source: City of Salem Finance Department

**TABLE 6
UNAUDITED**

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

Taxpayer	2009			2000		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Lewis-Gale Hospital HCA (1)	\$ 60,940,600	1	3.18%	\$ 20,798,700	2	1.84%
Yokohama Industries	16,142,400	2	0.84%	16,234,000	3	1.44%
General Electric	10,655,700	3	0.56%	10,689,700	4	0.95%
U.S. Food Service, Inc.	10,524,500	4	0.55%	6,482,100	8	0.57%
Chateau Riviera Apartments/ C.S.W. Associates	9,190,500	5	0.48%	7,090,100	7	0.63%
Spartan Square	8,804,100	6	0.46%	5,121,300	10	0.45%
Carthy Corporation/ Carter Machinery	7,586,000	7	0.40%			
Wal-Mart, Inc.	6,750,000	8	0.35%	5,876,400	9	0.52%
Lakeside Plaza	6,717,100	9	0.35%			
Ridgewood Farms Plaza	6,165,500	10	0.32%			
Lewis-Gale Building Corporation (1)				22,913,200	1	2.02%
Home Shopping Network Virginia Division				8,535,400	5	0.76%
Rowe Furniture/Salem Frame				7,703,300	6	0.68%

Notes:

Source: City of Salem Real Estate Valuation Department

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

**TABLE 7
UNAUDITED**

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

Customer	2009			2000		
	Services Billed	Rank	Percentage of Total Services Billed	Services Billed	Rank	Percentage of Total Services Billed
Lewis-Gale Hospital HCA	\$ 1,432,334	1	4.64%	\$ 768,818	1	3.99%
Roanoke College	991,422	2	3.21%	477,305	3	2.48%
Graham White	736,126	3	2.38%	449,641	4	2.33%
U.S. Food Service, Inc.	627,336	4	2.03%	268,370	7	1.39%
Rowe Furniture/Salem Frame	558,169	5	1.81%	519,346	2	2.70%
Kroger	425,223	6	1.38%	321,029	6	1.67%
Carthy Corporation/ Carter Machinery	407,588	7	1.32%	230,463	8	1.20%
Old Virginia Brick Company	343,708	8	1.11%	215,039	10	1.12%
Sewell Products	331,878	9	1.07%			
Wal-Mart, Inc.	286,071	10	0.93%	215,114	9	1.12%
Valleydale Foods				340,138	5	1.77%

Note:

Source: City of Salem Finance Department

**TABLE 8
UNAUDITED**

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

Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Year	Total Collections to Date	
		Amount (1)	Percentage of Levy		Amount	Percentage of Levy
2009	\$ 33,756,735	\$ 33,390,692	98.92%	\$ 558,168	\$ 33,948,860	100.57%
2008	32,390,886	31,874,752	98.41%	455,608	32,569,911	100.55%
2007	30,693,167	29,241,660	95.27%	273,850	30,310,987	98.75%
2006	30,146,687	26,870,788	89.13%	294,662	29,653,540	98.36%
2005	27,797,041	27,074,619	97.40%	364,687	27,369,281	98.46%
2004	27,635,328	26,861,320	97.20%	253,199	27,226,007	98.52%
2003	26,305,825	25,829,614	98.19%	259,718	26,082,813	99.15%
2002	25,816,066	25,015,942	96.90%	255,210	25,275,660	97.91%
2001	24,642,171	24,300,445	98.61%	239,461	24,555,655	99.65%
2000	24,340,279	24,089,227	98.97%	236,974	24,328,688	99.95%

Note:

Source: City of Salem Finance Department

(1) Includes state share of personal property taxes.

TABLE 9
UNAUDITED

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

Fiscal Year	Governmental Activities			Percentage of Estimated Actual Value of Taxable Property	Net Bonded Debt Per Capita
	General Obligation Bonds	Other Long-term Debt	Less: Amounts Restricted to Repaying Principal		
2009	\$ 26,534,546	\$ 250,000	\$ -	1.17%	\$ 1,062.50
2008	29,028,442	375,000	-	1.34%	1,169.45
2007	31,515,845	500,000	-	1.62%	1,273.35
2006	31,498,210	625,000	-	1.64%	1,279.81
2005	34,236,234	750,000	-	1.96%	1,393.87
2004	39,727,739	875,000	2,988,308	2.13%	1,520.39
2003	18,362,717	1,000,000	2,673,586	1.01%	675.67
2002	19,866,702	1,125,000	2,621,352	1.12%	740.05
2001	21,368,934	1,592,200	2,737,447	1.29%	817.22
2000	22,829,000	2,059,400	2,769,188	1.47%	897.08

Fiscal Year	Business-Type Activities	Total Primary Government
	General Obligation Bonds	
2009	\$ 59,416,149	\$ 86,200,695
2008	62,254,430	91,657,872
2007	64,951,116	96,966,961
2006	66,855,732	98,978,942
2005	40,495,352	75,481,586
2004	39,779,649	77,394,080
2003	42,047,283	58,736,414
2002	45,158,298	63,528,648
2001	24,726,065	44,949,752
2000	27,190,998	49,310,210

Notes:

Source: City of Salem Finance Department

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

See Table 11 for personal income and population data.

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

TABLE 10
UNAUDITED

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

Fiscal Year	Assessed Value of Real Property	Debt Limit 10% of Assessed Value	Amount of Debt Applicable to Limit				Net Debt Applicable to Limit (12)	Legal Debt Margin
			Total General Obligation Bonds	Total Other Long-term Debt	Less Enterprise Bonds (11)	Less Restricted to Repaying Principal		
2009	\$ 1,949,425,842 (1)	\$ 194,942,584	\$ 85,950,695	\$ 250,000	\$ (59,416,149)	\$ -	\$ 26,784,546	13.74%
2008	1,841,934,999 (2)	184,193,500	91,282,872	375,000	(62,254,430)	-	29,403,442	15.96%
2007	1,636,231,859 (3)	163,623,186	96,466,961	500,000	(64,951,116)	-	32,015,845	19.57%
2006	1,606,318,247 (4)	160,631,825	98,353,942	625,000	(66,855,732)	-	32,123,210	20.00%
2005	1,449,923,803 (5)	144,992,380	74,731,586	750,000	(40,495,352)	-	34,986,234	24.13%
2004	1,422,448,260 (6)	142,244,826	79,507,388	875,000	(39,779,649)	(2,988,308)	37,614,431	26.44%
2003	1,312,988,071 (7)	131,298,807	60,410,000	1,000,000	(42,047,283)	(2,673,586)	16,689,131	12.71%
2002	1,295,252,242 (8)	129,525,224	65,025,000	1,125,000	(45,158,298)	(2,621,352)	18,370,350	14.18%
2001	1,193,797,493 (9)	119,379,749	46,094,999	1,592,200	(24,726,065)	(2,737,447)	20,223,687	16.94%
2000	1,163,095,506 (10)	116,309,551	50,019,998	2,059,400	(27,190,998)	(2,769,188)	22,119,212	19.02%

Notes:

Source: City of Salem Finance Department

(1) Includes \$1,912,957,600 in General Real Estate and \$36,468,242 in Public Service Corporation Real Estate.

(2) Includes \$1,805,483,900 in General Real Estate and \$36,451,099 in Public Service Corporation Real Estate.

(3) Includes \$1,601,239,600 in General Real Estate and \$34,992,259 in Public Service Corporation Real Estate.

(4) Includes \$1,572,732,200 in General Real Estate and \$33,586,047 in Public Service Corporation Real Estate.

(5) Includes \$1,414,891,600 in General Real Estate and \$35,032,203 in Public Service Corporation Real Estate.

(6) Includes \$1,386,790,100 in General Real Estate and \$35,658,160 in Public Service Corporation Real Estate.

(7) Includes \$1,276,162,600 in General Real Estate and \$36,825,471 in Public Service Corporation Real Estate.

(8) Includes \$1,260,133,200 in General Real Estate and \$35,119,042 in Public Service Corporation Real Estate.

(9) Includes \$1,159,955,100 in General Real Estate and \$33,842,393 in Public Service Corporation Real Estate.

(10) Includes \$1,132,465,500 in General Real Estate and \$30,630,006 in Public Service Corporation Real Estate.

(11) 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.

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

**TABLE 11
UNAUDITED**

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

Fiscal Year Ended (1)	Population (2)	Total Personal Income (3)	Per Capita Personal Income (4)	Public School Enrollment	Unemployment Rate (5)
		(In Thousands)			
2009	25,209	\$4,304,000	\$ 37,324	3,907	6.30%
2008	25,143	4,128,137	35,978	3,895	3.60%
2007	25,143	3,986,137	35,140	3,946	3.00%
2006	25,100	3,986,137	34,632	3,908	2.90%
2005	25,100	3,986,137	34,632	3,882	2.50%
2004	24,740	3,853,327	33,998	3,888	2.70%
2003	24,700	3,669,268	32,703	3,910	3.80%
2002	24,823	3,654,128	32,795	3,981	3.10%
2001	24,747	3,577,363	32,070	3,889	2.20%
2000	24,657	3,362,886	30,451	3,957	1.60%

Notes:

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

(2) Population is based on figures available from the American Community Survey for fiscal year 2009 and the Weldon Cooper Center, University of Virginia for fiscal years 2008 and earlier.

(3) Bureau of Economic Analysis. Total personal income reported is for Roanoke County and the City of Salem. No data is available for the City of Salem only.

(4) Source: City Planning Department

(5) Virginia Employment Commission

**TABLE 12
UNAUDITED**

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

Employer	2009			2000		
	Employees	Rank	Percentage of Total City Employment (1)	Employees	Rank	Percentage of Total City Employment (1)
Veterans Administration Medical Center	1,700	1	7.61%	1,458	2	5.91%
Lewis-Gale Hospital HCA	1,497	2	6.70%	1,400	3	5.68%
General Electric	1,100	3	4.93%	1,490	1	6.04%
Virginia Department of Transportation	900	4	4.03%			
Yokohama Industries	850	5	3.81%	1,194	5	4.84%
City of Salem Schools	596	6	2.67%	529	7	2.15%
City of Salem	549	7	2.46%	488	8	1.98%
Roanoke College	462	8	2.07%	455	9	1.85%
U.S. Food Service, Inc.	424	9	1.90%			
Carthy Corporation/ Carter Machinery	330	10	1.48%			
Lewis-Gale Clinic				1,140	4	4.62%
Home Shopping Network Virginia Division				850	6	3.45%
U.S. Postal Barcoding Inc.				380	10	1.54%

Notes:

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

(1) Calculated using data provided by Virginia Employment Commission

**TABLE 13
UNAUDITED**

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

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

Notes:

Source: City of Salem Finance Department

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

TABLE 14
UNAUDITED

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

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

Notes:

Source: Various City Departments

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

**TABLE 15
UNAUDITED**

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

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

Notes:

Source: City of Salem Finance Department

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

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COMPLIANCE SECTION

**CITY OF SALEM, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2009**

<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 Consumer Services</i>		
Food Distribution – Commodities	10.555	\$ 110,564
<i>Department of Education</i>		
National School Breakfast Program	10.553	96,950
National School Lunch Program	10.555	428,139
<u>Department of Justice</u>		
<i>Direct Payments</i>		
Drug Enforcement Task Force	16.000	67,902
Bulletproof Vest Partnership Program	16.607	3,982
<i>Department of Criminal Justice Assistance</i>		
Byrne Justice Assistance Grant	16.738	2,243
<u>Department of Transportation</u>		
<i>Direct Payments</i>		
Highway Planning and Construction	20.205	1,455,236
<i>Division of Motor Vehicles</i>		
State and Community Safety Program	20.600	441
Alcohol Traffic Safety and Drunk Driving Prevention	20.601	22,051
<u>Department of Education</u>		
<i>Department of Education</i>		
Title I Grants to Local Educational Agencies	84.010	397,389
State Grants for Innovation Programs	84.298	1,463
Part A, Improving Teacher Quality State Grants	84.367	122,623
Vocational Education – Basic Grants to States	84.048	45,963
Special Education – Grants to States	84.027	676,627
Special Education – Preschool Grants	84.173	18,015
Fund for the Improvement of Education	84.215	10,980
Education Technology State Grant	84.318	3,755
Adult Education – State Grant Program	84.002	81,072
English Language Acquisition Grants	84.365	5,454
Safe and Drug-Free Schools and Communities – State Grants	84.186	7,669
<u>Federal Emergency Management Agency</u>		
<i>Department of Emergency Services</i>		
Emergency Management Assistance	83.503	4,148
State Homeland Security Grant	97.073	80,729
Severe Loss Repetitive Program	97.110	622,879
Total Expenditures of Federal Awards		<u>\$ 4,266,274</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, 2009, the Component Unit – School Division had food commodities in inventory of \$39,156.

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Salem, Virginia (“City”), as of and for the year ended June 30, 2009, which collectively comprise the City’s basic financial statements and have issued our report thereon dated November 23, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City’s financial statements that is more than inconsequential will not be prevented or detected by the City’s internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Item 09-1 to be a significant deficiency in internal control over financial reporting.

Internal Control Over Financial Reporting (Continued)

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including certain provisions of the compliance matters described in the Summary of Compliance Matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as Items 09-2 and 09-3.

We noted certain matters that we reported to management of the City in a separate letter dated November 23, 2009.

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

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

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

Roanoke, Virginia
November 23, 2009

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

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

Compliance

We have audited the compliance of the City of Salem, Virginia (“City”), with the types of compliance requirements described in the U.S. Office of Management and Budget (*OMB Circular A-133 Compliance Supplement*) that are applicable to each of its major federal programs for the year ended June 30, 2009. The City’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City’s management. Our responsibility is to express an opinion on the City’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City’s compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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

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

Roanoke, Virginia
November 23, 2009

CITY OF SALEM, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2009

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

STATE COMPLIANCE MATTERS

Code of Virginia:

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

State Agency Requirements:

Education

FEDERAL COMPLIANCE MATTERS

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

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

CITY OF SALEM, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

A. SUMMARY OF AUDITOR'S RESULTS

- 1. The auditor's report expresses an unqualified opinion on the basic financial statements.
2. One significant deficiency related to the audit of the financial statements is reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. The deficiency was determined to not be a material weakness.
3. No instances of noncompliance material to the basic financial statements were disclosed during the audit.
4. No significant deficiencies are disclosed in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs expresses an unqualified opinion.
6. The audit disclosed no audit findings relating to major programs.
7. The programs tested as major programs include:
Severe Repetitive Loss Program 97.110
Highway Planning and Construction 20.205
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

09-1: Audit Adjustments (Significant Deficiency)

Condition:

We noted misstatements related to a nonrecurring transaction related to the Comprehensive Services Act program and the initial recording of the Other Postemployment Benefits liability that we deemed more than inconsequential, but not material.

Recommendation:

Management should review all unusual transactions for proper accounting treatment.

Management's Response:

The City's accounting treatment was based upon our understanding of the report provided by the actuary. It is the City's intent to take appropriate action in future periods. The Comprehensive Services Act transaction represents recognition of a transaction recorded by the City which will not arise in the future.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS

None

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

09-2: Disclosure Statement Submission

Condition:

We noted one Board of Equalization member did not file the official disclosure statement by the January 15th required submission deadline as set forth by the *Code of Virginia*. We noted that one Planning Commission member did not sign or date the official disclosure statement as required by the *Code of Virginia*.

Recommendation:

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

Management's Response:

The City concurs with the comment and has noted it for future reference.

09-3: Timely Filed Reimbursement Requests

Condition:

We noted that one out of two Comprehensive Services Act Pool reimbursement requests was not filed on a quarterly basis as set forth by the *Code of Virginia*.

Recommendation:

Steps should be taken to ensure that the reimbursement requests are filed in a timely manner.

Management's Response:

The City concurs with the comment and has noted it for future reference.

CITY OF SALEM, VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2009

Auditor
Reference No.

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

Condition:

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

Current Year Status:

Finding was not detected for the year ended June 30, 2009.

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

Frank P. Turk

Director of Finance

Accounting/Accounts Payable/Purchasing

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

Administrative

Alyson R. Chaisson

Finance Administrative Secretary/
Accounting Technician

Payroll

Mechelle Bennett-Stump
Patricia K. Poage

Payroll Technician
Payroll Supervisor