

CITY OF SALEM, VIRGINIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT YEAR ENDED JUNE 30, 2017

DEPARTMENT OF FINANCE

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INTRODUCTORY SECTION



The introductory section of the City of Salem, Virginia's Comprehensive Annual Financial Report contains the Letter of Transmittal, which presents an overview of the profile of the City of Salem government, the local economic condition and outlook, major initiatives and accomplishments, and financial policies and financial planning. Also included in this section are an organizational chart and the Certificate of Achievement for Excellence in Financial Reporting awarded by the Government Finance Officers Association of the United States and Canada (GFOA) for the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016. It is the highest form of recognition in governmental financial reporting.

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November 16, 2017

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

In accordance with Section 8.9 of the Salem City Charter, we are pleased to present the City of Salem, Virginia (City) Comprehensive Annual Financial Report (CAFR) as of and for the fiscal year ended June 30, 2017. The charter requires the City to issue an annual report on its financial position and activities and that the report be audited by an independent firm of certified public accountants. This report was prepared by the Department of Finance in conformity with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB).

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

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

Management's discussion and analysis (MD&A) beginning on page 20 provides a narrative introduction, overview and analysis to assist users in interpreting the basic financial statements as required by GAAP. This letter is meant to complement the MD&A and should be read in conjunction with it.

Profile of the Government

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

Chartered by the Commonwealth of Virginia as a town in 1806 and as a city in 1968, Salem encompasses a land area of 14.4 square miles. The City's 2017 estimated population, 25,549, accounts for approximately 8.3% of the population in its metropolitan statistical area (MSA), which includes the neighboring City of Roanoke and Counties of Botetourt, Craig, Franklin and Roanoke.

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

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

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

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

Local Economic Condition and Outlook

Salem is proud to provide an atmosphere and quality of life conducive to families and businesses. Over the years, Salem has been able to maintain stable property tax rates. A strong educational system providing a well-educated and skilled workforce along with generally lower operating costs are reasons why employers have chosen to locate in Salem and the rest of the Valley. The City continues to actively pursue economic development opportunities, both in Downtown and other areas.

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

Since the implementation of the Downtown Plan is such a large undertaking, it involves multiple funding sources. The reason for this is twofold. First, the City wants to bring as many resources to bear on the effort as possible. Secondly, the City wants to bring the project to fruition as quickly as possible. In addition to local funding for the Façade Program and for event programming, portions of the Downtown Plan are funded by Smartscale (HB2), Community Development Block Grants, Revenue Sharing, Transportation Alternatives Program funding and donations from partners such as Roanoke College and the Rotary Club of Salem. Grant funding totaling approximately \$5.5 million has been awarded with a required local match of \$370,000.

Engineering work on the new streetscape has begun, with the first phase of construction slated to begin in 2018. Additional phases are planned and will proceed as grant awards and other funding becomes available. Construction will be phased, starting with College Avenue. In addition, the City's Façade Grant program has been very popular with numerous businesses participating.

The Downtown Plan has been successful well beyond expectations, attracting significant investment not just in Downtown, but in surrounding areas as well, and resulting in the adaptive reuse of several well-known derelict properties. The effort has also realized several long time "wish list" items for Downtown, such as better housing units and a downtown microbrewery.

Chestnut Manor Apartments was purchased by a developer who expects to invest at least \$1.9 million to renovate and redevelop the property. Originally constructed in 1948, this historic three-story complex will get a new roof, electrical system, plumbing and HVAC. Each of the forty units will feature a renovated kitchen and bathroom along with new flooring and lighting. Landscaping will also be done and include a picnic and play area in the back of the complex. This project will be the first to use federal and state historic tax credits in Salem and is anticipated to be completed by the summer of 2018.

The West Salem Body Shop on Main Street was sold to Live Oak Partners LLC, who plan to build a minimum of 18 residential units in the building with commercial space on the first floor. The West Salem Body Shop renovation will also be utilizing federal and state historic tax credits. The developer is expected to invest between \$1.5 million and \$2 million in the project and hopes to complete renovations by April 2018.

Olde Salem Brewing Company is in the process of renovating the building that was the longtime home of Tarpley's and Mac's Appliances on Main Street. Installation of a five-barrel brewing system is planned. The building space is approximately 7,700 square feet and will seat 150 people. The upstairs will be used as apartment space. A grand opening date for the new brewery is tentatively scheduled for December 2017.

The City sold 6.75 acres of land next to the Salem Civic Center to Spartan Development LLC for construction of a Staybridge Suites and Bruno's Restaurant. The hotel will be a 105 room, three-story structure featuring short and long-term accommodations, a large lobby and courtyard. They expect to break ground in December 2017 and have 18 months to complete construction according to the agreement with the City. Bruno's will be a farm-to-table restaurant featuring local food, indoor and outdoor seating and a large gathering space. Spartan Development LLC is expected to invest \$16 million in the project and employ more than 60 people.

Parkway Brewing, which opened in 2013, was recently awarded a grant of \$150,000 from the Governor's Agriculture and Forestry Industries Development Fund, which the City matched with local funds. As part of the agreement, Parkway will purchase at least 56% of its agricultural products from Virginia farmers. In addition, they must create 13 new jobs and invest over \$750,000 to expand their craft beer business. Parkway Brewing plans to use the funding for a new bottling system that will help get its product and the Salem name into other parts of the country more efficiently.

Lidl, a discount grocery store chain from Germany, purchased the property located next to Lowe's on West Main Street. Excavation is expected to begin before the end of 2017. The project includes demolition of two buildings. Many items that Lidl sells are their own private label products and they have a tradition of offering customers new favorites from all over the world.

Salem is fortunate to have a diversified economy comprised of health care, manufacturing, higher education, retail trade and government. Based on 2016 2nd quarter data from the Virginia Employment Commission, Salem experienced the largest number of new hires in administrative and support and waste management, accommodation and food services, retail trade and health care. Included in the manufacturing process are hi-tech electronics, medical equipment, tires, furniture, steel, tool and die and railroad equipment, just to name a few. Salem's unemployment rate of 4.1% increased slightly from the prior year rate of 4% but was lower than the national unemployment rate of 4.5%. Salem's unemployment rate is slightly higher than the state unemployment rate of 3.9%.

Health care remains an important part of Salem's economy. The Salem VA Medical Center (Salem VAMC) was Salem's largest employer in fiscal year 2017, employing approximately 2,000 people. At Salem VAMC, services are available to more than 78,000 veterans living in 26 counties and 13 independent cities of Southwestern Virginia. In the past ten years, employment has increased by 500. Lewis Gale Hospital and Lewis Gale Physicians remained major employers in Salem, with workforces of 1,050 and 610, respectively. The new Mount Regis facility opened in March 2017. The \$19.3 million project at the Salem Commerce Park treats patients with substance abuse issues. The state of the art facility is able to offer assistance to 48 patients, twice as many as the former site could accommodate.

During fiscal year 2017, twenty-seven new homes were constructed with an assessed value of almost \$7 million. In fiscal year 2016, seventeen new homes were constructed with an assessed value of \$4.4 million. As of December 31, 2016, the median sales price of homes in the City of Salem was \$170,000, which did not change from December 31, 2015.

Major Initiatives and Accomplishments

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

Salem students demonstrated high levels of performance in academic, extracurricular and athletic activities. All six Salem schools were fully accredited by the Virginia Department of Education. The City of Salem School Division was named one of the top ten school districts in Virginia for 2017 by Niche. South Salem Elementary and Salem High School were among 386 schools and 17 school divisions that earned 2017 Virginia Index of Performance (VIP) awards for advanced learning and achievement. Salem City Schools was also one of 15 divisions to receive the Distinguished Achievement Award. We are very proud of the 2017 graduation rate of 94.32%. Approximately 85% of Salem High School graduates attend 2 or 4 year colleges or universities.

On June 13, 2016, after two years of analysis, City Council voted to join the Roanoke Valley Resource Authority (RVRA) with Roanoke City, Roanoke County and Vinton. This regional effort is not only advantageous for the City, but for the greater Roanoke Valley. RVRA assumed operation of the City's transfer station on November 1, 2016. The City's Sanitation Department continues to pick up trash and bulk for all citizens.

Salem has developed a nationwide reputation as a sports town, bringing to the community dozens of collegiate and amateur tournaments and championships. The City, in conjunction with Roanoke College, was recently selected to host the 2019 and 2021 NCAA Division III Women's lacrosse championships. In addition, Central Intercollegiate Athletic Association (CIAA) recently announced that the CIAA Football Championship hosted by Salem in 2016 would be returning for three years, 2017 through 2019. Attendance at this game is expected to be over 5,000. CIAA has decided to host their softball and cross country championships in Salem for 2017-2018 and 2018-2019. Salem and the Old Dominion Athletic Conference (ODAC) will continue to serve as co-hosts for the Amos Alonzo Stagg Bowl (NCAA Division III Football) and the Men's Division III Basketball Championships through 2017-2018. The City/ODAC was awarded Division III softball in 2020-2021. Division II softball co-hosted by the Mountain East Conference will return in 2018. In 2016-2017, nearly 19,000 people traveled to Salem to attend NCAA events held in the City, which included the NCAA Division III Football Championship Stagg Bowl, Division III Men's Basketball Championship, Division III Men's and Women's Soccer, Division III Women's Lacrosse along with Division II Softball for an economic impact of nearly \$6 million.

The James I. Moyer Complex hosted over 1,650 softball and baseball teams this year in tournaments, filling over 16,000 hotel rooms in the Roanoke Valley. Major events were: the Chance Crawford Benefit Adult Slow-Pitch Softball Tournament, the ISF Senior World Cup, the VHSL Spring Jubilee, the ODAC Softball Conference Championship, the Mountain East Softball Conference Championship, the NCAA Division II Women's Softball National Championship, USA Girls 12U Class A and 16U and 18U Class B Eastern Fast-Pitch National Championship, the USA Men's Class D and E Eastern and Women's Class C and D Slow-Pitch National Championship. Over 60,000 people attended events at the Moyer Sports Complex during the past year.

The inaugural Salem Half Marathon was held in October 2016, attracting more than 600 runners from all over the Commonwealth and 19 other states. This new event took months of planning and involved over 500 volunteers and many of our City departments. Runners were able to see Salem's downtown, civic facility, neighborhoods and vistas as they ran throughout the City.

The annual Salem Fair held at the Salem Civic Center is the largest fair in the state. Attendance at the Fair held in July 2016 was up approximately 5% compared to 2015. Considering the wet weather on several critical days, attendance remained strong. An estimated 350,000 people toured the fairgrounds

during its 12 days of operations. Ticket sales for rides were higher than the prior year and food vendors did very well despite the weather.

The Salem Red Sox played their eighth season at Salem Memorial Stadium maintaining their average attendance of over 200,000 fans. The 2016-17 season was kicked off with the installation of a \$418,000 high-definition video board, which has the second largest screen in the Carolina League. The Salem Red Sox hosted the 2017 Carolina League All-Star Classic and Homerun Derby Hitting Challenge, attracting fans and business leaders from the 10-team Carolina League, which stretches from Wilmington, Delaware to Myrtle Beach, South Carolina. Salem remains ranked eighth on the list of America's Best Minor League Baseball Towns by SmartAsset.com. The survey ranked 158 cities and towns based on quality of life and game day experience.

The City issued \$10,315,561 in general obligation bonds in June 2016 and several projects funded by these proceeds have been completed or are underway. Replacement of the Library roof is ongoing and is expected to be completed by December 2017. The remodel of the Courthouse front entrance is also underway and is anticipated to be complete by January 2018. The remodel includes roof replacement and other improvements. Various renovations and upgrades at Salem Memorial Park were completed including roof repairs, caulking and the purchase of a new scoreboard. The cost of these projects totaled \$1.5 million. The procurement process is underway for automated meter reading infrastructure for Water and Electric, which will greatly improve efficiency in meter reading and billing.

The West Club sewage pump station was replaced at a cost of \$629,355 and put in service in October 2016. The old pump station was no longer reliable and beyond its service life. The new pump station was designed and constructed to improve reliability, safety and substantially reduce system overflow. Replacement of this station conformed to the Virginia Department of Environmental Quality's consent order for the City to reduce sewage overflows within its system. The new pump station will provide dependable wastewater handling for the area it serves for years to come.

The Salem Fire and EMS Department purchased 42 self-contained breathing apparatus packs and important accessories utilizing grant funding from the Department of Homeland Security. The grant covered \$255,546 of the \$300,000 cost of the equipment. The new equipment offers many safety features that the old equipment did not have, including Heads-Up Display which allows firefighters to monitor their air supply continuously inside their masks.

Financial Policies and Financial Planning

City management is responsible for establishing and maintaining internal controls. Internal controls are designed to provide reasonable, but not absolute, assurance that City assets are safeguarded against

unauthorized use or disposition and that financial transactions are conducted properly and in accordance with City policy.

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

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

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

Independent Audit

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

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) has awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City for its Comprehensive Annual Financial Report for 2016. This represents the twenty-ninth year Salem has earned

this distinction. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. We believe this report conforms to the Certificate of Achievement Program requirements and standards and are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

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

Respectfully submitted,



Kevin S. Boggess
City Manager



Rosemarie B. Jordan
Director of Finance

**CITY OF SALEM, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
JUNE 30, 2017**

MEMBERS OF CITY COUNCIL

Byron R. Foley Mayor
William D. Jones Vice-Mayor
James L. Chisom Member
Jane W. Johnson Member
James A. Martin Member

ELECTED OFFICERS

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

GENERAL CITY GOVERNMENT

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

MEMBERS OF SCHOOL BOARD

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

SCHOOL ADMINISTRATION

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



Government Finance Officers Association

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

Presented to

**City of Salem
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

FINANCIAL SECTION



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

Report of Independent Auditor

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Salem, Virginia (the “City”), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Correction of Error

As discussed in Note 20 to the basic financial statements, the net position of the City's governmental activities, business-type activities and Electric Fund as of June 30, 2016 has been restated from the previously issued financial statements to reflect the correction of an error. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Roanoke, Virginia
November 16, 2017

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

The following discussion and analysis of the City of Salem, Virginia's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2017. It should be read in conjunction with the transmittal letter and the City's basic financial statements.

FINANCIAL HIGHLIGHTS

- As of June 30, 2017, the Primary Government had \$138.3 million in total net position, an increase of \$15.4 million from prior year. Unrestricted net position available to fund future expenses was \$10.5 million or 7.7% of total net position.
- As of June 30, 2017, the governmental activities had \$56.7 million in total net position, which increased \$7.9 million from prior year. Unrestricted net position (deficit) available to fund future expenses was \$(24.3) million or (42.8%) of total net position.
- As of June 30, 2017, the business-type activities had \$81.6 million in total net position, an increase of \$7.5 million from prior year. Unrestricted net position available to fund future expenses was \$34.8 million or 42.7% of total net position.
- As of June 30, 2017, the General Fund had \$27.8 million in total fund balance, which increased by \$8.8 million from prior year. Unassigned fund balance was \$22.2 million or 79.9% of total fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The government-wide financial statements begin on page 35 and include the Statement of Net Position and the Statement of Activities. These statements provide information about the City as a whole using the accrual basis of accounting, which is the method used by most private-sector enterprises. All current year revenues and expenses are reported in the Statement of Activities regardless of when cash is received or paid. These statements allow readers to answer the question "Is the City's financial position, as a whole, better or worse as a result of the year's activities?"

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

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

Fund Financial Statements

The fund financial statements begin on page 37 and provide detailed information about the most significant funds, rather than the City as a whole. The City has three types of funds.

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

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

Summary of Position

The following table presents a condensed summary of net position.

Summary of Net Position								
(In Millions)								
	Governmental		Business-type		Total Primary		Component	
	Activities		Activities		Government		Unit	
	2017	2016*	2017	2016*	2017	2016*	2017	2016
Current and other assets	\$ 39.2	\$ 31.9	\$ 52.7	\$ 47.3	\$ 91.9	\$ 79.2	\$ 15.5	\$ 13.2
Capital assets, net	84.7	89.9	87.1	88.3	171.8	178.2	45.2	46.8
Total assets	123.9	121.8	139.8	135.6	263.7	257.4	60.7	60.0
Deferred outflows of resources	6.6	3.5	2.2	1.4	8.8	4.9	5.6	3.1
Current and other liabilities	3.9	6.1	4.6	4.3	8.5	10.4	6.1	6.0
Long-term liabilities	69.3	66.2	55.3	57.5	124.6	123.7	40.3	37.1
Total liabilities	73.2	72.3	59.9	61.8	133.1	134.1	46.4	43.1
Deferred inflows of revenues	0.6	4.2	0.5	1.1	1.1	5.3	3.4	4.9
Net investment in capital assets	76.7	80.6	46.8	44.5	123.5	125.1	45.1	46.5
Restricted	4.3	2.0	-	-	4.3	2.0	-	0.1
Unrestricted	(24.3)	(33.8)	34.8	29.6	10.5	(4.2)	(28.6)	(31.5)
Total net position	\$ 56.7	\$ 48.8	\$ 81.6	\$ 74.1	\$ 138.3	\$ 122.9	\$ 16.5	\$ 15.1

* Restated

The Primary Government net position increased from \$122.9 million to \$138.3 million. Net position of governmental activities increased \$7.9 million and net position of business-type activities increased \$7.5 million. A detailed description of the changes in revenues and expenses that create the differences in net position is discussed in the next section.

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

The Primary Government's unrestricted net position, the portion of net position that can be used to finance the daily operations of the City was \$10.5 million, an increase of \$14.7 million from prior year. Debt totaling \$3.3 million issued for Civic Center improvements is being repaid by governmental activities while the related asset is recorded in business-type activities. The City also assumed \$17.6 million of debt issued for school improvements while the School Division recorded the related asset. As such, \$20.9 million is included in governmental activities long-term liabilities, which directly reduced unrestricted net position.

Net position is reported as restricted when constraints on asset use are externally imposed by creditors, grantors, contributors, regulators, or are imposed by law through constitutional provisions or enabling legislation. The City had restricted net position totaling \$4.3 million as of June 30, 2017 for governmental activities. Approximately \$3.8 million in state funding was received, but not yet spent, for highway maintenance. Federal and state judicial administration and public safety grant funding totaling \$470,000 was received, but not yet spent, for fire programs, asset forfeiture and hazardous materials grants.

As of June 30, 2017, the component unit had \$16.5 million in total net position, which increased \$1.4 million from prior year. Unrestricted net position (deficit) available to fund future expenses was (\$28.6) million or

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

(174.2%) of total net position and increased by \$2.9 million from prior year. Net investment in capital assets was \$45.1 million and decreased \$1.4 million from prior year.

Summary of Changes in Net Position

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

**Summary of Changes in Net Position
(In Millions)**

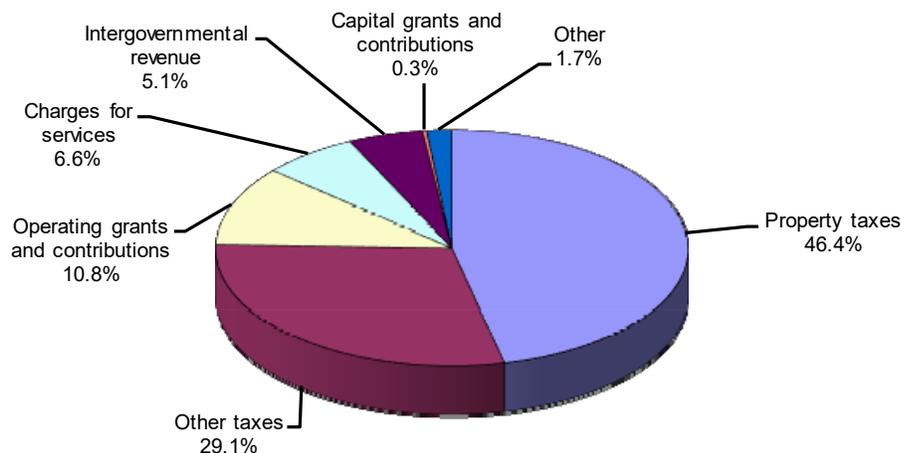
	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2017	2016*	2017	2016*	2017	2016*	2017	2016
Revenues								
<i>Program Revenues:</i>								
Charges for services	\$ 5.1	\$ 6.8	\$ 56.3	\$ 54.9	\$ 61.4	\$ 61.7	\$ 1.6	\$ 1.5
Operating grants and contributions	8.3	7.6	-	-	8.3	7.6	8.6	8.2
Capital grants and contributions	0.2	0.1	-	-	0.2	0.1	0.1	0.1
<i>General Revenues:</i>								
Property taxes	35.6	34.6	-	-	35.6	34.6	-	-
Local sales and use tax	7.2	6.6	-	-	7.2	6.6	-	-
Business license tax	5.3	5.4	-	-	5.3	5.4	-	-
Meals tax	4.7	4.7	-	-	4.7	4.7	-	-
Utility taxes	1.2	1.2	-	-	1.2	1.2	-	-
Other taxes	3.9	3.9	-	-	3.9	3.9	-	-
Intergovernmental revenue	3.9	4.0	-	-	3.9	4.0	-	-
Investment earnings	0.6	0.3	-	-	0.6	0.3	-	-
Gain on sale of capital assets	-	0.1	-	-	-	0.1	-	-
Payments from City of Salem	-	-	-	-	-	-	19.8	19.7
State aid	-	-	-	-	-	-	14.1	13.8
Other	0.7	1.0	-	-	0.7	1.0	1.0	0.9
Total revenues	76.7	76.3	56.3	54.9	133.0	131.2	45.2	44.2
Expenses								
General government	\$ 6.9	\$ 6.0	\$ -	\$ -	\$ 6.9	\$ 6.0	\$ -	\$ -
Judicial administration	2.1	1.9	-	-	2.1	1.9	-	-
Public safety	17.0	15.8	-	-	17.0	15.8	-	-
Public works	12.2	16.7	-	-	12.2	16.7	-	-
Health and welfare	3.0	3.0	-	-	3.0	3.0	-	-
Education	19.8	19.7	-	-	19.8	19.7	43.8	41.8
Parks, recreation and cultural	5.9	5.3	-	-	5.9	5.3	-	-
Community development	3.3	2.1	-	-	3.3	2.1	-	-
Interest and other fiscal charges	1.0	1.1	-	-	1.0	1.1	-	-
Electric	-	-	31.6	30.8	31.6	30.8	-	-
Water and sewage	-	-	9.8	10.0	9.8	10.0	-	-
Civic center	-	-	4.1	4.1	4.1	4.1	-	-
Catering and concessions	-	-	0.9	1.0	0.9	1.0	-	-
Total expenses	71.2	71.6	46.4	45.9	117.6	117.5	43.8	41.8
Excess (deficiency) before transfers	5.5	4.7	9.9	9.0	15.4	13.7	1.4	2.4
Transfers	2.4	2.1	(2.4)	(2.1)	-	-	-	-
Increase (decrease) in net position	7.9	6.8	7.5	6.9	15.4	13.7	1.4	2.4
Net position, beginning, as restated	48.8	42.0	74.1	67.2	122.9	109.2	15.1	12.7
Net position, ending	\$56.7	\$48.8	\$ 81.6	\$ 74.1	\$138.3	\$122.9	\$ 16.5	\$ 15.1

* Restated

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Governmental Activities – Revenues

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



Property taxes, which were 46.4% of total governmental activities revenue, include real estate tax, the local portion of personal property tax, machinery and tools tax and public service corporation taxes. Property taxes increased \$1.0 million or 3% from the previous year. Real estate tax revenue was up approximately 1% or \$204,000 from the previous year. Personal property tax revenue was up \$823,000 largely due to higher assessed values for business property.

Charges for services, which were 6.6% of total governmental activities revenue, include fines, court fees, inspection fees, garbage collection fees, recreation fees and other program-based fees. These revenues decreased \$1.7 million or 25.3%. Roanoke Valley Resource Authority (RVRA) assumed operation of the City's Transfer Station effective November 1, 2016. Only four months of disposal fees were collected in fiscal year 2017, resulting in a large decrease in charges for services.

Operating grants and contributions, which were 10.8% of total governmental activities revenue, increased \$695,000 or 9.1%, largely in the public safety category. In fiscal year 2017, the Fire Department was awarded grant funding of approximately \$255,000 to purchase self-contained breathing apparatus packs and accessories. In addition, fiscal year 2017 was the first year the Police Department received funding for participating with the Roanoke Valley DUI Task Force. The City received approximately \$89,000 in fiscal year 2017. The public works category also includes highway maintenance funding from the state, which increased \$125,000 or 3.1%.

Local sales and use taxes increased \$536,000 or 8.1%. In the spring of fiscal year 2017, the City received sales tax revenue that had previously been remitted to the wrong locality. A portion of the sales tax revenue received as a correction was applicable to previous tax years. Excluding the correction amount applicable to previous years, sales tax was up approximately \$313,000 or 4.7%.

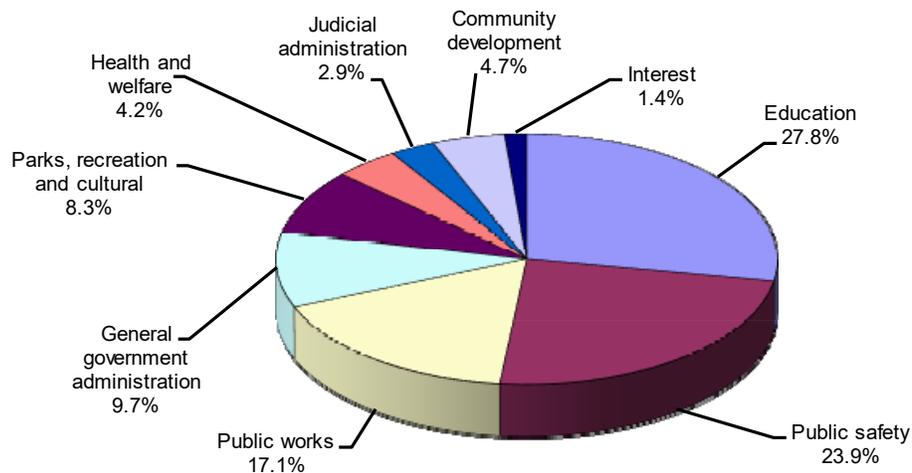
Other general revenues decreased \$310,000. Penalty and interest revenue declined \$175,000 due to the large amount of delinquent taxes collected in the previous year, which included penalties and interest. Miscellaneous revenue was also lower in fiscal year 2017. The City joined RVRA in fiscal year 2017 and received reimbursement of \$219,000 to cover debt service costs related to the Transfer Station, which partially offset these decreases.

Unrestricted investment earnings increased \$285,000 as higher cash balances in fiscal year 2017 generated more interest revenue.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Governmental Activities – Expenses

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



Education expenses totaling \$19.8 million, or 27.8% of governmental activities, represented the largest allocation of resources. Funding of \$19.3 million was allocated to the School Division to cover operating costs. Meals tax revenue is shared with the School Division and \$489,000 was transferred in fiscal year 2017. The amount of meals tax provided to the School Division was \$21,000 or 4.4% higher than the previous year.

Public works expenses were 17.1% of total governmental activities expenses and included engineering, solid waste management, building maintenance, street paving, traffic engineering and street maintenance. Expenses were down \$4.5 million or 26.6% due to decreased highway maintenance spending on paving and bridge repairs. RVRA assumed operation of the Transfer Station effective November 1, 2016, so only four months of expenditures were incurred in fiscal year 2017, contributing to the decrease in this category. Depreciation expense was lower in fiscal year 2017 due to the disposal of Transfer Station assets. An increase in pension expense partially offset these decreases.

Public safety expenses, which were 23.9% of total governmental activities expenses, increased \$1.2 million or 8%. This category includes operations of the labor-intensive police and fire departments, along with expense of emergency medical services, communications (E-911 call center) and the cost of juvenile justice programs. Both Fire and Police departments expended more grant funding in fiscal year 2017 than the previous year. Pension expense was \$752,000 higher than the previous year.

General government expenses were 9.7% of total governmental activities and includes administrative departments such as the City Manager's Office, City Garage, Technology Systems and Finance. Pension expense was \$364,000 higher than the prior year. Technology Systems expenses were up due to equipment and software maintenance charges.

Community development expenses were 4.7% of total governmental activities and increased \$1.2 million. Payments to the Roanoke Valley Broadband Authority for operating and debt services costs were higher in fiscal year 2017. In addition, the amount of economic incentive grants was higher in fiscal year 2017.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Component Unit – School Division Activities

General revenues of the School Division increased \$411,000 or 1.2%. Payments from the City totaled \$19.8 million and remained fairly level with the previous year. Operating support totaled \$19.3 million. Meals tax revenue dedicated to school capital projects totaled \$489,000, which was up \$21,000 or 4.4% from the prior year. State aid was up \$319,000 or 2.3% from the prior year due to a 2.9% increase in basic aid.

The School Division incurred expenses of \$43.8 million for the year ended June 30, 2017, an increase of \$2.0 million or 4.8% from prior year. Instructional costs were up \$1.5 million due to higher salary and benefit costs and pension expense. Pension expense was higher in all functional areas in fiscal year 2017.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

As of June 30, 2017, the governmental funds had \$31.1 million in total fund balance, an increase of \$7.7 million from prior year. Unassigned fund balances available to fund future expenditures were \$22.2 million or 71.4% of total fund balance. Unassigned fund balance, which contains all amounts not included in other classifications, is available to pay for future years' capital expenditures and provide for unforeseen circumstances. Restricted fund balance totaled \$7.1 million and included \$2.9 million of unspent bond proceeds and \$4.2 million that can be spent only for specific purposes stipulated by grantors. Assigned fund balance totaled \$1 million and represents amounts set aside to liquidate encumbrances. Committed fund balance totaled \$143,719 and represents funds appropriated for the E-summons program, stormwater management and CAMA software and ERP projects.

General Fund

The General Fund is the chief operating fund of the City. As of June 30, 2017, the General Fund had \$27.8 million in total fund balance, which increased \$8.8 million from the prior year. Unassigned fund balance available to fund future expenditures was \$22.2 million or 79.9% of total fund balance and increased \$6.5 million from the previous year. As a measure of the General Fund's liquidity, it may be useful to compare both total fund balance and unassigned fund balance to total fund expenditures. Total fund balance to total fund expenditures increased from 27.3% to 42%. Unassigned fund balance to total fund expenditures increased from 22.5% to 33.5%.

City Council has stated its intent to increase the unassigned General Fund balance to at least 15% of the fund's current year budgeted appropriations, a level more reflective of the best practices recommended by the Government Finance Officers Association of the United States and Canada (GFOA). As of June 30, 2017, unassigned fund balance levels were 31.7% of the original expenditure budget, exceeding the target amount. Various measures have contributed to the growth in reserves. The cigarette tax rate was increased from \$0.15 to \$0.45 per pack effective July 1, 2013 with additional funds earmarked to replenish General Fund reserves. City Council also raised several taxes and fees effective July 1, 2014.

Property taxes, which were 47.4% of total General Fund revenue, increased \$1.0 million or 2.9% from the prior year. The City continued focusing on delinquent tax collections, which resulted in higher delinquent real estate tax revenue and penalties and interest for the past two fiscal years. While lower than fiscal year 2016, delinquent real estate tax revenue in fiscal year 2017 totaled almost \$569,000. Current year real estate tax showed an increase of \$569,000 or 2.4% from the previous year. A decrease in the calculated allowance at June 30, 2017 along with higher assessments contributed to the increase in total real estate tax revenue. Personal property revenue increased by \$1.1 million or 16.1%. In fiscal year 2017, a larger amount of the tax due was collected within the 60-day availability period, decreasing the amount of revenue deferred by \$296,000. In addition, the assessed value for business personal property was higher in fiscal year 2017.

Other local taxes, which comprised 29.1% of total General Fund revenue, increased \$520,000 or 2.4% from the prior year. Sales tax increased 8.1% or \$536,000. However, approximately 42% of this increase was due to tax corrections that applied to previous years. Excluding the amounts applicable to previous tax years, sales tax was up approximately \$313,000 or 4.7%. Lodging and admissions tax increased slightly

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

while meals tax remained level with the prior year. Cigarette tax revenue, which showed increases for several years prior to 2017, decreased 9% or \$78,000 from fiscal year 2016. Business license tax, which is based on gross receipts of businesses, declined 1.3% or \$70,000.

Charges for services, which were 5.5% of total General Fund revenue, decreased \$1.9 million or 31%. In June 2016, City Council voted to join the RVRA. RVRA assumed operation of the City's Transfer Station as of November 1, 2016. As a result, only four months of waste disposal revenue was earned in fiscal year 2017 decreasing revenue by \$2.4 million in this category. A corresponding reduction in expenditures was reflected in the Public Works category. The decrease in waste disposal revenue was partially offset by \$150,000 in host fee revenue paid to the City by RVRA. Charges for ambulance services were up \$64,000 or 7.4% due to a higher volume of calls, improved quality control within the Fire Department and improved account management by the City's third party vendor.

Intergovernmental revenue, which comprised 15.9% of General Fund revenue, increased \$676,000 or 5.9%. The Fire Department was awarded a grant from the Department of Homeland Security in the amount of \$255,546 which was used to purchase self-contained breathing apparatus packs and accessories. In addition, highway maintenance funding increased almost \$125,000 and funding received under the Children's Services Act increased approximately \$128,000.

Public works expenditures, which were 12.8% of total General Fund expenditures, decreased \$6.2 million or 42.4% from the prior year. In fiscal year 2016, approximately \$3.7 million was spent on a massive paving project utilizing unspent highway maintenance funds restricted from prior years. In addition, approximately \$524,000 was spent on bridge rehabilitation work on four different bridges. In fiscal year 2017, highway maintenance expenditures totaled only \$1.8 million. RVRA assumed operation of the Transfer Station effective November 1, 2016 so only four months of expenditures were incurred in fiscal year 2017, contributing to the decrease in this category.

Public safety expenditures were \$579,000 or 3.7% higher than the previous year. The Fire Department spent approximately \$300,000 on self-contained breathing apparatus packs and accessories, which was partially funded by grant proceeds. Fire Program expenditures were also higher in fiscal year 2017. Costs to house prisoners at Western Virginia Regional Jail increased due to the City paying for more prisoner days. The number of prisoner days was 22% higher in fiscal year 2017 than the previous year.

Community development expenditures, which comprised 4.8% of General Fund expenditures, increased \$2.1 million. Payments to the Roanoke Valley Broadband Authority for operating and debt service costs were higher in fiscal year 2017. The amount of economic incentive grants was higher in fiscal year 2017. A new Planning and Zoning office was created, incurring charges in this category for the first time in fiscal year 2017.

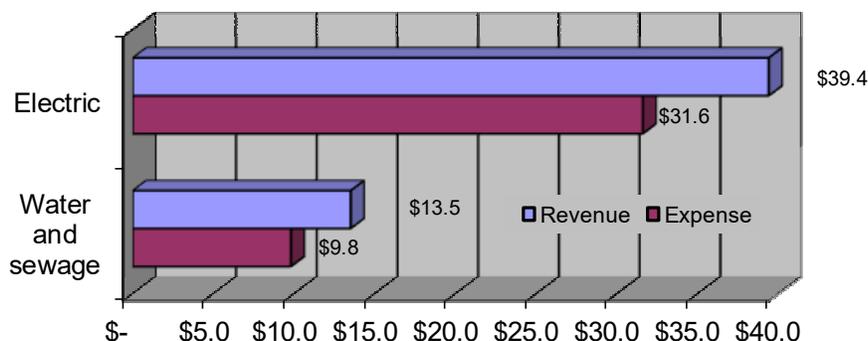
Capital Projects Fund

During fiscal year 2017, the fund balance in the Capital Projects fund decreased \$1 million due to expenditure of bond funds. In June 2016, bonds totaling \$5,281,400 were issued to fund improvements and purchase equipment budgeted in the Capital Projects Fund. Bond proceeds were used to pay for several projects in fiscal year 2017 including \$459,861 for Salem Memorial Park Renovations, \$418,063 for a new scoreboard at Salem Memorial Park and \$462,092 for Street Department equipment.

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

Proprietary Funds

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



Electric Fund

As of June 30, 2017, the Electric fund had \$47.1 million in total net position, which increased by \$4.6 million from prior year. Net investment in capital assets was \$15.3 million or 32.6% of total net position and increased \$936,000 from prior year. Unrestricted net position available to fund future expenses was \$31.8 million or 67.4% of total net position.

For fiscal year 2017, operating revenue was \$39.4 million and increased \$1.4 million or 3.6% from the prior year. Charges for services were up slightly. In addition, the City received \$468,000 from American Electric Power (AEP), refunding amounts erroneously included in rates charged in previous years. Operating expenses were \$31.1 million and were approximately \$1.4 million higher than prior year largely due to an increase in purchased power costs. Purchased power costs increased \$1.1 million or 4.7%. The City purchases power for resale through AEP. Purchased power costs consist of several components. Rates are recalculated annually based on the supplier's cost. In accordance with the contract, AEP is allowed to charge back to the City environmental and other costs as approved by the Federal Energy Regulatory Commission (FERC). These costs relate to AEP's overall transmission and power production costs and are allocated to the City. They are not a direct result of activities in Salem. The true-up of charges is done annually and the settle up in fiscal year 2016 was a larger credit than the fiscal year 2017 true-up. Transmission costs, a component of purchased power costs, were \$882,000 or 23.6% higher in fiscal year 2017.

Water and Sewage Fund

As of June 30, 2017, the Water and Sewage fund had \$34.3 million in total net position, an increase of \$3.5 million from prior year. Net investment in capital assets was \$27.7 million or 80.7% of total net position and increased \$1.7 million from prior year. Unrestricted net position available to fund future expenses was \$6.6 million or 19.3% of total net position.

For fiscal year 2017, operating revenue was \$13.5 million and remained level with the prior year. Operating expenses were \$8.8 million, approximately \$203,000 lower than prior year. Treatment of sewage costs were \$645,000 or 26.3% lower than the previous year due to a decrease in the rate and lower rainfall amounts. Lower rainfall totals in fiscal year 2017 resulted in a reduction of 672 million gallons of sewage being treated by Western Virginia Water Authority (WVWA), a decrease of 20.3%. An increase in depreciation partially offset these decreases. The City's share of the wet weather sewage treatment project with WVWA was capitalized as well as the West Club pump station and several other large pieces of equipment.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

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

**Budgetary Highlights for 2017
(In Millions)**

	Original Budget	Budget As Amended	Actual
Revenues	\$ 72.5	\$ 72.4	\$ 76.9
Expenditures	(70.1)	(72.0)	(66.3)
Transfers in	3.3	3.4	3.5
Transfers out	(5.7)	(5.3)	(5.3)
Use of fund balance	\$ -	\$ (1.5)	\$ 8.8

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, 2016.
- To re-appropriate grants, donations and other revenues authorized in fiscal year 2016 or earlier, but not expended or encumbered as of June 30, 2016.
- To appropriate grants, donations and other revenues accepted or adjusted in fiscal year 2017 when official notice of approval was received.
- To appropriate the unassigned General Fund balance to capital projects.

The Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual – General Fund is shown on page 41. Property taxes exceeded budget for several reasons. Assessed value for personal property increased more than anticipated. In addition, the amount of personal property tax revenue collected within the 60-day availability period was much higher than the previous year. This resulted in a lower amount of revenue being deferred. Because the City assesses and bills personal property in late spring, no current assessment data is available at the time revenue estimates are developed for the subsequent fiscal year. The Finance Department works with other City departments to determine a reasonable revenue estimate based on the information that is available. Real estate tax exceeded the budget estimate due to continued focus on delinquent collections.

Other local taxes exceeded budget by \$1.3 million, largely due to sales tax. As previously discussed, the City received sales tax revenue that was previously remitted to the wrong locality, a portion of which applied to periods prior to fiscal year 2017. There were several other revenues that exceeded budget by smaller amounts, including business license, admissions, lodging and meals taxes.

Public Works expenditures were under budget by \$3 million. Highway maintenance spending was under budget by \$2.1 million. In the Non-departmental category, \$543,000 was budgeted for contingency and \$375,000 was budgeted as a reserve for fund balance replenishment.

CAPITAL ASSETS

The City's total Primary Government capital assets, net of accumulated depreciation, decreased 3.6% from \$178.2 million to \$171.8 million. This investment includes land, construction in progress, machinery and equipment, buildings and improvements, leasehold improvements, public domain infrastructure, distribution and transmission, utility plant and sewage treatment contract. The following table presents a summary of capital asset balances at the end of the year. The changes in each category of capital assets, along with other important information regarding capital assets, are presented in Note 6 of the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Capital Assets, Net of Depreciation
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2017	2016	2017	2016	2017	2016	2017	2016
Land	\$ 5.7	\$ 5.8	\$ 1.5	\$ 1.5	\$ 7.2	\$ 7.3	\$ 1.1	\$ 1.1
Construction in progress	0.8	1.1	1.6	4.8	2.4	5.9	0.1	-
Machinery and equipment	5.2	4.8	2.7	1.7	7.9	6.5	3.0	3.0
Buildings and improvements	21.2	23.7	16.9	17.6	38.1	41.3	41.0	42.7
Public domain infrastructure	51.8	54.5	-	-	51.8	54.5	-	-
Distribution and transmission	-	-	15.0	15.2	15.0	15.2	-	-
Utility plant	-	-	27.2	27.6	27.2	27.6	-	-
Sewage treatment contract	-	-	22.2	19.9	22.2	19.9	-	-
Total	\$ 84.7	\$ 89.9	\$ 87.1	\$ 88.3	\$171.8	\$178.2	\$ 45.2	\$ 46.8

Capital assets, net of accumulated depreciation, in the governmental activities decreased by \$5.2 million. While the majority of this difference is due to depreciation in fiscal year 2017, \$3.3 million relates to the disposal of transfer station capital assets. Roanoke Valley Resource Authority (RVRA) assumed operation of the City's transfer station on November 1, 2016. As part of the agreement, the City transferred the majority of transfer station capital assets to RVRA.

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

- Major renovations to the Salem Memorial Baseball Stadium were completed in February 2017, including joint sealant replacements, caulking, sheathing, roof repairs, ceiling tile replacement, carpet replacement, and painting. Capitalized costs totaled \$1,063,136 with \$459,861 expended in fiscal year 2017. A new scoreboard was also purchased for the stadium at a cost of \$418,063. The majority of the renovations and scoreboard were funded from general obligation bonds issued in June 2016.
- The Clerk of Circuit Court's Office underwent a renovation in fiscal year 2017 including updated flooring, updated ceiling, refinished cabinets, and new doors. The renovation was completed in March 2017 at a total capitalized cost of \$52,149.
- The kitchen at Fire Station #2 was expanded and renovated in fiscal year 2017, including foundation work, a new roof, new cabinets, and updated appliances. Work was completed in September 2016 with a total capitalized cost of \$29,535.
- The street department purchased several large pieces of equipment in fiscal year 2017 with funding from general obligation bonds issued in June 2016. The equipment included a 2015 John Deere 130G excavator costing \$152,879, a John Deere 544K wheel loader costing \$183,273, and a 2016 Freightliner dump truck costing \$125,940.
- The street department acquired a new 2015 Mack front loading dumpster truck in July 2016 at a total cost of \$255,672. The new dumpster truck was funded from insurance proceeds resulting from an accident claim on another City-owned dumpster truck.
- The technology systems department made significant upgrades to the City's data storage hardware in fiscal year 2017 with \$102,746 expended to upgrade the data center at the electric department and \$22,336 expended to upgrade the data center at the police department.

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

- Western Virginia Water Authority (WVWA) completed peak flow enhancements in fiscal year 2017 that commenced in fiscal year 2013. As part of the City's wastewater treatment contract dated November 1, 2003, the City paid \$3,112,209 to WVWA for its proportionate share of the

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

enhancements, including \$199,092 expended in fiscal year 2017. These costs are capitalized as part of the sewage treatment contract.

- The Electric Department purchased a new 2017 Freightliner digger derrick truck in fiscal year 2017 at a cost of \$245,520.
- The Electric Department purchased a new integrated communications optical network to improve communications between the substations within the distribution system at a total capitalized cost of \$149,620.
- The Sewer Department purchased several new pieces of equipment in fiscal year 2017, including a 2017 Freightliner vacuum truck costing \$360,177, a 2017 Freightliner dump truck costing \$103,046, a 2017 Ford Transit CCTV van costing \$146,005, and a John Deere 544K wheel loader costing \$150,782.
- The Sewer Department completed construction of a new sewer pump station in fiscal year 2017 to service the West Club subdivision at a total capitalized cost of \$629,355 with \$28,557 expended in fiscal year 2017.
- \$563,984 was spent on improvements to Electric distribution and transmission infrastructure, including \$166,132 to replace relay panels at the Industrial Drive substation.

LONG-TERM DEBT

At June 30, 2017, the City's long-term liabilities, excluding capital lease obligations, compensated absences, net pension liabilities, bond premiums, and bond discounts, totaled \$79.5 million. This amount was comprised of \$33.9 million related to governmental activities (including \$17.6 million for debt held on behalf of the School Division and \$1.4 million recorded as a receivable from Roanoke Valley Resource Authority) and \$45.6 million related to business-type activities. The City made \$6.8 million in principal payments and amortized \$110,207 in discounts and premiums.

Total debt decreased \$6.5 million during the fiscal year. On January 4, 2017, the City issued \$12,441,135 in general obligation refunding bonds series 2017A to current refund \$12,335,000 of outstanding 2007A general obligation refunding bonds. The City completed the refunding to reduce its future debt service payments. Detailed information regarding these changes in long-term debt is disclosed in Note 8 to the financial statements.

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

The City Charter and the *Code of Virginia* limits the City's net debt to 10% of the assessed valuation of real estate within the City limits. This limit applies to governmental fund tax supported debt and certain long-term liabilities of proprietary funds. The City considers long-term debt of its electric, water and sewage funds to be self-supporting. Additionally, in accordance with its contractual agreement with Roanoke Valley Resource Authority, the City will receive funding from RVRA toward \$1.4 million of general obligation debt. The City's tax-supported debt of \$32.5 million is below the legal debt limit of \$209.9 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 capital lease obligations, compensated absences, and net pension liabilities, as its own. In addition to bonded debt, the City's long-term obligations include capital lease obligations, compensated absences, and net pension liabilities. Additional information concerning the City's long-term liabilities is presented in Note 8 of the financial statements and Table 9 of the statistical section.

Interest and other fiscal charges for fiscal year 2017 were \$1 million or 1.4% of total governmental activities expenses.

FACTORS INFLUENCING FUTURE BUDGETS

Current economic conditions reflect slight improvement over the previous year, but recovery continues to be slow. Budgetary challenges continue, but are not as severe as previous years. General Fund revenues

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

budgeted for fiscal year 2018 reflect an increase of 1.4%, due to moderate growth in the property and local taxes categories. A compensation and classification study is underway and the fiscal year 2018 budget includes a lump sum amount to begin implementation of the recommendations resulting from this study. The General Fund budget also includes \$500,000 for capital purchases.

Because the recession lasted so long and the recovery has been so slow, the City was forced to delay significant equipment replacements due to lack of funding. Over the next few years, the City needs to make a substantial investment in equipment and other capital. Funding for capital and equipment will put pressure on future budgets.

Decreases in electric and water consumption are expected to continue in fiscal year 2018. No rate increase was necessary for electric, but a 3% rate increase for water will be effective January 1, 2018.

Salem's unemployment rate of 4.1% increased slightly from the prior year rate of 4% but was lower than the national unemployment rate of 4.5%. Salem's unemployment rate is slightly higher than the state unemployment rate of 3.9%. While the median sales price of homes remained level for the past two years, the number of new homes constructed increased in fiscal year 2017.

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

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

- Legislative actions at the federal level
- Changes in the Affordable Care Act and rising health care costs
- Potential State budget reductions
- Projected increases in retirement contribution rates assessed by the Virginia Retirement System

REQUESTS FOR INFORMATION

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

Additional information on the Component Unit can be obtained from the Director of Business, Salem Public Schools, 510 South College Avenue, Salem, Virginia 24153, or visit the School's website at www.salem.k12.va.us.

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BASIC FINANCIAL STATEMENTS



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

CITY OF SALEM, VIRGINIA
STATEMENT OF NET POSITION
JUNE 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 25,937,722	\$ 38,501,332	\$ 64,439,054	\$ 13,917,134
Receivables, net	2,757,196	7,083,235	9,840,431	48,037
Due from other governmental units	6,538,885	-	6,538,885	1,153,267
Other postemployment benefits asset	294,763	52,530	347,293	295,049
Inventories	588,204	1,823,552	2,411,756	33,103
Prepaid items	149,419	180,861	330,280	14,816
<i>Restricted assets:</i>				
Cash and cash equivalents	2,904,017	5,035,862	7,939,879	-
<i>Capital assets:</i>				
Nondepreciable	6,509,253	3,171,079	9,680,332	1,255,874
Depreciable, net	78,209,992	83,947,824	162,157,816	43,973,770
Total assets	<u>123,889,451</u>	<u>139,796,275</u>	<u>263,685,726</u>	<u>60,691,050</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>6,566,362</u>	<u>2,215,375</u>	<u>8,781,737</u>	<u>5,587,662</u>
LIABILITIES				
Accounts payable and accrued liabilities	1,861,574	2,734,019	4,595,593	356,867
Accrued payroll and related liabilities	1,168,146	344,672	1,512,818	5,307,209
Accrued interest	327,362	409,668	737,030	5,418
Self-insurance claims liability	465,675	-	465,675	321,403
Unearned revenues	67,884	220,144	288,028	81,838
Customer security deposits	-	903,553	903,553	-
<i>Long-term liabilities due in less than one year:</i>				
Bonds payable	2,982,132	4,017,427	6,999,559	-
Capital lease obligation	73,187	-	73,187	137,071
Compensated absences	1,378,952	483,703	1,862,655	387,474
<i>Long-term liabilities due in more than one year:</i>				
Bonds payable	30,934,773	41,706,467	72,641,240	-
Capital lease obligation	198,016	-	198,016	-
Compensated absences	358,768	110,945	469,713	481,414
Net pension liability	33,394,826	8,931,652	42,326,478	39,289,928
Total liabilities	<u>73,211,295</u>	<u>59,862,250</u>	<u>133,073,545</u>	<u>46,368,622</u>
DEFERRED INFLOWS OF RESOURCES	<u>545,040</u>	<u>535,714</u>	<u>1,080,754</u>	<u>3,464,213</u>
NET POSITION				
Net investment in capital assets	76,704,584	46,775,751	123,480,335	45,092,573
<i>Restricted for:</i>				
Grant programs	494,620	-	494,620	-
Highway maintenance	3,750,628	-	3,750,628	-
Capital projects	2,380	-	2,380	-
Unrestricted (deficit)	<u>(24,252,734)</u>	<u>34,837,935</u>	<u>10,585,201</u>	<u>(28,646,696)</u>
Total net position	<u>\$ 56,699,478</u>	<u>\$ 81,613,686</u>	<u>\$ 138,313,164</u>	<u>\$ 16,445,877</u>

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

CITY OF SALEM, VIRGINIA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary Government								
<i>Governmental activities:</i>								
General government	\$ 6,864,181	\$ 251,912	\$ 252,219	\$ -	\$ (6,360,050)		\$ (6,360,050)	
Judicial administration	2,072,538	267,187	1,093,078	5,900	(706,373)		(706,373)	
Public safety	17,011,463	1,237,985	1,537,491	5,325	(14,230,662)		(14,230,662)	
Public works	12,228,329	2,563,620	4,093,941	80,272	(5,490,496)		(5,490,496)	
Health and welfare	3,026,330	-	1,172,720	-	(1,853,610)		(1,853,610)	
Education	19,760,242	-	-	-	(19,760,242)		(19,760,242)	
Parks, recreation and cultural	5,937,858	735,540	166,241	101,140	(4,934,937)		(4,934,937)	
Community development	3,296,760	-	3,000	9,814	(3,283,946)		(3,283,946)	
Interest and other fiscal charges	988,059	-	-	-	(988,059)		(988,059)	
Total governmental activities	71,185,760	5,056,244	8,318,690	202,451	(57,608,375)		(57,608,375)	
<i>Business-type activities:</i>								
Electric	31,628,232	39,437,330	-	-		\$ 7,809,098	7,809,098	
Water and sewage	9,776,628	13,530,659	-	-		3,754,031	3,754,031	
Civic Center	4,046,125	2,475,661	-	-		(1,570,464)	(1,570,464)	
Catering and concessions	933,894	819,571	-	-		(114,323)	(114,323)	
Total business-type activities	46,384,879	56,263,221	-	-		9,878,342	9,878,342	
Total primary government	\$ 117,570,639	\$ 61,319,465	\$ 8,318,690	\$ 202,451	\$ (57,608,375)	\$ 9,878,342	\$ (47,730,033)	
Component Unit	\$ 43,800,896	\$ 1,588,282	\$ 8,605,485	\$ 156,367				\$ (33,450,762)
<i>General revenues:</i>								
Property taxes					35,631,665	-	35,631,665	-
Local sales and use taxes					7,174,034	-	7,174,034	-
Business license tax					5,320,865	-	5,320,865	-
Meals tax					4,718,631	-	4,718,631	-
Utility taxes					1,182,963	-	1,182,963	-
Other taxes					3,908,064	-	3,908,064	-
Intergovernmental revenue not restricted					3,941,937	-	3,941,937	-
Unrestricted investment earnings					554,437	35,931	590,368	-
Gain on sale of capital assets					20,985	-	20,985	-
Payments from City of Salem					-	-	-	19,760,242
State aid					-	-	-	14,075,825
Other					676,502	-	676,502	962,269
Transfers					2,353,122	(2,353,122)	-	-
Total general revenues and transfers					65,483,205	(2,317,191)	63,166,014	34,798,336
Change in net position					7,874,830	7,561,151	15,435,981	1,347,574
Net position, beginning, as restated (Note 20)					48,824,648	74,052,535	122,877,183	15,098,303
Net position, ending					\$ 56,699,478	\$ 81,613,686	\$ 138,313,164	\$ 16,445,877

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

**CITY OF SALEM, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 23,693,964	\$ -	\$ 279,193	\$ 23,973,157
Cash and cash equivalents, restricted	-	-	2,904,017	2,904,017
Receivables, net	2,724,660	-	-	2,724,660
Due from other governmental units	4,954,986	-	158,587	5,113,573
Inventories	588,204	-	-	588,204
Total assets	<u>\$ 31,961,814</u>	<u>\$ -</u>	<u>\$ 3,341,797</u>	<u>\$ 35,303,611</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 1,794,783	\$ -	\$ 51,129	\$ 1,845,912
Accrued payroll and related liabilities	1,157,536	-	-	1,157,536
Unearned revenues	31,037	-	-	31,037
Total liabilities	<u>2,983,356</u>	<u>-</u>	<u>51,129</u>	<u>3,034,485</u>
DEFERRED INFLOWS OF RESOURCES	<u>1,171,061</u>	<u>-</u>	<u>-</u>	<u>1,171,061</u>
FUND BALANCES				
Nonspendable	588,204	-	-	588,204
Restricted	4,245,248	-	2,894,061	7,139,309
Committed	89,261	-	54,458	143,719
Assigned	672,251	-	342,149	1,014,400
Unassigned	22,212,433	-	-	22,212,433
Total fund balances	<u>27,807,397</u>	<u>-</u>	<u>3,290,668</u>	<u>31,098,065</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 31,961,814</u>	<u>\$ -</u>	<u>\$ 3,341,797</u>	<u>\$ 35,303,611</u>

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

CITY OF SALEM, VIRGINIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS' BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Total fund balance of governmental funds	\$ 31,098,065
Capital assets used in governmental activities are not considered current financial resources and, therefore, are not reported in the governmental funds.	84,719,245
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds:	
Deferred inflows of resources for unavailable revenues	1,087,190
Other postemployment benefits asset	294,632
Receivable from Roanoke Valley Resource Authority	1,425,312
For debt refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred outflow of resources or a deferred inflow of resources:	
Deferred amounts on refunding	440,479
Long-term liabilities related to governmental fund activities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable	(33,896,121)
Bond premiums	(69,773)
Bond discounts	48,989
Accrued interest	(327,362)
Capital lease obligation	(271,203)
Compensated absences	(1,734,700)
Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds:	
Deferred outflows of resources for current year employer contributions	2,744,116
Deferred outflows or inflows of resources for differences between expected and actual experience	(8,160)
Deferred outflows of resources for the net difference between projected and actual investment earnings on pension plan investments	2,881,360
Net pension liability	(33,128,665)
The internal service fund is used by management to charge the costs of health insurance to individual funds. The assets, liabilities and net position of the internal service fund are included with governmental activities in the Statement of Net Position.	1,396,074
Net position of governmental activities	<u><u>\$ 56,699,478</u></u>

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

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	General	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Property taxes	\$ 36,364,334	\$ -	\$ -	\$ 36,364,334
Other local taxes	22,304,557	-	-	22,304,557
Permits, fees and licenses	277,582	-	-	277,582
Fines and forfeitures	145,820	-	-	145,820
Revenue from use of money and property	818,122	-	24,502	842,624
Charges for services	4,192,436	-	-	4,192,436
Other	409,131	-	-	409,131
Intergovernmental	12,219,686	251,915	181,226	12,652,827
Total revenues	<u>76,731,668</u>	<u>251,915</u>	<u>205,728</u>	<u>77,189,311</u>
EXPENDITURES				
<i>Current:</i>				
General government	6,410,086	-	-	6,410,086
Judicial administration	2,018,898	-	-	2,018,898
Public safety	16,403,627	-	-	16,403,627
Public works	8,452,569	-	-	8,452,569
Health and welfare	2,909,343	-	-	2,909,343
Education	19,760,242	-	-	19,760,242
Parks, recreation and cultural	5,071,566	-	-	5,071,566
Community development	3,178,844	-	-	3,178,844
Non-departmental	2,085,343	-	-	2,085,343
Capital projects	-	-	1,674,861	1,674,861
<i>Debt service:</i>				
Principal retirement	-	3,082,999	-	3,082,999
Interest	-	960,419	-	960,419
Total expenditures	<u>66,290,518</u>	<u>4,043,418</u>	<u>1,674,861</u>	<u>72,008,797</u>
Excess (deficiency) of revenues over (under) expenditures	<u>10,441,150</u>	<u>(3,791,503)</u>	<u>(1,469,133)</u>	<u>5,180,514</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	177,345	-	-	177,345
Transfers in	3,464,466	3,791,503	421,030	7,676,999
Transfers out	<u>(5,323,877)</u>	-	-	<u>(5,323,877)</u>
Total other financing sources (uses), net	<u>(1,682,066)</u>	<u>3,791,503</u>	<u>421,030</u>	<u>2,530,467</u>
Net change in fund balances	8,759,084	-	(1,048,103)	7,710,981
Fund balances, beginning	<u>19,048,313</u>	-	4,338,771	23,387,084
Fund balances, ending	<u>\$ 27,807,397</u>	<u>\$ -</u>	<u>\$ 3,290,668</u>	<u>\$ 31,098,065</u>

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

CITY OF SALEM, VIRGINIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS' STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

Net changes in fund balances of governmental funds	\$ 7,710,981
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate the cost of those assets over the life of the assets.	
Capital outlay	3,105,829
Capital donated	21,225
Depreciation expense	(4,491,138)
Governmental funds report proceeds from the sale of a capital asset as an increase in financial resources while governmental activities report the gain or loss on the sale of capital assets.	
Proceeds from sale of assets	(323,902)
Net loss from sale of assets	(1,863,541)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in governmental funds.	(318,209)
Revenues in governmental funds which were subject to accrual in the prior year are additions to beginning net position and, therefore, are not reported as revenues in the Statement of Activities	
Net principal reimbursed by Roanoke Valley Resource Authority	(219,069)
Issuance of debt and other obligations provides current financial resources to governmental funds, but increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Position. Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	
Principal payments	3,082,999
Amortization of current year bond premiums	41,443
Amortization of current year deferred amounts on refunding	(65,167)
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	10,772
Change in compensated absences	242,376
Change in other postemployment benefits	244,632
Governmental funds report employer pension contributions as expenditures. However, in the Statement of Activities the cost of pension benefits earned net of employee contributions is reported as pension expense.	
Employer pension contributions	2,739,428
Pension expense	(2,457,368)
The internal service fund is used by management to charge the costs of health insurance to individual funds. The change in net position of the internal service fund is reported with governmental activities.	
	413,539
Change in net position of governmental activities	<u>\$ 7,874,830</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, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 34,053,209	\$ 34,053,209	\$ 36,364,334	\$ 2,311,125
Other local taxes	20,968,100	21,007,643	22,304,557	1,296,914
Permits, fees and licenses	256,800	256,800	277,582	20,782
Fines and forfeitures	114,500	114,500	145,820	31,320
Revenue from use of money and property	436,016	458,266	818,122	359,856
Charges for services	5,725,647	4,181,095	4,192,436	11,341
Other	55,000	266,250	409,131	142,881
Intergovernmental	10,881,284	12,025,482	12,219,686	194,204
Total revenues	<u>72,490,556</u>	<u>72,363,245</u>	<u>76,731,668</u>	<u>4,368,423</u>
EXPENDITURES				
General government	6,188,943	6,740,114	6,410,086	330,028
Judicial administration	1,982,180	2,091,028	2,018,898	72,130
Public safety	15,784,156	16,952,733	16,403,627	549,106
Public works	12,511,756	11,404,003	8,452,569	2,951,434
Health and welfare	2,443,438	3,014,500	2,909,343	105,157
Education	19,270,796	19,760,242	19,760,242	-
Parks, recreation and cultural	4,830,083	5,250,675	5,071,566	179,109
Community development	3,091,065	3,376,792	3,178,844	197,948
Non-departmental	3,995,672	3,416,191	2,085,343	1,330,848
Total expenditures	<u>70,098,089</u>	<u>72,006,278</u>	<u>66,290,518</u>	<u>5,715,760</u>
Excess of revenues over expenditures	<u>2,392,467</u>	<u>356,967</u>	<u>10,441,150</u>	<u>10,084,183</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	177,345	177,345
Transfers in	3,290,000	3,437,969	3,464,466	26,497
Transfers out	(5,682,467)	(5,328,539)	(5,323,877)	4,662
Total other financing uses, net	<u>(2,392,467)</u>	<u>(1,890,570)</u>	<u>(1,682,066)</u>	<u>208,504</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ (1,533,603)</u>	<u>\$ 8,759,084</u>	<u>\$ 10,292,687</u>

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

CITY OF SALEM, VIRGINIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

	Enterprise Funds			Internal Service Fund	
	Electric	Water and Sewage	Nonmajor Proprietary Funds		Total
ASSETS					
<i>Current assets:</i>					
Cash and cash equivalents	\$ 29,271,786	\$ 9,218,972	\$ 10,574	\$ 38,501,332	\$ 1,964,565
Cash and cash equivalents, restricted	2,517,931	2,517,931	-	5,035,862	-
Receivables, net	5,357,274	1,652,720	73,241	7,083,235	32,536
Due from other funds	1,833,000	-	-	1,833,000	-
Inventories	1,517,389	275,641	30,522	1,823,552	-
Prepaid items	-	2,127	178,734	180,861	149,419
Total current assets	<u>40,497,380</u>	<u>13,667,391</u>	<u>293,071</u>	<u>54,457,842</u>	<u>2,146,520</u>
<i>Noncurrent assets:</i>					
Other postemployment benefits asset	15,161	30,349	7,020	52,530	131
<i>Capital assets:</i>					
Nondepreciable	1,410,857	1,593,121	167,101	3,171,079	-
Depreciable, net	28,943,436	51,406,157	3,598,231	83,947,824	-
Total capital assets	<u>30,354,293</u>	<u>52,999,278</u>	<u>3,765,332</u>	<u>87,118,903</u>	<u>-</u>
Total noncurrent assets	<u>30,369,454</u>	<u>53,029,627</u>	<u>3,772,352</u>	<u>87,171,433</u>	<u>131</u>
Total assets	<u>70,866,834</u>	<u>66,697,018</u>	<u>4,065,423</u>	<u>141,629,275</u>	<u>2,146,651</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>1,188,379</u>	<u>694,560</u>	<u>332,436</u>	<u>2,215,375</u>	<u>51,200</u>
LIABILITIES AND DEFERRED INFLOWS					
<i>Current liabilities:</i>					
Accounts payable and accrued liabilities	2,012,773	662,974	58,272	2,734,019	15,662
Accrued payroll and related liabilities	121,523	123,298	99,851	344,672	10,610
Accrued interest	112,802	296,866	-	409,668	-
Self-insurance claims liability	-	-	-	-	465,675
Due to other funds	-	-	1,833,000	1,833,000	-
Unearned revenues	-	14,790	205,354	220,144	36,847
Customer security deposits	903,553	-	-	903,553	-
Bonds payable	1,192,740	2,824,687	-	4,017,427	-
Compensated absences	227,292	169,837	86,574	483,703	3,020
Total current liabilities	<u>4,570,683</u>	<u>4,092,452</u>	<u>2,283,051</u>	<u>10,946,186</u>	<u>531,814</u>
<i>Noncurrent liabilities:</i>					
Bonds payable	16,855,495	24,850,972	-	41,706,467	-
Compensated absences	56,277	-	54,668	110,945	-
Net pension liability	3,429,929	3,694,739	1,806,984	8,931,652	266,161
Total noncurrent liabilities	<u>20,341,701</u>	<u>28,545,711</u>	<u>1,861,652</u>	<u>50,749,064</u>	<u>266,161</u>
Total liabilities	<u>24,912,384</u>	<u>32,638,163</u>	<u>4,144,703</u>	<u>61,695,250</u>	<u>797,975</u>
DEFERRED INFLOWS OF RESOURCES	<u>49,054</u>	<u>461,949</u>	<u>24,711</u>	<u>535,714</u>	<u>3,802</u>
NET POSITION					
Net investment in capital assets	15,337,591	27,672,828	3,765,332	46,775,751	-
Unrestricted (deficit)	31,756,184	6,618,638	(3,536,887)	34,837,935	1,396,074
Total net position	<u>\$ 47,093,775</u>	<u>\$ 34,291,466</u>	<u>\$ 228,445</u>	<u>\$ 81,613,686</u>	<u>\$ 1,396,074</u>

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

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2017

	Enterprise Funds				Internal Service Fund
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total	
OPERATING REVENUES					
Charges for services	\$ 38,504,116	\$ 13,005,321	\$ 3,244,520	\$ 54,753,957	\$ 6,021,387
Connections and transfers	50,225	175,130	-	225,355	-
Penalties	182,176	179,493	-	361,669	-
Pole rentals	178,594	-	-	178,594	-
Commissions	-	-	12,835	12,835	-
Other	522,219	170,715	37,877	730,811	216,737
Total operating revenues	<u>39,437,330</u>	<u>13,530,659</u>	<u>3,295,232</u>	<u>56,263,221</u>	<u>6,238,124</u>
OPERATING EXPENSES					
Salaries	-	1,729,559	1,372,327	3,101,886	145,826
Fringe benefits	-	803,934	431,698	1,235,632	49,721
Show expenses	-	-	1,757,556	1,757,556	-
Maintenance	-	761,984	164,272	926,256	5,249
Billing and collection	483,091	454,628	-	937,719	-
Professional services	19,326	82,992	20,350	122,668	207,977
Insurance	18,562	41,968	15,109	75,639	-
Purchased power	25,378,605	-	-	25,378,605	-
Distribution - operations	822,986	-	-	822,986	-
Distribution - maintenance	1,653,203	-	-	1,653,203	-
Administration	821,537	336,162	99,666	1,257,365	6,003
Travel and training	15,005	14,526	10,278	39,809	-
Materials and supplies	-	297,827	308,118	605,945	15,852
Expendable equipment and small tools	259,078	83,025	4,770	346,873	-
Utilities	-	390,769	282,664	673,433	4,532
Miscellaneous	181,326	3,740	165	185,231	28,900
Depreciation	1,462,815	2,016,335	319,533	3,798,683	-
Treatment of sewage	-	1,812,623	-	1,812,623	-
Commissions	-	-	183,962	183,962	-
Claims	-	-	-	-	5,373,750
Total operating expenses	<u>31,115,534</u>	<u>8,830,072</u>	<u>4,970,468</u>	<u>44,916,074</u>	<u>5,837,810</u>
Operating income (loss)	<u>8,321,796</u>	<u>4,700,587</u>	<u>(1,675,236)</u>	<u>11,347,147</u>	<u>400,314</u>
NONOPERATING REVENUES (EXPENSES)					
Interest income	17,931	17,931	69	35,931	13,225
Interest expense	(504,966)	(763,182)	-	(1,268,148)	-
Bond issuance costs	-	(80,246)	-	(80,246)	-
Loss on sale of capital assets	(7,732)	(103,128)	(9,551)	(120,411)	-
Net nonoperating revenues (expenses)	<u>(494,767)</u>	<u>(928,625)</u>	<u>(9,482)</u>	<u>(1,432,874)</u>	<u>13,225</u>
Income (loss) before transfers	<u>7,827,029</u>	<u>3,771,962</u>	<u>(1,684,718)</u>	<u>9,914,273</u>	<u>413,539</u>
Transfers in	-	-	1,111,344	1,111,344	-
Transfers out	<u>(3,196,969)</u>	<u>(267,497)</u>	<u>-</u>	<u>(3,464,466)</u>	<u>-</u>
Change in net position	<u>4,630,060</u>	<u>3,504,465</u>	<u>(573,374)</u>	<u>7,561,151</u>	<u>413,539</u>
Net position, beginning, as restated (Note 20)	<u>42,463,715</u>	<u>30,787,001</u>	<u>801,819</u>	<u>74,052,535</u>	<u>982,535</u>
Net position, ending	<u>\$ 47,093,775</u>	<u>\$ 34,291,466</u>	<u>\$ 228,445</u>	<u>\$ 81,613,686</u>	<u>\$ 1,396,074</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, 2017**

	Enterprise Funds				Internal Service Fund
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total	
OPERATING ACTIVITIES					
Receipts from customers	\$ 37,836,772	\$ 13,220,297	\$ 3,196,614	\$ 54,253,683	\$ 6,025,168
Payments to suppliers	(26,883,114)	(4,153,939)	(2,993,399)	(34,030,452)	(276,155)
Payments to employees	(2,414,793)	(2,621,265)	(1,845,677)	(6,881,735)	(195,634)
Payments for claims	-	-	-	-	(5,379,947)
Other receipts	522,219	170,715	37,877	730,811	216,737
Net cash provided by (used in) operating activities	9,061,084	6,615,808	(1,604,585)	14,072,307	390,169
NONCAPITAL FINANCING ACTIVITIES					
Interfund loan	(453,000)	-	453,000	-	-
Transfers in	-	-	1,111,344	1,111,344	-
Transfers out	(3,196,969)	(267,497)	-	(3,464,466)	-
Net cash provided by (used in) noncapital financing activities	(3,649,969)	(267,497)	1,564,344	(2,353,122)	-
CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of capital assets	2,268	19,319	-	21,587	-
Purchases of capital assets	(1,252,210)	(1,517,332)	-	(2,769,542)	-
Proceeds from capital debt	-	298,812	-	298,812	-
Proceeds from refunding bonds	-	12,441,135	-	12,441,135	-
Payment of refunding escrow deposit	-	(12,360,889)	-	(12,360,889)	-
Payment of refunding issuance costs	-	(80,246)	-	(80,246)	-
Principal paid on capital debt	(1,178,364)	(2,641,617)	-	(3,819,981)	-
Interest paid on capital debt	(466,681)	(1,049,041)	-	(1,515,722)	-
Net cash used in capital and related financing activities	(2,894,987)	(4,889,859)	-	(7,784,846)	-
INVESTING ACTIVITIES					
Interest received	17,931	17,931	69	35,931	13,225
Net cash provided by investing activities	17,931	17,931	69	35,931	13,225
Net increase (decrease) in cash and cash equivalents	2,534,059	1,476,383	(40,172)	3,970,270	403,394
Cash and cash equivalents, beginning	29,255,658	10,260,520	50,746	39,566,924	1,561,171
Cash and cash equivalents, ending	<u>\$ 31,789,717</u>	<u>\$ 11,736,903</u>	<u>\$ 10,574</u>	<u>\$ 43,537,194</u>	<u>\$ 1,964,565</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR IS COMPRISED OF THE FOLLOWING:					
Cash and cash equivalents	\$ 29,271,786	\$ 9,218,972	\$ 10,574	\$ 38,501,332	\$ 1,964,565
Cash and cash equivalents, restricted	2,517,931	2,517,931	-	5,035,862	-
Total	<u>\$ 31,789,717</u>	<u>\$ 11,736,903</u>	<u>\$ 10,574</u>	<u>\$ 43,537,194</u>	<u>\$ 1,964,565</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Operating income (loss)	\$ 8,321,796	\$ 4,700,587	\$ (1,675,236)	\$ 11,347,147	\$ 400,314
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i>					
Depreciation	1,462,815	2,016,335	319,533	3,798,683	-
Pension expense, net of employer contributions	(31,379)	(39,542)	(15,254)	(86,175)	(2,848)
<i>Decrease (increase) in assets:</i>					
Receivables, net	(1,088,294)	(107,047)	16,522	(1,178,819)	(2,780)
Inventories	(106,751)	10,498	3,562	(92,691)	-
Prepaid items	-	(339)	(93,533)	(93,872)	(19,586)
Other postemployment benefits asset	(15,161)	(30,349)	(7,020)	(52,530)	(131)
<i>Increase (decrease) in liabilities:</i>					
Accounts payable and accrued liabilities	524,808	116,146	(56,518)	584,436	(7,523)
Accrued payroll and related liabilities	5,206	751	(9,628)	(3,671)	2,408
Self-insurance claims liability	-	-	-	-	13,389
Unearned revenues	-	(32,600)	(77,263)	(109,863)	6,561
Customer security deposits payable	9,955	-	-	9,955	-
Compensated absences	(21,911)	(18,632)	(9,750)	(50,293)	365
Net cash provided by (used in) operating activities	<u>\$ 9,061,084</u>	<u>\$ 6,615,808</u>	<u>\$ (1,604,585)</u>	<u>\$ 14,072,307</u>	<u>\$ 390,169</u>
<i>Noncash investing, capital, and financing activities</i>					
Capital assets financed with accounts payable	<u>\$ 17,310</u>	<u>\$ 73,132</u>	<u>\$ -</u>	<u>\$ 90,442</u>	<u>\$ -</u>

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

**CITY OF SALEM, VIRGINIA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017**

	Agency Funds	OPEB Trust Fund
ASSETS		
Cash and cash equivalents	\$ 1,687,143	\$ -
Investments held by trustee, fair value of pooled funds	-	5,791,605
Receivables, net	4,819	-
Due from Commonwealth of Virginia	58,767	-
Prepaid items	10,352	-
Total assets	1,761,081	5,791,605
LIABILITIES		
Accounts payable	44,652	-
Liability to agency	1,716,429	-
Total liabilities	\$ 1,761,081	-
NET POSITION		
Held in trust for other postemployment benefits		\$ 5,791,605

**CITY OF SALEM, VIRGINIA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2017**

	OPEB Trust Fund
ADDITIONS	
Employer contributions	\$ 257,000
<i>Investment Income</i>	
Increase in fair value of investments	632,041
Less investment expenses	(6,285)
Total additions	882,756
Net increase in plan net position	882,756
Net position held in trust for other postemployment benefits, beginning	4,908,849
Net position held in trust for other postemployment benefits, ending	\$ 5,791,605

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

1. Summary of Significant Accounting Policies

The Financial Reporting Entity

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

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

Discretely Presented Component Unit

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

During the current year, the City provided \$19,270,796 of operating support and \$489,446 of capital support to the School Division and made debt service payments of \$2,123,202 on behalf of the School Division.

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

1. Summary of Significant Accounting Policies (Continued)

Fund Financial Statements (Continued)

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

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

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

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

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

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

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

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

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

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

Measurement Focus and Basis of Accounting

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

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

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

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

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

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

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

Budgets and Budgetary Accounting

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

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

1. Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (Continued)

Amendment – The City Manager is authorized to transfer amounts within and between departments and categories within the same fund. City Council must approve budget amendments between funds and any budget amendments increasing or decreasing appropriations. During the year, City Council approved \$1,554,261 of additional appropriations primarily for grants, capital outlay, unforeseen operating expenditures and the reappropriation of fund balances for encumbrances.

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

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded in order to reserve the applicable appropriation, is employed as an extension of formal budgetary integration in the general and capital project funds. Encumbrances outstanding at year-end are reported as part of the restricted, committed, or assigned fund balances since they do not constitute expenditures or liabilities. These encumbrances are subject to reappropriation by City Council in the subsequent fiscal year. Significant encumbrances as of June 30, 2017 total \$1,071,601 in the General Fund and \$721,079 in the Capital Projects Fund.

Deposits and Investments

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

Allowance for Uncollectible Accounts

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

Property Taxes

The City levies real estate taxes on all real estate within its boundaries, except that exempted by statute, each year as of July 1 based on 100% of estimated fair market value of the property. The City reassesses all property annually. Real estate taxes are due in equal semiannual payments on December 5 and June 5 and are considered delinquent after each due date. Real estate taxes become a lien on real property the first day of the levy year. The tax rate for 2017 was \$1.18 per \$100 of assessed value.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

1. Summary of Significant Accounting Policies (Continued)

Property Taxes (Continued)

The City levies personal property taxes on motor vehicles and business and other tangible personal property each year as of January 1. Personal property taxes are due the following May 31 and are considered delinquent after the due date. Personal property taxes do not create a lien on property; however, a penalty of 10% of delinquent personal property tax or \$10, whichever is greater, is due for late payment. Interest on delinquent taxes is accrued monthly at a rate of 0.83%, or 10% annually. Personal property transactions during the year are taxed on a prorated basis. The tax rate for personal property for 2017 was \$3.25 per \$100 of assessed value. The tax rate for machinery and tools for 2017 was \$3.20 per \$100 of assessed value.

Interfund Balances

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

Inventory

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

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

Prepaid Items

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

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

Capital Assets

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

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

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

1. Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

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

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

Depreciation expense for capital assets is identified with a function, whenever possible, and is included as a direct expense. Upon the sale or retirement of a capital asset, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations. The City capitalizes net interest costs on funds borrowed to finance the construction of proprietary capital assets. Capital asset additions included \$7,097 of net capitalized interest for the current year.

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

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Pension contributions made subsequent to the measurement date qualify for reporting in this category in the proprietary funds and government-wide Statement of Net Position and will be applied to the net pension liability in the next fiscal year.

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenue qualifies for reporting in this category in the governmental funds. The governmental funds report unavailable revenue from property taxes and charges for services and fees. These amounts only arise under a modified accrual basis of accounting and are deferred and recognized as an inflow of resources in the period that the amounts become available. Property taxes collected in advance also qualify for reporting in this category in the governmental funds and government-wide Statement of Net Position. These amounts are deferred and recognized as an inflow of resources when the taxes are levied.

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

1. Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources (Continued)

The proprietary funds and government-wide Statement of Net Position also include deferred gains and losses on refunding of debt as a deferred inflow or outflow, respectively. A deferred gain or loss on refunding of debt results from the difference in the carrying amount of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

Surety Bond Payable

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

Unearned Revenues

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

Long-Term Obligations

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

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

Compensated Absences

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

1. Summary of Significant Accounting Policies (Continued)

Pensions

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

Other Postemployment Benefits

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

Net Position

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

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

Net investment in capital assets for governmental activities excludes \$17,587,141 of School Division debt, \$3,337,221 of Civic Center debt, and \$1,425,312 of Roanoke Valley Resource Authority (RVRA) debt reported by the City because the related assets are reported by the School Division, Civic Center, and RVRA, respectively. Noncapital debt of \$491,613 and \$259,958 are also excluded from the net investment in capital assets for governmental activities and the Water and Sewage Fund, respectively.

Fund Balances

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

1. Summary of Significant Accounting Policies (Continued)

Fund Balances (Continued)

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

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

Restricted Amounts

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

Minimum Fund Balance

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

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

Estimates

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

2. Deposits and Investments

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

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

	Primary Government	Component Unit
Cash and cash equivalents	\$ 64,439,054	\$ 13,917,134
Cash and cash equivalents, restricted	7,939,879	-
	\$ 72,378,933	\$ 13,917,134

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

2. Deposits and Investments (Continued)

Deposits

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

Investments

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

As of June 30, 2017, the City had no investments.

Credit Risk

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

Interest Rate Risk

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

3. Receivables

Receivables are as follows:

	Governmental Activities	Business-type Activities			Component Unit
		Electric	Water and Sewage	Nonmajor Proprietary	
Tax receivables	\$ 2,326,826	\$ -	\$ -	\$ -	\$ -
Account receivables	32,536	5,531,090	1,714,174	81,173	-
Other receivables	1,322,317	-	-	-	48,037
Gross receivables	3,681,679	5,531,090	1,714,174	81,173	48,037
Allowance for uncollectibles	(924,483)	(173,816)	(61,454)	(7,932)	-
Receivables, net	<u>\$ 2,757,196</u>	<u>\$5,357,274</u>	<u>\$1,652,720</u>	<u>\$ 73,241</u>	<u>\$ 48,037</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

4. Interfund Balances and Transfers

The composition of the interfund balances is as follows:

Due to (fund)	Due from (fund)	
	Nonmajor enterprise	Total
Electric	\$ 1,833,000	\$ 1,833,000
Total	\$ 1,833,000	\$ 1,833,000

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

The composition of the interfund transfers is as follows:

Transfer in (fund)	Transfer out (fund)			
	General	Electric	Water and Sewage	Total
General	\$ -	\$ 3,196,969	\$ 267,497	\$ 3,464,466
Debt service	3,791,503	-	-	3,791,503
Capital projects	421,030	-	-	421,030
Nonmajor enterprise	1,111,344	-	-	1,111,344
Total	\$ 5,323,877	\$ 3,196,969	\$ 267,497	\$ 8,788,343

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

5. Due from Other Governmental Units

Amounts due from other governmental units are as follows:

	Governmental Activities	Component Unit
Commonwealth of Virginia		
Personal property tax	\$ 2,588,707	\$ -
Local sales tax	1,241,810	-
Sales tax	-	684,540
Comprehensive Services Act	412,633	-
Communications tax	165,819	-
Other	690,197	3,902
Federal government		
School funds	-	464,825
Lease payment from General Services Administration	10,734	-
Other	3,673	-
Roanoke Valley Resource Authority	1,425,312	-
	\$ 6,538,885	\$ 1,153,267

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

6. Capital Assets

Capital asset activity for the year is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets, nondepreciable				
Land	\$ 5,827,999	\$ -	\$ (163,359)	\$ 5,664,640
Construction in progress	1,076,764	435,279	(667,430)	844,613
Capital assets, nondepreciable	<u>6,904,763</u>	<u>435,279</u>	<u>(830,789)</u>	<u>6,509,253</u>
Capital assets, depreciable				
Machinery and equipment	22,757,673	2,121,774	(2,808,052)	22,071,395
Buildings and improvements	41,085,949	1,357,754	(3,919,548)	38,524,155
Leasehold improvements	42,806	-	-	42,806
Public domain infrastructure	100,129,247	138,978	(594,036)	99,674,189
Capital assets, depreciable	<u>164,015,675</u>	<u>3,618,506</u>	<u>(7,321,636)</u>	<u>160,312,545</u>
Accumulated depreciation				
Machinery and equipment	(17,957,847)	(1,428,341)	2,532,039	(16,854,149)
Buildings and improvements	(17,390,608)	(947,099)	981,207	(17,356,500)
Leasehold improvements	(476)	(2,853)	-	(3,329)
Public domain infrastructure	(45,656,354)	(2,372,146)	139,925	(47,888,575)
Accumulated depreciation	<u>(81,005,285)</u>	<u>(4,750,439)</u>	<u>3,653,171</u>	<u>(82,102,553)</u>
Capital assets, depreciable, net	<u>83,010,390</u>	<u>(1,131,933)</u>	<u>(3,668,465)</u>	<u>78,209,992</u>
Capital assets, net	<u>\$ 89,915,153</u>	<u>\$ (696,654)</u>	<u>\$ (4,499,254)</u>	<u>\$ 84,719,245</u>
Business-type Activities				
Capital assets, nondepreciable				
Land	\$ 1,523,798	\$ 150,263	\$ (128,891)	\$ 1,545,170
Construction in progress	4,756,658	389,896	(3,520,645)	1,625,909
Capital assets, nondepreciable	<u>6,280,456</u>	<u>540,159</u>	<u>(3,649,536)</u>	<u>3,171,079</u>
Capital assets, depreciable				
Machinery and equipment	8,069,967	1,404,671	(487,284)	8,987,354
Buildings and improvements	27,121,604	32,795	(14,016)	27,140,383
Distribution and transmission	36,167,004	563,984	(217,435)	36,513,553
Utility plant	77,602,002	629,355	(16,904)	78,214,453
Sewage treatment contract	28,843,397	3,112,209	-	31,955,606
Capital assets, depreciable	<u>177,803,974</u>	<u>5,743,014</u>	<u>(735,639)</u>	<u>182,811,349</u>
Accumulated depreciation				
Machinery and equipment	(6,363,297)	(433,647)	487,285	(6,309,659)
Buildings and improvements	(9,575,321)	(773,344)	14,016	(10,334,649)
Distribution and transmission	(20,968,882)	(745,093)	207,434	(21,506,541)
Utility plant	(49,974,692)	(1,021,391)	13,798	(50,982,285)
Sewage treatment contract	(8,905,183)	(825,208)	-	(9,730,391)
Accumulated depreciation	<u>(95,787,375)</u>	<u>(3,798,683)</u>	<u>722,533</u>	<u>(98,863,525)</u>
Capital assets, depreciable, net	<u>82,016,599</u>	<u>1,944,331</u>	<u>(13,106)</u>	<u>83,947,824</u>
Capital assets, net	<u>\$ 88,297,055</u>	<u>\$ 2,484,490</u>	<u>\$ (3,662,642)</u>	<u>\$ 87,118,903</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

6. Capital Assets (Continued)

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

Governmental Activities		Business-type Activities	
General government	\$ 646,013	Electric	\$ 1,462,815
Judicial administration	35,137	Water and sewage	2,016,335
Public safety	583,476	Civic Center	315,603
Public works	2,455,485	Catering	3,930
Parks, recreation and cultural	<u>771,027</u>	Total depreciation expense	<u>\$ 3,798,683</u>
Total depreciation expense	<u>\$ 4,491,138</u>		

Current year increases to accumulated depreciation shown in the capital asset table for governmental activities exceeds depreciation expense by \$259,301 because the table includes accumulated depreciation for machinery and equipment transferred to the city garage, street department, and parks and recreation from the electric department, water department, and sewer department.

Component Unit	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, nondepreciable				
Land	\$ 1,123,637	\$ -	\$ -	\$ 1,123,637
Construction in progress	47,030	132,236	(47,029)	132,237
Capital assets, nondepreciable	<u>1,170,667</u>	<u>132,236</u>	<u>(47,029)</u>	<u>1,255,874</u>
Capital assets, depreciable				
Furniture and equipment	7,906,529	696,222	(292,723)	8,310,028
Buildings and improvements	69,189,805	206,712	(55,405)	69,341,112
Capital assets, depreciable	<u>77,096,334</u>	<u>902,934</u>	<u>(348,128)</u>	<u>77,651,140</u>
Accumulated depreciation				
Furniture and equipment	(4,948,159)	(622,975)	282,913	(5,288,221)
Buildings and improvements	(26,520,053)	(1,900,953)	31,857	(28,389,149)
Accumulated depreciation	<u>(31,468,212)</u>	<u>(2,523,928)</u>	<u>314,770</u>	<u>(33,677,370)</u>
Capital assets, depreciable, net	<u>45,628,122</u>	<u>(1,620,994)</u>	<u>(33,358)</u>	<u>43,973,770</u>
Capital assets, net	<u>\$ 46,798,789</u>	<u>\$ (1,488,758)</u>	<u>\$ (80,387)</u>	<u>\$ 45,229,644</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

7. Deferred Outflows/Inflows of Resources

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
Deferred outflows of resources			
Deferred loss on refunding of debt	\$ 440,479	\$ 531,533	\$ -
Differences between expected and actual experience	452,941	122,736	-
Net difference between projected and actual investment earnings on pension plan investments	2,905,310	787,265	2,376,195
Pension contributions subsequent to measurement date	2,767,632	773,841	3,211,467
Total deferred outflows of resources	<u>\$ 6,566,362</u>	<u>\$ 2,215,375</u>	<u>\$ 5,587,662</u>
Deferred inflows of resources			
Deferred gain on refunding of debt	\$ -	\$ 410,749	\$ -
Property taxes collected in advance	83,871	-	-
Differences between expected and actual experience	461,169	124,965	1,399,213
Changes in proportion - teacher cost sharing pool	-	-	2,065,000
Total deferred inflows of resources	<u>\$ 545,040</u>	<u>\$ 535,714</u>	<u>\$ 3,464,213</u>

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

	<u>General Fund</u>
Deferred inflows of resources	
Unavailable revenue - property taxes	\$ 903,077
Property taxes collected in advance	83,871
Unavailable revenue - charges for services and fees	184,113
Total deferred inflows of resources	<u>\$ 1,171,061</u>

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

	<u>Electric</u>	<u>Water and Sewage</u>	<u>Nonmajor Proprietary Funds</u>	<u>Internal Service Fund</u>
Deferred outflows of resources				
Deferred loss on refunding of debt	\$ 531,533	\$ -	\$ -	\$ -
Differences between expected and actual experience	48,179	50,287	24,270	3,734
Net difference between projected and actual investment earnings on pension plan investments	309,034	322,555	155,676	23,950
Pension contributions subsequent to measurement date	299,633	321,718	152,490	23,516
Total deferred outflows of resources	<u>\$ 1,188,379</u>	<u>\$ 694,560</u>	<u>\$ 332,436</u>	<u>\$ 51,200</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

7. Deferred Outflows/Inflows of Resources (Continued)

	<u>Electric</u>	<u>Water and Sewage</u>	<u>Nonmajor Proprietary Funds</u>	<u>Internal Service Fund</u>
Deferred inflows of resources				
Deferred gain on refunding of debt	\$ -	\$ 410,749	\$ -	\$ -
Differences between expected and actual experience	49,054	51,200	24,711	3,802
Total deferred inflows of resources	<u>\$ 49,054</u>	<u>\$ 461,949</u>	<u>\$ 24,711</u>	<u>\$ 3,802</u>

8. Long-Term Liabilities

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

Current Year Debt Issuance

On January 4, 2017, the City issued \$12,441,135 in general obligation refunding bonds series 2017A with a true interest cost of 2.30%. The net proceeds of \$12,360,889 (after payment of \$80,246 in issuance costs) were used to current refund \$12,335,000 of outstanding series 2007A general obligation refunding bonds with an average interest rate of 4.75% on January 17, 2017. The current refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$432,368. This difference, reported in the accompanying financial statements as a deferred inflow of resources, is being amortized over the remaining life of the old bonds as a component of interest expense through the year 2027. The City completed the current refunding to reduce its total debt service payments by \$1,617,932 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,439,401.

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
General obligation bonds	\$36,909,148	\$ -	\$ (3,013,027)	\$33,896,121	\$2,982,132
Bond premiums	111,216	-	(41,443)	69,773	-
Bond discounts	(48,989)	-	-	(48,989)	-
Bonds payable	36,971,375	-	(3,054,470)	33,916,905	2,982,132
Capital lease obligation	341,175	-	(69,972)	271,203	73,187
Compensated absences	1,979,731	1,142,874	(1,384,885)	1,737,720	1,378,952
Net pension liability	26,938,900	9,998,069	(3,542,143)	33,394,826	-
Other postemployment benefits	(50,000)	1,134,797	(1,379,560)	(294,763)	-
	<u>\$66,181,181</u>	<u>\$12,275,740</u>	<u>\$ (9,431,030)</u>	<u>\$69,025,891</u>	<u>\$4,434,271</u>

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

8. Long-Term Liabilities (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Business-type Activities					
General obligation bonds	\$49,063,899	\$ 12,739,946	\$(16,154,981)	\$45,648,864	\$4,017,427
Bond premiums	602,051	-	(527,021)	75,030	-
Bonds payable	49,665,950	12,739,946	(16,682,002)	45,723,894	4,017,427
Compensated absences	644,941	433,410	(483,703)	594,648	483,703
Net pension liability	7,171,486	2,719,995	(959,829)	8,931,652	-
Other postemployment benefits	-	340,472	(393,002)	(52,530)	-
	<u>\$57,482,377</u>	<u>\$ 16,233,823</u>	<u>\$(18,518,536)</u>	<u>\$55,197,664</u>	<u>\$4,501,130</u>
Component Unit					
Capital lease obligation	\$ 268,476	\$ -	\$ (131,405)	\$ 137,071	\$ 137,071
Compensated absences	921,434	334,928	(387,474)	868,888	387,474
Net pension liability	35,898,755	9,925,486	(6,534,313)	39,289,928	-
Other postemployment benefits	(217,763)	134,245	(211,531)	(295,049)	-
	<u>\$36,870,902</u>	<u>\$ 10,394,659</u>	<u>\$ (7,264,723)</u>	<u>\$40,000,838</u>	<u>\$ 524,545</u>

Details of long-term indebtedness are as follows:

	Interest Rates	Issue Date	Maturity Date	Issue Amount	Governmental Activities	Business-type Activities
General Obligation Bonds						
2004 Public Improvement	3.00%	04/04	07/26	11,052,222	\$ -	\$ 6,182,470
2010 Taxable Build America	4.57-6.56%	12/10	02/31	2,700,000	2,700,000	-
2010 Public Improvement	3.00-4.25%	12/10	02/28	2,830,000	2,345,000	-
2010 Public Improvement	3.15%	09/10	03/30	3,648,124	-	2,755,417
2010 Refunding	2.50-5.25%	12/10	02/19	7,410,000	461,737	1,108,263
2011 Refunding	2.14%	12/11	10/23	9,485,000	6,414,688	-
2012 Public Improvement	2.35%	12/12	08/32	9,545,000	7,636,000	-
2013 Public Improvement	1.25%	03/13	04/35	3,058,522	-	2,833,360
2013 Public Improvement	3.03%	12/13	08/33	7,275,000	6,180,000	-
2015 Refunding	2.50%	04/15	04/31	18,813,000	1,804,749	15,768,251
2016A Public Improvement	2.50%	06/16	04/36	3,922,176	3,697,444	-
2016B Public Improvement	2.50%	06/16	04/26	6,393,385	1,231,191	4,559,968
2017A Refunding	2.30%	01/17	01/27	12,441,135	-	12,441,135
General Obligation Bonds - RVRA						
2011 Refunding	2.14%	12/11	10/23		1,425,312	-
					33,896,121	45,648,864
				Bond premiums	69,773	75,030
				Bond discounts	(48,989)	-
					<u>\$ 33,916,905</u>	<u>\$ 45,723,894</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

8. Long-Term Liabilities (Continued)

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

Fiscal Year	Governmental Activities					
	Governmental Activities		RVRA		Business-type Activities	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 2,766,699	\$ 864,290	\$ 215,433	\$ 28,197	\$ 4,017,427	\$ 1,117,933
2019	2,768,165	789,888	211,797	23,625	4,085,876	1,013,219
2020	2,548,690	715,280	208,161	19,132	3,620,457	904,034
2021	2,554,235	651,605	204,525	14,716	3,708,282	814,728
2022	2,555,293	588,579	199,980	10,388	3,794,757	723,205
2023-2027	10,129,926	2,042,997	385,416	8,189	19,390,126	2,166,584
2028-2032	7,388,711	801,162	-	-	6,667,461	405,293
2033-2036	1,759,090	62,971	-	-	364,478	5,649
	<u>\$ 32,470,809</u>	<u>\$ 6,516,772</u>	<u>\$ 1,425,312</u>	<u>\$ 104,247</u>	<u>\$ 45,648,864</u>	<u>\$ 7,150,645</u>

On November 1, 2016, the City became a member of the already established Roanoke Valley Resource Authority (RVRA). Per the amended and restated Members and Facilities Use Agreement, the City conveyed title of the City's existing transfer station and all related equipment, property, and site work to RVRA. RVRA agreed to pay the City amounts equal to the remaining debt service on the transfer station building. As of June 30, 2017, the City has \$1,425,312 in outstanding general obligation debt, which will contractually be repaid by RVRA over the remaining 7 year amortization of the bonds. Further details are presented in note 18.

9. Operating Leases

Rental Costs

The City and School Division entered several non-cancelable operating leases for office space and equipment. Rent expenditures for the current year were \$17,657 and \$52,481 for the City and School Division, respectively. Scheduled minimum rental payments for the next five years are as follows:

Year Ending June 30	City of Salem	School Division
2018	\$ 17,650	\$ 50,061
2019	12,568	37,022
2020	8,112	35,037
2021	6,889	5,279
2022	3,402	2,901
	<u>\$ 48,621</u>	<u>\$ 130,300</u>

Rental Revenues

On July 1, 2011, the City entered into a fifteen year lease agreement with the General Services Administration (GSA) providing for the use of office area on the third floor of the City Police Department. The lease includes a five year renewal option under the same terms and conditions. The net book value of leased assets of \$1,483,854 (cost of \$1,843,486 less accumulated depreciation of \$359,632) is included in capital assets in the government-wide financial statements. Rent is determined as \$48.75 per ABOA (American National Standards Institute/Building Owners and Managers Association Office Area) plus a component for operating costs adjusted annually based on the Cost of Living Index. Rent revenues for the current year were \$128,812. Scheduled minimum rental revenues over the remaining lease period are \$1,169,719. Minimum rental revenues are determined using the current year change in the monthly rent payment of 0.08% projected for each future year of the lease.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

9. Operating Leases (Continued)

Rental Revenues (Continued)

On May 1, 2014, the City entered into a five year lease agreement with Cardinal Criminal Justice Academy providing for the use of real property located at 912 Central Avenue in Salem. Upon completion of the five year term, the lease shall continue on a month-to-month basis. Upon completion of a ten year lease term, the Academy will purchase the property for the sum of \$1. The net book value of leased assets of \$121,355 (cost of \$127,891 less accumulated depreciation of \$6,536) is included in capital assets in the government-wide financial statements. Rent of \$14,500 is paid annually in advance and due on the same date each year.

On January 1, 2015, The City entered into a ten year lease agreement with Salem Professional Baseball Club, Inc. providing for the use of the Salem Memorial Baseball Stadium and the adjoining office building located at 1004 Texas Street in Salem. The net book value of leased assets of \$7,723,060 (cost of \$12,626,686 less accumulated depreciation of \$4,903,626) is included in capital assets in the government-wide financial statements. Rent of \$1 is paid annually and due on May 15 of each year during the term. In addition, two percent of gross ticket revenue in excess of \$1,000,000 in each calendar year during the term is due December 31 of each such year. On April 24, 2017, the City replaced the scoreboard at the Salem Memorial Baseball Stadium. Per the lease agreement, a payment equal to five percent of the cost of the replacement scoreboard, or \$20,886.20, is due on the anniversary date of installation each year during the term, including any extensions or renewals up to the 19th anniversary date.

Scheduled minimum rental revenues are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2018	\$ 164,291
2019	164,392
2020	149,974
2021	150,075
2022	150,177
2023-2027	518,259
	<u>\$ 1,297,168</u>

10. Capital Leases

On November 1, 2015, the City entered into a 62 month lease agreement with C. R. Whitley, Jr. and Sandra S. Whitley, Trustees under the Whitley Living Trust, to lease the property located at 21 S. Bruffey Street, Salem, VA 24153. Under the lease agreement, the City pays \$6,991.13 monthly to the lessor, representing principal and interest payments with interest at 4.5%. Capital lease accounting is required due to transfer of ownership at the end of the lease, bargain purchase price, and net present value of payments through the term of the lease. The lease assets and obligation are accounted for as Governmental Activities. At June 30, 2017, the original cost of the land and building under the capital lease totaled \$96,700 and \$278,300, respectively, and accumulated depreciation on the building totaled \$8,813.

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

<u>Fiscal Year Ending</u>	<u>Amount</u>
June 30, 2018	\$ 83,894
June 30, 2019	83,894
June 30, 2020	83,894
June 30, 2021	41,946
Total minimum lease payments	293,628
Less: Amount representing interest	(22,425)
Present value of minimum lease payments	<u>\$ 271,203</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

10. Capital Leases (Continued)

On August 1, 2015, the School Division entered into a 36 month lease agreement with Dell Financial Services LLC to lease 1,240 Dell Chromebooks. Under the lease agreement, the School Division pays \$142,981.24 annually to the lessor, representing principal and interest payments with an implicit interest rate of 4.31%. Capital lease accounting is required due to a bargain purchase option and the net present value of payments through the term of the lease. The lease assets and obligation are accounted for in the Statement of Net Position under the Component Unit. At June 30, 2017, the original cost of the Chromebooks was \$411,457 and accumulated depreciation was \$150,867.

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

Fiscal Year Ending	Amount
June 30, 2018	\$ 142,981
Total minimum lease payments	142,981
Less: Amount representing interest	(5,910)
Present value of minimum lease payments	<u>\$ 137,071</u>

11. Fund Balance

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

	General	Capital Projects	Total Governmental Funds
Fund Balances:			
Nonspendable:			
Inventories	\$ 588,204	\$ -	\$ 588,204
	<u>588,204</u>	<u>-</u>	<u>588,204</u>
Restricted for:			
Technology systems	-	63,545	63,545
Law enforcement	262,211	-	262,211
Fire and rescue	232,409	550,000	782,409
Street equipment	-	20,908	20,908
Building maintenance and improvements	-	1,138,558	1,138,558
Highway maintenance	3,750,628	-	3,750,628
Social services	-	625,000	625,000
Parks and recreation	-	2,380	2,380
Economic development	-	493,670	493,670
	<u>4,245,248</u>	<u>2,894,061</u>	<u>7,139,309</u>
Committed to:			
Technology systems	-	53,958	53,958
Law enforcement	61,908	-	61,908
Stormwater management	27,353	-	27,353
Economic development	-	500	500
	<u>89,261</u>	<u>54,458</u>	<u>143,719</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

11. Fund Balance (Continued)

	General	Capital Projects	Total Governmental Funds
Assigned to:			
Technology systems	\$ 146,485	\$ -	\$ 146,485
Law enforcement	77,460	-	77,460
Fire and rescue	172,034	-	172,034
Street equipment	49,521	-	49,521
Building maintenance and improvements	14,544	6,392	20,936
Engineering	10,815	-	10,815
Public works	-	26,942	26,942
Park improvements	127,714	-	127,714
Parks and recreation	-	308,815	308,815
Economic development	14,000	-	14,000
Other purposes	59,678	-	59,678
	<u>672,251</u>	<u>342,149</u>	<u>1,014,400</u>
Unassigned:	<u>22,212,433</u>	<u>-</u>	<u>22,212,433</u>
Total fund balances	<u>\$ 27,807,397</u>	<u>\$ 3,290,668</u>	<u>\$ 31,098,065</u>

12. Risk Management

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

Workers' Compensation

Workers' Compensation Insurance is provided through the Virginia Municipal Self Insurance Association for the City and through School Systems of Virginia for the School Division. Benefits are those afforded through the Commonwealth of Virginia as outlined in *Code of Virginia* §65.2-100. Premiums are based on covered payroll, job rates and claims experience. Total premiums for the current year were \$383,514 and \$99,499 for the City and School Division, respectively.

General Liability and Other

The City provides general liability and other insurance through Virginia Municipal League Insurance Programs (VMLIP). General liability and automotive liability have a \$1,000,000 limit per occurrence. Boiler and machinery coverage and property coverage are covered per statement of values. The City maintains an additional \$10,000,000 umbrella policy over all forms of liability. The City has flood insurance coverage through Selective Insurance Company of America for properties in designated flood zones or that are part of the water plant. Total premiums for the current fiscal year were \$310,224.

The School Division provides general liability and other insurance through the VMLIP. General liability and automobile liability have a \$1,000,000 limit per occurrence. Boiler and machinery coverage and property coverage are covered per statement of values. The School Division maintains an additional \$10,000,000 umbrella policy over all forms of liability. Total premiums for the current fiscal year were \$124,976.

Healthcare

The City's professionally administered self-insurance program provides health coverage for employees of the City and School Division on a cost-reimbursement basis. All active employees, retired City employees and retired School Division employees pay a premium equivalent for participation. The premium equivalent represents a minimum of 4% active or retired employee participation. The City is obligated for claims payments under the program. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$150,000 per covered individual and approximately \$9,852,000 in the aggregate.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

12. Risk Management (Continued)

Healthcare (Continued)

During the current fiscal year, total claim expenses of \$7,007,489, which did not exceed the stop loss provisions, were incurred. This represents claims processed and an estimate for claims incurred but not reported (IBNR) as of June 30, 2017. The estimated liability for the City and School Division was \$465,675 and \$321,403, respectively for a total of \$787,078 at year-end.

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

Year Ended June 30	Beginning Balance	Claim Expenses	Claim Payments	Ending Balance
2017	\$ 863,950	\$ 7,007,489	\$ 7,084,361	\$ 787,078
2016	968,628	7,372,524	7,477,202	863,950
2015	898,880	9,052,509	8,982,761	968,628

Other

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

13. Pension Plan

Plan Description

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

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

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

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

VRS PLAN 1

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

13. Pension Plan (Continued)

VRS PLAN 1 (Continued)

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

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

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

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

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

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

Service Retirement Multiplier – The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

13. Pension Plan (Continued)

VRS PLAN 1 (Continued)

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

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

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

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

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

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

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

VRS PLAN 2

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

13. Pension Plan (Continued)

VRS PLAN 2 (Continued)

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

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

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

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

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

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

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

HYBRID RETIREMENT PLAN

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

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

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

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

13. Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

* Non-Eligible Members – some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

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

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

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

Creditable Service

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

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

Vesting

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

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

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

Distribution is not required by law until age 70½.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

13. Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

Calculating the Benefit

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

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

Service Retirement Multiplier

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

Defined Contribution Component: Not applicable.

Normal Retirement Age

Defined Benefit Component: Same as VRS Plan 2.

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

Earliest Unreduced Retirement Eligibility

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

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

Earliest Reduced Retirement Eligibility

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

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

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Not applicable.

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

13. Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

Purchase of Prior Service

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

- Hybrid Retirement Plan members are ineligible for ported service.
- The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.
- Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.

Defined Contribution Component: Not applicable

Employees Covered by Benefit Terms

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the VRS Retirement Plan:

	City of Salem	School Division (Non-Professional)
Inactive members or their beneficiaries currently receiving benefits	554	64
Inactive members:		
Vested inactive members	154	14
Non-vested inactive members	172	26
Inactive members active elsewhere in VRS	294	19
Total inactive members	620	59
Active members	487	73
Total covered employees	1,661	196

Contributions

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

The City's contractually required contribution rate for the year ended June 30, 2017 was 16.22% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by the employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$3,541,473 and \$3,915,838 for the years ended June 30, 2017 and June 30, 2016, respectively.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

13. Pension Plan (Continued)

Contributions (Continued)

The School Division's non-professional employees' contractually required contribution rate for the year ended June 30, 2017 was 4.33% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by the employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School Division were \$54,990 and \$92,100 for the years ended June 30, 2017 and June 30, 2016, respectively.

For the School Division's professional employees covered under the VRS Teacher Retirement Plan, each school division's contractually required contribution rate for the year ended June 30, 2017 was 14.66% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and reflects the transfer in June 2015 of \$192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarial rate for the Teacher Retirement Plan was 16.32%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions were funded at 89.84% of the actuarial rate for the year ended June 30, 2017. Contributions to the pension plan from the School Division were \$3,156,477 and \$3,004,414 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability

Under the VRS Retirement Plan, the City's and School Division's net pension liabilities were measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Under the VRS Teacher Retirement Plan, the School Division reported a liability of \$39,276,000 for its proportionate share of the net pension liability at June 30, 2017. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School Division's proportion of the net pension liability was based on the School Division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2016 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2016, the School Division's proportion was 0.28026% as compared to 0.28555% at June 30, 2015.

The net pension liability is calculated separately for each plan and represents that particular plan's total pension liability determined in accordance with GAAP, less that plan's fiduciary net position. As of June 30, 2016, total net pension liability for each plan, including all participating entities, is as follows. Participating entities for the City of Salem includes agency funds and participating entities for the Teacher Retirement Plan includes all School systems within the cost-sharing plan.

	City of Salem	School Division (Non-Professional)	School Division- Teacher Retirement Plan (thousands)
Total Pension Liability	\$ 192,652,307	\$ 5,106,219	\$ 44,182,326
Plan Fiduciary Net Position	148,393,805	5,092,291	30,168,211
Employers' Net Pension Liability	<u>\$ 44,258,502</u>	<u>\$ 13,928</u>	<u>\$ 14,014,115</u>

Plan Fiduciary Net Position as a
Percentage of the Total Pension
Liability

77.03%

99.73%

68.28%

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

13. Pension Plan (Continued)

Net Pension Liability (Continued)

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GAAP in the System's notes to the financial statements and required supplementary information.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the System was based on an actuarial valuation performed as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

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

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

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

13. Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

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

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

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

Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees in the System was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016:

Inflation	2.50%
Salary increases, including inflation	3.50% - 4.75%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

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

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

13. Pension Plan (Continued)

Actuarial Assumptions – Public Safety Employees (Continued)

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – LEOS:

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

Actuarial Assumptions – VRS Teacher Retirement Plan

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation performed as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016:

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.95%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

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

Mortality rates:

Pre-Retirement:

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

13. Pension Plan (Continued)

Actuarial Assumptions – VRS Teacher Retirement Plan (Continued)

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Long-Term Expected Rate of Return

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

13. Pension Plan (Continued)

Long-Term Expected Rate of Return (Continued)

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

Discount Rate

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

Changes in Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
City of Salem			
Balances at June 30, 2015	\$ 178,921,902	\$ 144,811,516	\$ 34,110,386
Changes for the year:			
Service cost	2,507,103	-	2,507,103
Interest	12,159,380	-	12,159,380
Differences between expected and actual experience	906,524	-	906,524
Contributions - employer	-	3,915,838	(3,915,838)
Contributions - employee	-	1,149,948	(1,149,948)
Net investment income	-	2,383,779	(2,383,779)
Benefit payments, including refunds of employee contributions	(10,244,175)	(10,244,175)	-
Administrative expenses	-	(91,609)	91,609
Other changes	-	(1,041)	1,041
Net changes	<u>5,328,832</u>	<u>(2,887,260)</u>	<u>8,216,092</u>
Balances at June 30, 2016	<u>\$ 184,250,734</u>	<u>\$ 141,924,256</u>	<u>\$ 42,326,478</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

13. Pension Plan (Continued)

Changes in Net Pension Liability (Asset) (Continued)

	<u>Increase (Decrease)</u>		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
	<u>(a)</u>	<u>(b)</u>	<u>(a) - (b)</u>
School Division (Non-Professional Staff)			
Balances at June 30, 2015	\$ 5,117,491	\$ 5,159,736	\$ (42,245)
Changes for the year:			
Service cost	124,227	-	124,227
Interest	347,691	-	347,691
Differences between expected and actual experience	(182,245)	-	(182,245)
Contributions - employer	-	92,100	(92,100)
Contributions - employee	-	58,188	(58,188)
Net investment income	-	86,505	(86,505)
Benefit payments, including refunds of employee contributions	(300,945)	(300,945)	-
Administrative expenses	-	(3,256)	3,256
Other changes	-	(37)	37
Net changes	<u>(11,272)</u>	<u>(67,445)</u>	<u>56,173</u>
Balances at June 30, 2016	<u>\$ 5,106,219</u>	<u>\$ 5,092,291</u>	<u>\$ 13,928</u>

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

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

	<u>Net Pension Liability (Asset)</u>		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
City of Salem			
Retirement Plan	\$ 65,055,097	\$ 42,326,478	\$ 23,340,869
School Division			
Retirement Plan (Non-Professional Staff)	600,885	13,928	(478,894)
Teacher Retirement Plan	55,988,000	39,276,000	25,510,000

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

13. Pension Plan (Continued)

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

For the year ended June 30, 2017, the City and School Division recognized pension expense of \$3,149,214 and \$(24,087), respectively, under the VRS Retirement Plan.

For the year ended June 30, 2017, the School Division recognized pension expense of \$2,703,000 under the VRS Teacher Retirement Plan. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2017, the City and School Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
City of Salem		
Differences between expected and actual experience	\$ 575,677	\$ 586,134
Net difference between projected and actual earnings on pension plan investments	3,692,575	-
Employer contributions subsequent to the measurement date	3,541,473	-
Total	<u>\$ 7,809,725</u>	<u>\$ 586,134</u>
School Division (Non-Professional Staff)		
Differences between expected and actual experience	\$ -	\$ 126,213
Net difference between projected and actual earnings on pension plan investments	132,195	-
Employer contributions subsequent to the measurement date	54,990	-
Total	<u>\$ 187,185</u>	<u>\$ 126,213</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

13. Pension Plan (Continued)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
School Division - Teacher Retirement Plan		
Differences between expected and actual experience	\$ -	\$ 1,273,000
Net difference between projected and actual earnings on pension plan investments	2,244,000	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	2,065,000
Employer contributions subsequent to the measurement date	3,156,477	-
Total	<u>\$ 5,400,477</u>	<u>\$ 3,338,000</u>

Deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of (increase to) the Net Pension Liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30,</u>	<u>City of Salem</u>	<u>School Division (Non-Professional)</u>	<u>School Division-Teacher Retirement Plan</u>
2018	\$ (261,984)	\$ (83,436)	\$ (937,000)
2019	238,129	(42,408)	(937,000)
2020	2,194,256	77,969	492,000
2021	1,511,717	53,857	429,000
2022	-	-	(141,000)
	<u>\$ 3,682,118</u>	<u>\$ 5,982</u>	<u>\$ (1,094,000)</u>

Payable to the Pension Plan

At June 30, 2017, \$390,419 and \$14,185 were payable to the System under the VRS Retirement Plan for the legally required contributions of the City and School Division, respectively, related to June 2017 payroll.

At June 30, 2017, \$841,676 was payable to the System under the VRS Teacher Retirement Plan for the legally required contributions related to June 2017 payroll.

Pension Plan Fiduciary Net Position

Detailed information about the Fiduciary Net Positions of the VRS Retirement Plan and the VRS Teacher Retirement Plan is available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

14. Other Postemployment Benefits

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

An actuarial valuation was performed as of June 30, 2017. The specific limitations, which the actuarial valuation was based on, are outlined under the plan description.

Plan Description

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

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

In addition to the implicit rate subsidy, all pre-65 retirees who retired on or before October 1, 2010 receive a premium subsidy based on their coverage election. If the retiree elects retiree-only coverage, the City contributes between 76% and 96% of the subscriber-only premium. If the retiree elects retiree/spouse, retiree/children, or family coverage, the City contributes between 41% and 57% of the retiree/spouse, retiree/children, or family premium. If the retiree elects retiree/child coverage, the City contributes between 66% and 82% of the retiree/child premium. The actual City contribution within each range depends on the health plan selected by the retiree. For individuals retiring after October 1, 2010 and who were hired before July 1, 2010, the City will contribute 3% of the retiree-only premium for each year of service up to 96% of the total retiree-only premium for the lifetime of the retiree. For employees hired on or after July 1, 2010, the City will contribute 3% of the retiree-only premium for each year of service up to 50% of the total retiree-only premium for the lifetime of the retiree.

When a retiree turns age 65 or otherwise becomes eligible for Medicare, the retiree transfers to a Medicare Health Supplement Plan F Medical and/or Part D Drug plan. These individuals no longer receive the implicit rate subsidy; however, they still receive a premium subsidy. The City contributes 3% of the retiree-only premium for each year of service up to 96% not to exceed \$3,300. Employees hired on or after July 1, 2010 are not eligible to receive the Medicare Health Supplement Plan F Medical and/or Part D Drug plan benefit.

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

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

The City participates in the OPEB Trust Fund, an irrevocable trust established for the purpose of accumulating assets to fund postemployment benefits other than pensions. The Virginia Pooled OPEB Trust Fund issues a separate report, which may be obtained from VML/VACo Finance Program, 919 East Main Street, Suite 1100, Richmond, Virginia 23219.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

14. Other Postemployment Benefits (Continued)

Plan Description (Continued)

As of June 30, 2017, the date of the latest actuarial valuation for the City and School Division, plan participation consisted of:

	City of Salem	School Division
Active employees	476	523
Retired participants	281	32
Total participants	757	555

Funding Policy

The Retiree Health Plan is funded through member and employer contributions. City Retirees receiving benefits contribute a minimum of 4% to 24%, 18% to 34%, 43% to 59%, 43% to 59%, and 43% to 59% of the health insurance premium rate for retiree only, retiree + one minor child, retiree & spouse, retiree + children, and family coverage, respectively. The actual contribution within each range depends on the health plan selected by the retiree. School Division Retirees receiving benefits contribute 100% of the health insurance premium rate. During the current year, retired City and School Division members contributed \$376,731 and \$311,428, respectively, of the total premiums through their required contributions of between \$10.60 and \$1,708 depending on the type of coverage and years of service.

Based on the June 30, 2017 actuarial valuation, the City contributed \$1,772,562 to the Retiree Health Plan. Included in this amount is a current year contribution of \$239,100 to the OPEB Trust Fund. No current year contribution was required to fully fund the annual required contribution (ARC) so the current year contribution increased the net OPEB asset. It is the City's intent to fully fund the ARC each year.

Based on the June 30, 2017 actuarial valuation, the School Division contributed \$211,531 to the Retiree Health Plan. Included in this amount is a current year contribution of \$85,673, which consisted of \$8,387 to fully fund the annual required contribution (ARC) and \$77,286 to increase the net OPEB asset. It is the School Division's intent to fully fund the ARC each year.

Annual OPEB Cost and Net OPEB Obligation

The City's and School Division's annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed 30 years.

The following table presents the City's and School Division's annual OPEB cost, amount contributed and changes in the net OPEB obligation (asset) for the fiscal year ended June 30, 2017.

	City of Salem	School Division
Annual required contribution	\$ 1,475,806	\$ 136,700
Interest on net OPEB obligation	(3,336)	(15,243)
Adjustment to annual required contribution	2,799	12,788
Annual OPEB cost	1,475,269	134,245
Contributions made	(1,772,562)	(211,531)
Increase in net OPEB asset	(297,293)	(77,286)
Net OPEB asset, beginning	(50,000)	(217,763)
Net OPEB asset, ending	\$ (347,293)	\$ (295,049)

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

14. Other Postemployment Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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

Three-Year Trend Information					
<u>Fiscal Year Ending</u>	<u>Annual Required Contribution</u>	<u>Percentage of Annual Required Contribution</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
City of Salem					
June 30, 2017	\$ 1,475,806	120.1%	\$ 1,475,269	120.2%	\$ (347,293)
June 30, 2016	1,708,763	109.9%	1,710,038	109.8%	(50,000)
June 30, 2015	1,676,657	114.6%	1,680,515	114.4%	117,416
School Division					
June 30, 2017	\$ 136,700	154.7%	\$ 134,245	157.6%	\$ (295,049)
June 30, 2016	179,203	116.0%	177,095	117.4%	(217,763)
June 30, 2015	174,964	168.6%	174,218	169.4%	(186,976)

Funded Status and Funding Progress

As of June 30, 2017, the City's most recent actuarial valuation date, the plan was 20.3% funded. The actuarial accrued liability (AAL) for benefits was \$26,320,612 and the actuarial value of assets was \$5,330,532, resulting in an unfunded actuarial accrued liability (UAAL) for benefits of \$20,990,080. The covered payroll (annual payroll of active employees covered by the plan) was \$22,779,070 and the ratio of the UAAL to the covered payroll was 92.1%.

As of June 30, 2017, the School Division's most recent actuarial valuation date, the plan was 45.4% funded. The AAL for benefits was \$2,159,732 and the actuarial value of assets was \$979,804, resulting in a UAAL for benefits of \$1,179,928. The covered payroll (annual payroll of active employees covered by the plan) was \$23,076,891 and the ratio of the UAAL to the covered payroll was 5.1%.

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

Methods and Assumptions

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

14. Other Postemployment Benefits (Continued)

Methods and Assumptions (Continued)

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

<u>Actuarial methods</u>	<u>City of Salem</u>	<u>School Division</u>
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percent of payroll	Level percent of payroll
Amortization period	Open over 30 years	Open over 30 years
Asset valuation method	Market value	Market value
 <u>Actuarial assumptions</u>		
Investment rate of return	7.00%	7.00%
Payroll growth	3.00%	3.00%
Healthcare cost trend rate	Getzen Trend Model	Getzen Trend Model
	Pre-65: 7.60% for 2017, 6.00% for 2018, 5.50% for 2019 graded to 4.00% over 72 years	Pre-65: 7.40% for 2017, 5.90% for 2018, 5.40% for 2019 graded to 4.00% over 80 years
	Post 65: 8.00% for 2017, 6.30% for 2018, 5.60% for 2019 graded to 4.10% over 79 years	Post 65: Not Applicable

15. Other Postemployment Benefits – GASB Statement No. 74

Additional note disclosure and related supplementary information about the Retiree Health Plan's investment performance, total OPEB liability, net OPEB liability, and contributions, as required under GASB Statement No. 74, are as follows below and in the required supplementary information section. The amounts disclosed are not reflected in the financial statements of the City or School Division.

Rate of Return

As of June 30, 2017, the annual money-weighted rate of return on the plan investments, net of OPEB plan investment expense, was 12.83% for the City and 12.79% for the School Division. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability

The components of the net OPEB liability as of June 30, 2017 were as follows:

	<u>City of Salem</u>	<u>School Division</u>
Total OPEB liability	\$ 26,320,612	\$ 2,159,732
Plan fiduciary net position	5,791,605	1,102,777
Net OPEB liability	<u>\$ 20,529,007</u>	<u>\$ 1,056,955</u>
 Plan fiduciary net position as a percentage of total OPEB liability	 22.00%	 51.06%

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

15. Other Postemployment Benefits – GASB Statement No. 74 (Continued)

Actuarial Methods and Significant Assumptions

The total OPEB liability was determined as part of the actuarial valuation at the date indicated, using the following actuarial assumptions:

Valuation date	June 30, 2017
Investment rate of return	7.00%
Long-term projected salary increase	3.00%
Pre-65 healthcare cost trend rates	City: 7.60% for 2017 graded to 4.00% by 2091 School Division: 7.40% for 2017 graded to 4.00% by 2099
Post-65 healthcare cost trend rates	City: 8.00% for 2017 graded to 4.10% by 2098 School Division: N/A
Pre-retirement mortality	RP-2000 Combined Healthy Mortality Table projected to 2020 by Scale AA set forward 2 years for males and set back 3 years for females
Post-retirement mortality	RP-2000 Combined Healthy Mortality Table projected to 2020 by Scale AA and set back 1 year for females

Discount Rate

The discount rate used to measure the total OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at current contribution rates. Based on the current and historical commitment of the City to fully fund actuarially determined contribution amounts, the Plan's fiduciary net position combined with future contributions is sufficient to cover all projected future benefit payments. The long-term expected rate of return on plan investments is 7.50% and, when applied to the periods of projected benefit payments, it is not anticipated that the plan's assets will be exhausted; therefore, the expected municipal bond rate was not applied in determining the discount rate.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability calculated using the discount rate of 7.00%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Net OPEB Liability		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
City of Salem	\$ 23,118,008	\$ 20,529,007	\$ 18,272,042
School Division	1,246,499	1,056,955	885,513

Sensitivity of the Net OPEB Liability to Changes in Healthcare Cost Trend Rates

The following presents the net OPEB liability calculated using the current healthcare cost trend rate as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current rate:

	Net OPEB Liability		
	1% Decrease	Current Trend Rate	1% Increase
City of Salem	\$ 18,963,565	\$ 20,529,007	\$ 22,330,744
School Division	840,356	1,056,955	1,310,487

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

15. Other Postemployment Benefits – GASB Statement No. 74 (Continued)

Plan Investments

In an effort to assist local governments in funding their OPEB liabilities, the Virginia Association of Counties and the Virginia Municipal League established the VACo/VML Pooled OPEB Trust (Trust). The Trust is an irrevocable trust offered to local governments and authorities and is governed by a Board of Trustees consisting of local officials of participants in the Trust. The Board of Trustees has adopted an investment policy to achieve a compound annualized rate of return over a market cycle, including current income and capital appreciation, in excess of 5 percent after inflation, in a manner consistent with prudent risk-taking. Investment decisions of 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 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. The Trust provides a diversified portfolio consisting of investments in various asset classes such as bonds, domestic equities, international equities and cash. Specific investment information for the Trust can be obtained by writing to VML/VACo Finance Program, 919 East Main Street, Suite 1100, Richmond, Virginia 23219.

The Trust categorizes its investments within the fair value hierarchy established by GAAP. A government is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the NAV per share (or its equivalent) of the investment. Investments in the Trust are valued using the NAV per share which is determined by dividing the total value of the Trust by the number of outstanding shares. The NAV per share changes with the value of the underlying investments in the Trust. Generally, participants may redeem their investment at the end of a calendar quarter upon 90 days' written notice. The Trust currently invests in the following assets classes and strategies:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Arithmetic Long-term Expected Real Rate of Return</u>
Equity:		
Large Cap	26%	7.79%
Small Cap	10%	9.08%
International	13%	8.79%
Emerging Markets	5%	10.14%
Private	5%	10.43%
Fixed Income:		
Core Bonds	7%	2.80%
Core Plus	14%	3.07%
Diversified Hedge Funds	10%	6.32%
Real Assets:		
Real Estate	7%	5.84%
Commodities	3%	3.90%
Cash and Equivalent	0%	0.93%
	<u>100%</u>	

At June 30, 2017, the Plan held no investments in any one organization that represented 5% or more of fiduciary net position.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

16. Commitments and Contingencies

Construction Commitments

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

	Spent To Date	Remaining Contract
Salem Public Library Roof Replacement	\$ -	\$ 251,500
Downtown CCTV Inspection and Cleaning of Sanitary Sewer	268,299	231,686
	\$ 268,299	\$ 483,186

Electrical Service

On July 1, 2006, the City entered into an agreement with American Electric Power Service Corporation to purchase electricity for consumption and resale to City residents. The rates are recalculated annually based on the supplier's cost. As part of the agreement, an annual cost true-up is required based upon American Electric Power's FERC filing. The City's policy is to recognize the true-up as an expense when it is billed. The true-up for December 31, 2016 resulted in a credit of \$464,395 in the current fiscal year. The agreement expires May 31, 2026 with two possible five-year period renewals and may be terminated under certain circumstances.

On July 1, 2006, the City entered into 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.

Water and Wastewater Treatment Contract

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

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

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

Special Services

On July 1, 1973, the City entered into 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.

Participation Agreement

On October 10, 2016, the City entered into a participation agreement with the Western Virginia Regional Industrial Facility Authority (WVRIFA), the County of Roanoke, and the City of Roanoke to acquire a property at Wood Haven Road to be used for an industrial park or other economic development purposes. The City's proportionate share of this agreement is 11.6% and costs will not exceed \$1,200,000 payable through 2037.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

16. Commitments and Contingencies (Continued)

Consent Order

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

Special Purpose Grants

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

Litigation

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

17. Tax Abatements

Under the authority provided by the *Code of Virginia* sections 15.2-4905 and 58.1-3221, the City, along with the Economic Development Authority of the City of Salem, entered into several performance agreements with companies to provide economic development incentive payments for rehabilitation, renovation, and replacement of commercial or industrial properties. Each company must meet certain capital expenditure and development requirements as specified in the performance agreement in order to qualify for the incentive payments. Incentive payments may include one of the following or any combination of the following:

- Annual rebate payments equal to the difference in additional real estate taxes resulting from rehabilitation, renovation, or replacement of the associated property.
- Annual rebate payments based on personal property taxes, retail sales tax, and business license tax received by the City from the company.
- One-time grant payments to assist in costs of rehabilitation, renovation, or replacement of the associated property.

Rebate payments commence upon completion of the rehabilitation, renovation, or replacement, or on January 1 of the year following completion of the rehabilitation, renovation, or replacement and shall run for a period as specified in each performance agreement, typically between five and ten years. In fiscal year 2017, tax abatements for economic development incentives totaled \$417,557.

18. Jointly Governed Organizations

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

Roanoke Valley Resource Authority

The County of Roanoke, the Cities of Roanoke and Salem, and the Town of Vinton jointly participate in the Roanoke Valley Resource Authority (RVRA), which operates the regional sanitary landfill, waste collection and transfer station, and related treatment facilities. RVRA is governed by a seven-member board, of which one member is appointed by the City. The City has control over the budget and financing for RVRA only to the extent of representation by the board member appointed. The participating localities are each responsible for their pro rata share, based on population, of any year-end operating deficit. For the fiscal year ended June 30, 2017, the City remitted \$541,182 to RVRA for services. Financial statements may be obtained from RVRA at 1020 Hollins Road NE, Roanoke, Virginia 24012.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

18. Jointly Governed Organizations (Continued)

Blue Ridge Behavioral Healthcare

The Counties of Botetourt, Craig and Roanoke and the Cities of Roanoke and Salem formed Blue Ridge Behavioral Healthcare (BRBH) to provide a system of comprehensive community mental health, intellectual disability and substance abuse services. BRBH is governed by a 16-member board; three members are appointed by the City. Each locality's financial obligation is based on the type and amount of services performed for individuals in the locality. For the year ended June 30, 2017, the City remitted \$103,500 to BRBH for services. Financial statements may be obtained from BRBH at 301 Elm Avenue SW, Roanoke, Virginia, 24016.

Roanoke Valley Detention Commission

The Counties of Botetourt, Franklin and Roanoke and the Cities of Roanoke and Salem formed the Roanoke Valley Detention Commission (Commission) to renovate, expand and operate a detention facility for juveniles. The Commission is governed by a six-member board, of which one member is appointed by the City. Each locality's financial obligation is based on the number of juveniles housed at the facility. The Commission has the authority to issue debt and such debt is the responsibility of the Commission. For the year ended June 30, 2017, the City remitted \$135,450 to the Commission for per diem charges. Financial statements may be obtained from the Commission at 498 Coyner Springs Road, Roanoke, Virginia 24012.

Roanoke Valley Regional Board

The Counties of Botetourt, Craig and Franklin, the City of Roanoke and the City of Salem School Division jointly participate in a regional education program for severely disabled students operated by the Roanoke Valley Regional Board (Regional Board). The Regional Board is governed by a five-member board, one from each participating locality. The School Division has control over budget and financing only to the extent of representation by the one board member appointed. Each locality's financial obligation is based on their proportionate share of students attending the regional program. For the year ended June 30, 2017, the School Division remitted \$734,305 to the Regional Board for services. Financial statements may be obtained from the Regional Board at 57 South Center Drive, Room 225, Daleville, VA 24083.

Roanoke Valley Regional Fire/EMS Training Center

The County of Roanoke, the Cities of Roanoke and Salem and the Town of Vinton jointly operate a fire/EMS training center (Center). The Center is governed by a committee designated by the participating jurisdictions. New fire/EMS recruits are required to take a 17-week training course at the facility before being assigned to a station. After completion of the training, the new recruits are state certified. Each jurisdiction is responsible for a percentage of the annual operating costs of the facility. The City of Salem is responsible for 8% of the annual operating costs. For the year ended June 30, 2017, the City remitted \$8,729 for operating costs of the facility. Financial statements may be obtained from the Center at 1220 Kessler Mill Road, Salem, Virginia 24153.

Western Virginia Regional Jail Authority

The Counties of Franklin, Montgomery and Roanoke and the City of Salem formed the Western Virginia Regional Jail Authority (Jail Authority) to develop and operate a regional jail. The Jail Authority is governed by a 12-member board; three from each participating locality. Each locality's financial obligation is based on the number of prisoner days used and a share of the capital costs to build the facility. For the year ended June 30, 2017, the City remitted \$1,399,191 for per diem charges and \$287,356 for debt service to the Jail Authority. Financial statements may be obtained from the Jail Authority at 5885 West River Road, Salem, Virginia 24153.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

18. Jointly Governed Organizations (Continued)

Roanoke Valley Broadband Authority

The Counties of Botetourt and Roanoke and the Cities of Salem and Roanoke formed the Roanoke Valley Broadband Authority (RVBA) in order to acquire, finance, construct, operate, manage, and maintain a broadband system and related facilities pursuant to the Virginia Wireless Services Authorities Act. RVBA is governed by a five-member board, of which one member is appointed by the City. Based upon participation in the fiber expansion project, the Cities of Salem and Roanoke share equally in the operating and debt service costs of the Authority. For the year ending June 30, 2017, the City remitted \$327,198 for operating costs and \$334,570 for debt service to the RVBA. Financial statements may be obtained from RVBA at 601 South Jefferson Street SW, Suite 110, Roanoke, Virginia 24011.

Western Virginia Regional Industrial Facility Authority

The Counties of Botetourt, Roanoke and Franklin, the Cities of Roanoke and Salem and the Town of Vinton formed the Western Virginia Regional Industrial Facility Authority (WVRIFA) in order to enhance the economic base of each such locality through the developing, owning and operating of one or more facilities on a cooperative basis in the region. WVRIFA is governed by a twelve-member board, of which two members are appointed by the City. Each locality's financial obligation is based on their percentage of participation in each economic development project. For the year ended June 30, 2017, the City remitted \$1,556 for operating budget member dues to WVRIFA. Financial statements may be obtained from WVRIFA at PO Box 2569, Roanoke, Virginia 24010.

Roanoke Valley Governor's School

The Counties of Bedford, Botetourt, Craig, Franklin and Roanoke and the Cities of Roanoke and Salem jointly participate in a regional education program focusing on science, technology, engineering and mathematics operated by Roanoke Valley Governor's School (RVGS). RVGS is governed by a seven member board, with one member from each participating locality. The School Division has control over budget and financing only to the extent of representation by the one board member appointed. Each locality's financial obligation is based on their proportionate share of students attending RVGS. For the year ended June 30, 2017, the School Division remitted \$42,898 for services. Financial statements may be obtained from RVGS at 2104 Grandin Road, Roanoke, Virginia 24015.

19. Subsequent Event

On August 1, 2017, the City entered into an amended agreement with American Electric Power Service Corporation to purchase electricity for consumption and resale to City residents. The amended agreement replaces the Cost-Based Formula Rate with a Market-Based Rate Tariff. The new contract continues to be a Full Requirements Electric Service contract. The amended agreement replaces the agreement dated July 1, 2006 and expires on May 31, 2026 with two possible five-year period renewals and may be terminated under certain circumstances.

20. Prior Period Adjustment

The City made a prior period adjustment to record \$1,075,836 in deferred outflows of resources for deferred losses on refunding of debt in prior periods that were amortized incorrectly. The restatement includes \$440,385 from the 2011 refunding bonds recorded in governmental activities and \$635,451 from the 2015 refunding bonds recorded as \$65,261 in governmental activities and \$570,190 in the electric fund and business-type activities.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

20. Prior Period Adjustment (Continued)

The effect of this restatement on beginning net position of electric, governmental activities, and business-type activities is as follows:

	<u>Electric</u>	<u>Governmental Activities</u>	<u>Business- type Activities</u>
Net Position, beginning as previously reported	\$ 41,893,525	\$ 48,319,002	\$ 73,482,345
To record deferred outflow of resources for deferred loss on refunding of debt	<u>570,190</u>	<u>505,646</u>	<u>570,190</u>
Net Position, beginning as restated	<u>\$ 42,463,715</u>	<u>\$ 48,824,648</u>	<u>\$ 74,052,535</u>

The effect of this restatement on change in net position for the fiscal year ended June 30, 2016 of electric, governmental activities, and business-type activities is as follows:

	<u>Electric</u>	<u>Governmental Activities</u>	<u>Business- type Activities</u>
Change in net position, as previously reported	\$ 4,139,339	\$ 6,883,705	\$ 6,870,695
To record amortization of deferred outflow of resources for deferred loss on refunding of debt as of June 30, 2016	<u>(38,657)</u>	<u>(65,167)</u>	<u>(38,657)</u>
Change in net position, as restated	<u>\$ 4,100,682</u>	<u>\$ 6,818,538</u>	<u>\$ 6,832,038</u>

In fiscal year 2017, the City amortized \$60,743 of the deferred loss on refunding from the 2011 refunding bonds as a component of interest expense in governmental activities. Additionally, the City amortized \$43,081 of the deferred loss on refunding from the 2015 refunding bonds, with \$4,424 as a component of interest expense in governmental activities and \$38,657 as a component of interest expense in the electric fund and business-type activities.

21. New Accounting Standards

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

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

The GASB has issued Statement No. 83, *Certain Asset Retirement Obligations*. The statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The provisions of this statement are effective for fiscal years beginning after June 15, 2018. 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, 2017

21. New Accounting Standards (Continued)

The GASB has issued Statement No. 84, *Fiduciary Activities*, to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The statement establishes criteria for identifying fiduciary activities of all state and local governments. The provisions of this statement are effective for fiscal years beginning after December 15, 2018. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

The GASB has issued Statement No. 85, *Omnibus 2017*, to address practice issues that have been identified during implementation and application of certain GASB Statements. The statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions of this statement are effective for fiscal years beginning after June 15, 2017. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

The GASB has issued Statement No. 86, *Certain Debt Extinguishment Issues*, to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt-are placed in an irrevocable trust for the sole purpose of extinguishing debt. The provisions of this statement are effective for fiscal years beginning after June 15, 2017. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

The GASB has issued Statement No. 87, *Leases*. The statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions of this statement are effective for fiscal years beginning after December 15, 2019. Management has not completed the process of evaluating the impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

REQUIRED SUPPLEMENTARY INFORMATION



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

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS
YEARS ENDED JUNE 30, 2017, 2016 AND 2015

	City of Salem			School Division (Non-Professional Staff)		
	2017	2016	2015	2017	2016	2015
Total pension liability						
Service cost	\$ 2,507,103	\$ 2,505,415	\$ 2,527,218	\$ 124,227	\$ 132,051	\$ 145,676
Interest	12,159,380	12,004,363	11,654,127	347,691	337,943	323,812
Differences between expected and actual experience	906,524	(2,262,692)	-	(182,245)	(45,142)	-
Benefit payments, including refunds of employee contributions	(10,244,175)	(9,521,624)	(8,944,860)	(300,945)	(270,236)	(264,987)
Net change in total pension liability	5,328,832	2,725,462	5,236,485	(11,272)	154,616	204,501
Total pension liability - beginning	178,921,902	176,196,440	170,959,955	5,117,491	4,962,875	4,758,374
Total pension liability - ending	\$ 184,250,734	\$ 178,921,902	\$ 176,196,440	\$ 5,106,219	\$ 5,117,491	\$ 4,962,875
Plan fiduciary net position						
Contributions - employer	\$ 3,915,838	\$ 3,942,152	\$ 3,507,946	\$ 92,100	\$ 93,028	\$ 97,271
Contributions - employee	1,149,948	1,094,070	1,098,206	58,188	59,073	61,480
Net investment income	2,383,779	6,436,800	19,787,728	86,505	228,863	697,591
Benefit payments, including refunds of employee contributions	(10,244,175)	(9,521,624)	(8,944,860)	(300,945)	(270,236)	(264,987)
Administrative expense	(91,609)	(91,265)	(109,414)	(3,256)	(3,202)	(3,812)
Other	(1,041)	(1,350)	1,043	(37)	(47)	37
Net change in plan fiduciary net position	(2,887,260)	1,858,783	15,340,649	(67,445)	107,479	587,580
Plan fiduciary net position - beginning	144,811,516	142,952,733	127,612,084	5,159,736	5,052,257	4,464,677
Plan fiduciary net position - ending	\$ 141,924,256	\$ 144,811,516	\$ 142,952,733	\$ 5,092,291	\$ 5,159,736	\$ 5,052,257
Net pension liability (asset) - ending	\$ 42,326,478	\$ 34,110,386	\$ 33,243,707	\$ 13,928	\$ (42,245)	\$ (89,382)
Plan fiduciary net position as a percentage of the total pension liability	77.03%	80.94%	81.13%	99.73%	100.83%	101.80%
Covered-employee payroll	\$ 21,598,665	\$ 21,743,806	\$ 21,655,628	\$ 1,173,248	\$ 1,185,071	\$ 1,229,675
Net pension liability (asset) as a percentage of covered-employee payroll	195.97%	156.87%	153.51%	1.19%	-3.56%	-7.27%

Schedule is intended to show information for 10 years. Since 2017 is the third year for this presentation, only two additional years of data are available. However, additional years will be included as they become available.

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

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
YEARS ENDED JUNE 30, 2017, 2016 AND 2015**

Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
	(a)	(b)	(a-b)	(c)	(b/c)
City of Salem					
2017	\$ 3,541,473	\$ 3,541,473	\$ -	\$ 21,833,989	16.22%
2016*	3,915,838	3,915,838	-	21,598,665	18.13%
2015	3,942,152	3,942,152	-	21,743,806	18.13%
School Division (Non-Professional Staff)					
2017	\$ 54,990	\$ 54,990	\$ -	\$ 1,269,977	4.33%
2016*	92,100	92,100	-	1,173,248	7.85%
2015	93,028	93,028	-	1,185,071	7.85%

Schedule is intended to show information for 10 years. Since 2017 is the third year for this presentation, only two additional years of data are available. However, additional years will be included as they become available.

* Revised to reflect actual 2016 amounts as shown in the VRS actuarial report rather than estimated amounts used in the prior year CAFR.

**CITY OF SALEM, VIRGINIA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
 VRS TEACHER RETIREMENT PLAN
 YEARS ENDED JUNE 30, 2017, 2016 AND 2015**

Year Ended June 30	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability (a)	Covered Employee Payroll (b)	Employer's Share of the Net Pension Liability as a % of Covered Employee Payroll (a/b)	Plan Fiduciary Net Position as a % of the Total Pension Liability
2017	0.28026%	\$ 39,276,000	\$ 21,368,521	183.80%	68.28%
2016*	0.28555%	35,941,000	21,230,718	169.29%	70.68%
2015	0.29170%	35,251,000	19,575,450	180.08%	70.88%

Schedule is intended to show information for 10 years. Since 2017 is the third year for this presentation, only two additional years of data are available. However, additional years will be included as they become available.

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

* Revised to reflect actual 2016 amounts as shown in the VRS actuarial report rather than estimated amounts used in the prior year CAFR.

**CITY OF SALEM, VIRGINIA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
 VRS TEACHER RETIREMENT PLAN
 YEARS ENDED JUNE 30, 2017, 2016 AND 2015**

Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
	(a)	(b)	(a-b)	(c)	(b/c)
2017	\$ 3,156,477	\$ 3,156,477	-	\$ 21,531,221	14.66%
2016*	3,004,414	3,004,414	-	21,368,521	14.06%
2015	3,078,454	3,078,454	-	21,230,718	14.50%

Schedule is intended to show information for 10 years. Since 2017 is the third year for this presentation, only two additional years of data are available. However, additional years will be included as they become available.

* Revised to reflect actual 2016 amounts as shown in the VRS actuarial report rather than estimated amounts used in the prior year CAFR.

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
YEAR ENDED JUNE 30, 2017**

	<u>City of Salem</u>	<u>School Division</u>
Total OPEB liability		
Service cost	\$ 370,287	\$ 67,235
Interest	1,775,420	145,477
Benefit payments, including refunds of member contributions	(1,608,699)	(125,858)
Net change in total OPEB liability	<u>537,008</u>	<u>86,854</u>
Total OPEB liability - beginning	<u>25,783,604</u>	<u>2,072,878</u>
Total OPEB liability - ending	<u><u>\$ 26,320,612</u></u>	<u><u>\$ 2,159,732</u></u>
Plan fiduciary net position		
Contributions - employer	\$ 1,865,699	\$ 211,531
Net investment income	632,046	116,176
Benefit payments, including refunds of member contributions	(1,608,699)	(125,858)
Administrative expense	(6,290)	(1,579)
Net change in plan fiduciary net position	<u>882,756</u>	<u>200,270</u>
Plan fiduciary net position - beginning	<u>4,908,849</u>	<u>902,507</u>
Plan fiduciary net position - ending	<u><u>\$ 5,791,605</u></u>	<u><u>\$ 1,102,777</u></u>
Net OPEB liability - ending	<u><u>\$ 20,529,007</u></u>	<u><u>\$ 1,056,955</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	22.00%	51.06%
Covered-employee payroll	\$ 22,779,070	\$ 23,076,891
Net OPEB liability as a percentage of covered-employee payroll	90.12%	4.58%

Schedule is intended to show information for 10 years. Since 2017 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

Notes to Schedule:

There have been no significant changes to the benefit provisions since the prior actuarial valuation.

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER OTHER POSTEMPLOYMENT BENEFITS CONTRIBUTIONS
YEAR ENDED JUNE 30, 2017**

Year Ended June 30	Actuarially Determined Contribution*	Contributions in Relation to Actuarially Determined Contribution*	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
	(a)	(b)	(a-b)	(c)	(b/c)
City of Salem					
2017	\$ 1,475,809	\$ 1,772,562	\$ (296,753)	\$ 22,779,070	7.78%
School Division					
2017	\$ 136,700	\$ 211,531	\$ (74,831)	\$ 23,076,891	0.92%

Schedule is intended to show information for 10 years. Since 2017 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

* Contribution amounts for the City of Salem do not include contributions for agency fund related entities.

Notes to Schedule:

There have been no significant changes to the benefit provisions since the prior actuarial valuation.

Methods and assumptions used to determine contribution rates:

Valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll
Amortization period	Open over 30 years
Asset valuation method	Market value
Investment rate of return	7.00%
Projected long-term salary increases	3.00%

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS INVESTMENT RETURNS
YEAR ENDED JUNE 30, 2017**

Year Ended June 30	Annual Money-weighted Rate of Return, Net of Investment Expense	
	<u>City of Salem</u>	<u>School Division</u>
2017	12.83%	12.79%

Schedule is intended to show information for 10 years. Since 2017 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2017**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as of Percentage of Covered Payroll ((b-a)/c)
City of Salem						
June 30, 2017	\$ 5,330,532	\$ 26,320,612	\$ 20,990,080	20.3%	\$ 22,779,070	92.1%
June 30, 2015	4,357,722	27,025,707	22,667,985	16.1%	24,272,001	93.4%
June 30, 2013	3,430,040	28,083,367	24,653,327	12.2%	22,978,569	107.3%
School Division						
June 30, 2017	\$ 979,804	\$ 2,159,732	\$ 1,179,928	45.4%	\$ 23,076,891	5.1%
June 30, 2015	855,224	2,275,141	1,419,917	37.6%	24,081,341	5.9%
June 30, 2013	699,672	2,951,722	2,252,050	23.7%	23,283,603	9.7%

**CITY OF SALEM, VIRGINIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

Notes to Schedule of Changes in Net Pension Liability and Related Ratios

1. Changes of Benefit Terms

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 is not material.

2. Changes of Assumptions

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

Largest 10 – Non-LEOS:

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

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) – LEOS:

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

Teacher cost-sharing pool:

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

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OTHER SUPPLEMENTARY INFORMATION



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

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2017

	Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
ASSETS AND DEFERRED OUTFLOWS			
<i>Current assets:</i>			
Cash and cash equivalents	\$ 5,301	\$ 5,273	\$ 10,574
Receivables, net	33,388	39,853	73,241
Inventories	-	30,522	30,522
Prepaid items	178,734	-	178,734
Total current assets	<u>217,423</u>	<u>75,648</u>	<u>293,071</u>
<i>Noncurrent assets:</i>			
Other postemployment benefits asset	6,758	262	7,020
<i>Capital assets:</i>			
Nondepreciable	167,101	-	167,101
Depreciable, net	3,566,878	31,353	3,598,231
Total capital assets	<u>3,733,979</u>	<u>31,353</u>	<u>3,765,332</u>
Total noncurrent assets	<u>3,740,737</u>	<u>31,615</u>	<u>3,772,352</u>
Total assets	<u>3,958,160</u>	<u>107,263</u>	<u>4,065,423</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>257,675</u>	<u>74,761</u>	<u>332,436</u>
LIABILITIES			
<i>Current liabilities:</i>			
Accounts payable and accrued liabilities	50,025	8,247	58,272
Accrued payroll and related liabilities	76,823	23,028	99,851
Due to other funds	1,618,000	215,000	1,833,000
Unearned revenues	205,354	-	205,354
Compensated absences	74,385	12,189	86,574
Total current liabilities	<u>2,024,587</u>	<u>258,464</u>	<u>2,283,051</u>
<i>Noncurrent liabilities:</i>			
Compensated absences	19,952	34,716	54,668
Net pension liability	1,403,708	403,276	1,806,984
Total noncurrent liabilities	<u>1,423,660</u>	<u>437,992</u>	<u>1,861,652</u>
Total liabilities	<u>3,448,247</u>	<u>696,456</u>	<u>4,144,703</u>
DEFERRED INFLOWS OF RESOURCES	<u>19,192</u>	<u>5,519</u>	<u>24,711</u>
NET POSITION			
Net investment in capital assets	3,733,979	31,353	3,765,332
Unrestricted (deficit)	(2,985,583)	(551,304)	(3,536,887)
Total net position	<u>\$ 748,396</u>	<u>\$ (519,951)</u>	<u>\$ 228,445</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2017

	Enterprise Funds		Total Nonmajor Proprietary Funds
	Civic Center	Catering and Concessions	
OPERATING REVENUES			
Charges for services	\$ 2,445,031	\$ 799,489	\$ 3,244,520
Commissions	12,835	-	12,835
Other	17,795	20,082	37,877
Total operating revenues	<u>2,475,661</u>	<u>819,571</u>	<u>3,295,232</u>
OPERATING EXPENSES			
Salaries	1,014,554	357,773	1,372,327
Fringe benefits	335,130	96,568	431,698
Show expenses	1,757,556	-	1,757,556
Maintenance	160,609	3,663	164,272
Professional services	9,148	11,202	20,350
Insurance	15,109	-	15,109
Administration	82,736	16,930	99,666
Travel and training	10,278	-	10,278
Materials and supplies	49,274	258,844	308,118
Expendable equipment and small tools	4,603	167	4,770
Utilities	281,848	816	282,664
Miscellaneous	126	39	165
Depreciation	315,603	3,930	319,533
Commissions	-	183,962	183,962
Total operating expenses	<u>4,036,574</u>	<u>933,894</u>	<u>4,970,468</u>
Operating loss	<u>(1,560,913)</u>	<u>(114,323)</u>	<u>(1,675,236)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	69	-	69
Loss on sale of capital assets	(9,551)	-	(9,551)
Net nonoperating expenses	<u>(9,482)</u>	<u>-</u>	<u>(9,482)</u>
Loss before transfers	<u>(1,570,395)</u>	<u>(114,323)</u>	<u>(1,684,718)</u>
Transfers in	1,058,766	52,578	1,111,344
Change in net position	<u>(511,629)</u>	<u>(61,745)</u>	<u>(573,374)</u>
Net position, beginning	1,260,025	(458,206)	801,819
Net position, ending	<u>\$ 748,396</u>	<u>\$ (519,951)</u>	<u>\$ 228,445</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2017

	Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
OPERATING ACTIVITIES			
Receipts from customers	\$ 2,398,256	\$ 798,358	\$ 3,196,614
Payments to suppliers	(2,508,571)	(484,828)	(2,993,399)
Payments to employees	(1,386,541)	(459,136)	(1,845,677)
Other receipts	17,795	20,082	37,877
Net cash used in operating activities	<u>(1,479,061)</u>	<u>(125,524)</u>	<u>(1,604,585)</u>
NONCAPITAL FINANCING ACTIVITIES			
Interfund Loan	418,000	35,000	453,000
Transfers in	1,058,766	52,578	1,111,344
Net cash provided by noncapital financing activities	<u>1,476,766</u>	<u>87,578</u>	<u>1,564,344</u>
INVESTING ACTIVITIES			
Interest received	69	-	69
Net cash provided by investing activities	<u>69</u>	<u>-</u>	<u>69</u>
Net decrease in cash and cash equivalents	(2,226)	(37,946)	(40,172)
Cash and cash equivalents, beginning	<u>7,527</u>	<u>43,219</u>	<u>50,746</u>
Cash and cash equivalents, ending	<u>\$ 5,301</u>	<u>\$ 5,273</u>	<u>\$ 10,574</u>
<u>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</u>			
Operating loss	\$ (1,560,913)	\$ (114,323)	\$ (1,675,236)
<i>Adjustments to reconcile operating loss to net cash used in operating activities</i>			
Depreciation	315,603	3,930	319,533
Pension expense, net of employer contributions	(11,155)	(4,099)	(15,254)
<i>Decrease (increase) in assets:</i>			
Receivables, net	13,041	3,481	16,522
Inventories	-	3,562	3,562
Prepaid items	(93,533)	-	(93,533)
Other postemployment benefits asset	(6,758)	(262)	(7,020)
<i>Increase (decrease) in liabilities:</i>			
Accounts payable and accrued liabilities	(43,751)	(12,767)	(56,518)
Accrued payroll and related liabilities	(9,055)	(573)	(9,628)
Unearned revenues	(72,651)	(4,612)	(77,263)
Compensated absences	(9,889)	139	(9,750)
Net cash used in operating activities	<u>\$ (1,479,061)</u>	<u>\$ (125,524)</u>	<u>\$ (1,604,585)</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2017

	Cardinal Criminal Justice Academy	Court- Community Corrections Program	Total Agency Funds
ASSETS			
Cash and cash equivalents	\$ 480,935	\$ 1,206,208	\$ 1,687,143
Receivables, net	4,605	214	4,819
Due from Commonwealth of Virginia	-	58,767	58,767
Prepaid items	-	10,352	10,352
Total assets	<u>\$ 485,540</u>	<u>\$ 1,275,541</u>	<u>\$ 1,761,081</u>
LIABILITIES			
Accounts payable	\$ 11,341	\$ 33,311	\$ 44,652
Liability to agency	474,199	1,242,230	1,716,429
Total liabilities	<u>\$ 485,540</u>	<u>\$ 1,275,541</u>	<u>\$ 1,761,081</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
YEAR ENDED JUNE 30, 2017

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<u>CARDINAL CRIMINAL JUSTICE ACADEMY</u>				
ASSETS				
Cash and cash equivalents	\$ 451,756	\$ 700,225	\$ (671,046)	\$ 480,935
Receivables, net	-	4,605	-	4,605
Total assets	<u>\$ 451,756</u>	<u>\$ 704,830</u>	<u>\$ (671,046)</u>	<u>\$ 485,540</u>
LIABILITIES				
Accounts payable	\$ 4,457	\$ 123,655	\$ (116,771)	\$ 11,341
Liability to agency	447,299	581,175	(554,275)	474,199
Total liabilities	<u>\$ 451,756</u>	<u>\$ 704,830</u>	<u>\$ (671,046)</u>	<u>\$ 485,540</u>
<u>COURT-COMMUNITY CORRECTIONS PROGRAM</u>				
ASSETS				
Cash and cash equivalents	\$ 1,178,913	\$ 1,786,562	\$ (1,759,267)	\$ 1,206,208
Receivables, net	-	1,004	(790)	214
Due from Commonwealth of Virginia	62,327	300,133	(303,693)	58,767
Prepaid items	-	10,352	-	10,352
Total assets	<u>\$ 1,241,240</u>	<u>\$ 2,098,051</u>	<u>\$ (2,063,750)</u>	<u>\$ 1,275,541</u>
LIABILITIES				
Accounts payable	\$ 69,054	\$ 476,104	\$ (511,847)	\$ 33,311
Liability to agency	1,172,186	1,621,947	(1,551,903)	1,242,230
Total liabilities	<u>\$ 1,241,240</u>	<u>\$ 2,098,051</u>	<u>\$ (2,063,750)</u>	<u>\$ 1,275,541</u>
<u>TOTAL AGENCY FUNDS</u>				
ASSETS				
Cash and cash equivalents	\$ 1,630,669	\$ 2,486,787	\$ (2,430,313)	\$ 1,687,143
Receivables, net	-	5,609	(790)	4,819
Due from Commonwealth of Virginia	62,327	300,133	(303,693)	58,767
Prepaid items	-	10,352	-	10,352
Total assets	<u>\$ 1,692,996</u>	<u>\$ 2,802,881</u>	<u>\$ (2,734,796)</u>	<u>\$ 1,761,081</u>
LIABILITIES				
Accounts payable	\$ 73,511	\$ 599,759	\$ (628,618)	\$ 44,652
Liability to agency	1,619,485	2,203,122	(2,106,178)	1,716,429
Total liabilities	<u>\$ 1,692,996</u>	<u>\$ 2,802,881</u>	<u>\$ (2,734,796)</u>	<u>\$ 1,761,081</u>

STATISTICAL SECTION



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

Contents	Page
Financial Trends.....	112
<i>These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</i>	
Revenue Capacity.....	117
<i>These schedules contain information to help the reader assess the City's most significant local revenue sources, property tax and sale of electricity.</i>	
Debt Capacity.....	120
<i>These schedules present information to help the reader assess the affordability of the City's current level of outstanding debt and the government's ability to issue additional debt in the future.</i>	
Demographic and Economic Information.....	122
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.</i>	
Operating Information.....	124
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the government provides and the activities it performs.</i>	

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**TABLE 1
UNAUDITED**

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
		(1), (2)	(1), (2), (3)	(2), (4)	(2)	(2)				
Governmental Activities										
Net investment in capital assets	\$ 76,704,584	\$ 80,613,041	\$ 82,468,633	\$ 84,803,933	\$ 87,305,352	\$ 87,296,728	\$ 88,456,284	\$ 90,258,361	\$ 89,946,841	\$ 88,463,741
Restricted	4,247,628	1,962,017	4,246,340	2,987,926	1,896,959	1,260,230	1,416,694	-	-	-
Unrestricted	(24,252,734)	(33,750,410)	(44,779,654)	(22,664,736)	(20,157,809)	(10,590,213)	(12,606,292)	(9,373,128)	(10,704,656)	(9,598,627)
Total governmental net position	<u>\$ 56,699,478</u>	<u>\$ 48,824,648</u>	<u>\$ 41,935,319</u>	<u>\$ 65,127,123</u>	<u>\$ 69,044,502</u>	<u>\$ 77,966,745</u>	<u>\$ 77,266,686</u>	<u>\$ 80,885,233</u>	<u>\$ 79,242,185</u>	<u>\$ 78,865,114</u>
Business-type activities										
Net investment in capital assets	\$ 46,775,751	\$ 44,477,804	\$ 42,195,035	\$ 42,936,315	\$ 43,413,519	\$ 44,265,414	\$ 44,172,488	\$ 43,180,397	\$ 40,790,077	\$ 39,787,750
Restricted	-	-	-	-	-	-	1,989,529	-	-	-
Unrestricted	34,837,935	29,574,731	24,406,951	27,531,700	24,273,387	18,453,692	18,896,375	20,437,874	23,324,884	25,278,681
Total business-type activities net position	<u>\$ 81,613,686</u>	<u>\$ 74,052,535</u>	<u>\$ 66,601,986</u>	<u>\$ 70,468,015</u>	<u>\$ 67,686,906</u>	<u>\$ 62,719,106</u>	<u>\$ 65,058,392</u>	<u>\$ 63,618,271</u>	<u>\$ 64,114,961</u>	<u>\$ 65,066,431</u>
Primary Government										
Net investment in capital assets	\$ 123,480,335	\$ 125,090,845	\$ 124,663,668	\$ 127,740,248	\$ 130,718,871	\$ 131,562,142	\$ 132,628,772	\$ 133,438,758	\$ 130,736,918	\$ 128,251,491
Restricted	4,247,628	1,962,017	4,246,340	2,987,926	1,896,959	1,260,230	3,406,223	-	-	-
Unrestricted	10,585,201	(4,175,679)	(20,372,703)	4,866,964	4,115,578	7,863,479	6,290,083	11,064,746	12,620,228	15,680,054
Total Primary Government net position	<u>\$ 138,313,164</u>	<u>\$ 122,877,183</u>	<u>\$ 108,537,305</u>	<u>\$ 135,595,138</u>	<u>\$ 136,731,408</u>	<u>\$ 140,685,851</u>	<u>\$ 142,325,078</u>	<u>\$ 144,503,504</u>	<u>\$ 143,357,146</u>	<u>\$ 143,931,545</u>

Notes:

Source: City of Salem Finance Department

- (1) Net investment in capital assets of governmental activities and business-type activities were restated to record deferred loss on refunding of debt from the 2015 refunding bonds
- (2) Net investment in capital assets of governmental activities was restated to record deferred loss on refunding of debt from the 2011 refunding bonds
- (3) In 2015, the City implemented GASB 68 requiring recognition of the net pension liability.
- (4) In 2014, the City implemented GASB 65 requiring debt issuance costs to be expensed as incurred and also segregated health insurance into internal service funds.

**TABLE 2
UNAUDITED**

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
		(1), (2)	(1), (2)	(2), (3), (4)	(2), (5)	(2)				
Expenses										
<i>Governmental activities:</i>										
General government	\$ 6,864,181	\$ 5,943,899	\$ 6,335,563	\$ 6,248,574	\$ 6,450,069	\$ 6,583,782	\$ 6,110,416	\$ 5,328,382	\$ 5,937,208	\$ 5,031,352
Judicial administration	2,072,538	1,934,263	1,921,789	2,026,034	1,952,657	1,866,052	1,887,444	1,779,072	1,897,961	1,687,507
Public safety	17,011,463	15,753,795	16,192,190	17,532,682	17,279,490	16,492,831	15,818,359	15,330,477	15,932,421	15,048,715
Public works	12,228,329	16,652,913	12,758,967	13,399,134	13,809,579	14,421,981	13,915,318	14,019,163	14,906,728	14,067,674
Health and welfare	3,026,330	2,974,663	3,050,634	2,578,984	2,709,561	2,430,955	2,738,894	2,333,736	2,354,803	2,450,245
Education	19,760,242	19,739,512	19,151,270	25,103,243	30,295,228	18,471,653	18,420,000	18,420,000	18,420,000	17,995,000
Parks, recreation and cultural	5,937,858	5,335,902	5,127,367	5,279,886	5,436,335	5,284,647	5,495,431	5,064,065	5,620,844	5,721,997
Community development	3,296,760	2,107,808	2,006,736	2,388,701	2,327,751	2,076,325	1,834,749	1,725,528	1,830,327	1,122,221
Interest and other fiscal changes	988,059	1,011,115	1,093,989	1,118,286	1,060,727	988,094	1,151,867	1,137,667	1,188,350	1,263,858
Total governmental activities	<u>71,185,760</u>	<u>71,453,870</u>	<u>67,638,505</u>	<u>75,675,524</u>	<u>81,321,397</u>	<u>68,616,320</u>	<u>67,372,478</u>	<u>65,138,090</u>	<u>68,088,642</u>	<u>64,388,569</u>
<i>Business-type activities:</i>										
Electric	31,628,232	30,200,956	33,901,497	34,182,987	33,171,403	36,047,453	35,145,346	30,978,370	28,763,182	26,505,160
Water and sewage	9,776,628	10,000,056	10,568,840	10,999,420	10,671,798	10,952,702	11,034,638	11,065,592	11,253,172	11,150,046
Civic Center	4,046,125	4,103,577	2,888,263	2,600,249	2,838,499	2,472,731	2,374,165	2,332,330	2,440,459	2,435,383
Catering and concessions	933,894	980,147	851,760	856,866	849,306	903,039	878,171	965,556	1,033,658	1,081,528
Total business-type activities	<u>46,384,879</u>	<u>45,284,736</u>	<u>48,210,360</u>	<u>48,639,522</u>	<u>47,531,006</u>	<u>50,375,925</u>	<u>49,432,320</u>	<u>45,341,848</u>	<u>43,490,471</u>	<u>41,172,117</u>
Total Primary Government	<u>\$ 117,570,639</u>	<u>\$ 116,738,606</u>	<u>\$ 115,848,865</u>	<u>\$ 124,315,046</u>	<u>\$ 128,852,403</u>	<u>\$ 118,992,245</u>	<u>\$ 116,804,798</u>	<u>\$ 110,479,938</u>	<u>\$ 111,579,113</u>	<u>\$ 105,560,686</u>
Program revenues										
<i>Governmental activities:</i>										
Charges for services										
Public safety	\$ 1,237,985	\$ 1,281,509	\$ 1,237,901	\$ 1,103,765	\$ 1,069,969	\$ 991,473	\$ 911,073	\$ 900,837	\$ 1,107,794	\$ 1,048,587
Public works	2,563,620	4,706,219	4,351,157	3,695,667	3,523,970	3,560,239	3,418,637	3,248,138	3,627,290	3,203,179
Other activities	1,254,639	779,384	849,596	1,009,342	1,034,129	1,005,691	782,662	716,248	587,294	566,814
Operating grants and contributions	8,318,690	7,623,373	7,567,973	6,975,699	7,436,195	7,124,704	7,159,171	6,827,928	6,763,352	6,613,064
Capital grants and contributions	202,451	80,406	192,430	391,399	2,003,251	595,986	1,517,633	2,709,381	2,119,392	1,359,606
Total governmental activities	<u>13,577,385</u>	<u>14,470,891</u>	<u>14,199,057</u>	<u>13,175,872</u>	<u>15,067,514</u>	<u>13,278,093</u>	<u>13,789,176</u>	<u>14,402,532</u>	<u>14,205,122</u>	<u>12,791,250</u>
<i>Business-type activities:</i>										
Charges for services										
Electric	39,437,330	38,080,149	39,715,705	39,861,201	40,280,161	36,824,320	35,726,379	32,915,660	30,863,283	31,000,915
Water and sewage	13,530,659	13,537,310	13,658,281	12,645,216	11,729,755	11,114,241	9,988,563	10,329,200	10,981,350	11,569,453
Civic Center	2,475,661	2,313,348	799,948	934,047	775,437	880,306	912,697	865,314	919,781	937,520
Catering and concessions	819,571	935,973	791,311	779,220	781,469	856,919	858,714	940,834	994,016	1,048,994
Capital grants and contributions										
Electric	-	-	47,196	27,380	-	-	39,929	-	-	-
Water and sewage	-	-	-	21,671	-	13,222	-	-	-	-
Total business-type activities	<u>56,263,221</u>	<u>54,866,780</u>	<u>55,012,441</u>	<u>54,268,735</u>	<u>53,566,822</u>	<u>49,689,008</u>	<u>47,526,282</u>	<u>45,051,008</u>	<u>43,758,430</u>	<u>44,556,882</u>
Total Primary Government	<u>\$ 69,840,606</u>	<u>\$ 69,337,671</u>	<u>\$ 69,211,498</u>	<u>\$ 67,444,607</u>	<u>\$ 68,634,336</u>	<u>\$ 62,967,101</u>	<u>\$ 61,315,458</u>	<u>\$ 59,453,540</u>	<u>\$ 57,963,552</u>	<u>\$ 57,348,132</u>

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Net (expense) revenue										
Total governmental activities	\$ (57,608,375)	\$ (56,982,979)	\$ (53,439,448)	\$ (62,499,652)	\$ (66,253,883)	\$ (55,338,227)	\$ (53,583,302)	\$ (50,735,558)	\$ (53,883,520)	\$ (51,597,319)
Total business-type activities	9,878,342	9,582,044	6,802,081	5,629,213	6,035,816	(686,917)	(1,906,038)	(290,840)	267,959	3,384,765
Total primary government	<u>\$ (47,730,033)</u>	<u>\$ (47,400,935)</u>	<u>\$ (46,637,367)</u>	<u>\$ (56,870,439)</u>	<u>\$ (60,218,067)</u>	<u>\$ (56,025,144)</u>	<u>\$ (55,489,340)</u>	<u>\$ (51,026,398)</u>	<u>\$ (53,615,561)</u>	<u>\$ (48,212,554)</u>

General Revenues and Other Changes in Net Position

Governmental activities:

Taxes										
Property taxes	\$ 35,631,665	\$ 34,610,154	\$ 33,371,609	\$ 32,666,172	\$ 32,272,995	\$ 32,480,280	\$ 32,068,912	\$ 31,477,369	\$ 31,335,765	\$ 30,082,026
Local sales and use taxes	7,174,034	6,638,448	6,688,509	6,432,110	6,083,030	5,891,941	5,707,813	5,492,934	5,568,978	5,908,920
Business license tax	5,320,865	5,391,215	5,088,724	5,078,755	5,107,983	4,751,638	4,564,531	4,421,129	4,827,348	4,714,965
Meals tax	4,718,631	4,715,137	4,464,873	4,277,741	4,118,041	3,242,532	2,551,880	2,429,239	2,448,064	2,546,104
Utility taxes	1,182,963	1,169,894	1,217,299	1,150,691	1,153,190	1,124,383	1,123,400	1,105,818	1,123,616	1,156,775
Other taxes	3,908,064	3,869,411	3,497,219	3,184,568	2,924,694	2,604,603	2,805,271	2,684,054	2,856,119	2,362,788
Intergovernmental revenue not restricted	3,941,937	3,989,413	3,942,960	3,961,782	3,859,380	3,747,854	3,747,722	3,735,738	3,860,269	4,030,210
Unrestricted investment earnings	554,437	269,350	164,585	143,186	134,650	127,210	129,640	132,522	213,671	568,689
Gain on sale of property	20,985	100,081	389,290	33,051	1,198	-	-	-	24,624	5,715
Other	676,502	986,182	586,008	554,303	606,657	411,355	603,696	324,136	375,139	812,702
Transfers	2,353,122	2,133,023	2,266,120	1,694,330	1,069,822	1,656,490	(3,338,110)	575,667	1,626,999	1,552,276
Total governmental activities	<u>65,483,205</u>	<u>63,872,308</u>	<u>61,677,196</u>	<u>59,176,689</u>	<u>57,331,640</u>	<u>56,038,286</u>	<u>49,964,755</u>	<u>52,378,606</u>	<u>54,260,592</u>	<u>53,741,170</u>

Business-type activities:

Unrestricted investment earnings	35,931	93	158	172	168	4,121	8,049	23,297	179,714	706,658
Gain on sale of property	-	1,435	8,225	5,013	1,638	-	-	-	205,932	-
Other	-	-	-	-	-	-	-	346,520	21,924	130,909
Transfers	(2,353,122)	(2,133,023)	(2,266,120)	(1,694,330)	(1,069,822)	(1,656,490)	3,338,110	(575,667)	(1,626,999)	(1,552,276)
Total business-type activities	<u>(2,317,191)</u>	<u>(2,131,495)</u>	<u>(2,257,737)</u>	<u>(1,689,145)</u>	<u>(1,068,016)</u>	<u>(1,652,369)</u>	<u>3,346,159</u>	<u>(205,850)</u>	<u>(1,219,429)</u>	<u>(714,709)</u>
Total Primary Government	<u>\$ 63,166,014</u>	<u>\$ 61,740,813</u>	<u>\$ 59,419,459</u>	<u>\$ 57,487,544</u>	<u>\$ 56,263,624</u>	<u>\$ 54,385,917</u>	<u>\$ 53,310,914</u>	<u>\$ 52,172,756</u>	<u>\$ 53,041,163</u>	<u>\$ 53,026,461</u>

Changes in Net Position

Total governmental activities	\$ 7,874,830	\$ 6,889,329	\$ 8,237,748	\$ (3,322,963)	\$ (8,922,243)	\$ 700,059	\$ (3,618,547)	\$ 1,643,048	\$ 377,072	\$ 2,143,851
Total business-type activities	7,561,151	7,450,549	4,544,344	3,940,068	4,967,800	(2,339,286)	1,440,121	(496,690)	(951,470)	2,670,056
Total Primary Government	<u>\$ 15,435,981</u>	<u>\$ 14,339,878</u>	<u>\$ 12,782,092</u>	<u>\$ 617,105</u>	<u>\$ (3,954,443)</u>	<u>\$ (1,639,227)</u>	<u>\$ (2,178,426)</u>	<u>\$ 1,146,358</u>	<u>\$ (574,398)</u>	<u>\$ 4,813,907</u>

Notes:

Source: City of Salem Finance Department

- (1) Interest and other fiscal charges of governmental activities and Electric expenses of business-type activities were restated to record amortization of the deferred loss on refunding of debt from the 2015 refunding bonds.
- (2) Interest and other fiscal charges of governmental activities was restated to record amortization of the deferred loss on refunding on debt from the 2011 refunding bonds.
- (3) Education expenses of governmental activities includes \$5,481,200 of bond funds transferred to the School Division to fund capital projects.
- (4) In 2014, the City implemented GASB 65 requiring debt issuance costs to be expensed as incurred and also segregated health insurance into internal service funds.
- (5) Education expenses of governmental activities includes \$9,518,800 of bond funds transferred to the School Division to fund capital projects.

TABLE 3
UNAUDITED

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

	2017	2016	2015	2014	2013	2012	2011
Post-GASB 54 implementation:				(1)			
General Fund							
Nonspendable	\$ 588,204	\$ 567,605	\$ 514,556	\$ 421,117	\$ 447,097	\$ 497,206	\$ 554,962
Restricted	4,245,248	1,959,638	4,180,415	2,661,958	1,896,731	1,244,986	1,287,008
Committed	89,261	76,219	-	-	-	519,817	-
Assigned	672,251	743,727	505,633	465,178	941,626	1,256,103	1,588,768
Unassigned	22,212,433	15,701,124	9,797,393	5,271,609	3,517,718	3,469,721	3,351,935
Total General Fund	<u>\$ 27,807,397</u>	<u>\$ 19,048,313</u>	<u>\$ 14,997,997</u>	<u>\$ 8,819,862</u>	<u>\$ 6,803,172</u>	<u>\$ 6,987,833</u>	<u>\$ 6,782,673</u>
All Other Governmental Funds							
Restricted	\$ 2,894,061	\$ 4,193,169	\$ 65,925	\$ 325,968	\$ 228	\$ 15,244	\$ 129,686
Committed	54,458	81,754	96,503	125,651	115,000	39,436	-
Assigned	342,149	63,848	-	8,291	-	-	-
Unassigned	-	-	-	-	(432,316)	-	-
Total all other governmental funds	<u>\$ 3,290,668</u>	<u>\$ 4,338,771</u>	<u>\$ 162,428</u>	<u>\$ 459,910</u>	<u>\$ (317,088)</u>	<u>\$ 54,680</u>	<u>\$ 129,686</u>
	2010	2009	2008				
Pre-GASB 54 implementation:							
General Fund							
Reserved	\$ 1,038,347	\$ 916,227	\$ 893,623				
Unreserved	5,183,434	5,486,537	7,086,974				
Total General Fund	<u>\$ 6,221,781</u>	<u>\$ 6,402,764</u>	<u>\$ 7,980,597</u>				
All Other Governmental Funds							
Reserved	\$ 784,005	\$ 2,130,298	\$ 3,388,893				
<i>Unreserved, reported in:</i>							
Capital Projects Fund	(1,051,141)	(2,031,615)	(3,152,261)				
Total all other governmental funds	<u>\$ (267,136)</u>	<u>\$ 98,683</u>	<u>\$ 236,632</u>				

Note:

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

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

**TABLE 4
UNAUDITED**

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
			(1)	(1)	(2)					
Revenues										
Taxes	\$ 58,668,891	\$ 57,116,158	\$ 54,697,901	\$ 53,203,553	\$ 52,276,472	\$ 50,284,343	\$ 48,794,986	\$ 47,592,620	\$ 48,272,897	\$ 47,254,766
Permits, fees and licenses	277,582	394,968	394,827	218,804	198,742	202,342	218,094	243,035	228,687	303,958
Fines and forfeitures	145,820	116,417	127,002	126,761	153,584	160,816	164,161	159,179	171,056	159,489
Revenue from use of money and property	842,624	531,379	511,980	697,565	697,140	642,067	677,805	465,564	539,930	786,455
Charges for services	4,192,436	6,075,639	5,632,172	4,956,368	4,925,221	4,700,364	4,463,860	4,282,550	4,602,745	4,154,836
Other	409,131	357,115	153,748	160,095	247,149	104,701	284,324	172,872	195,505	152,478
Intergovernmental	12,652,827	11,603,416	11,638,740	11,289,569	13,129,214	11,462,504	12,562,674	12,525,033	12,526,047	10,859,986
Total revenues	<u>77,189,311</u>	<u>76,195,092</u>	<u>73,156,370</u>	<u>70,652,715</u>	<u>71,627,522</u>	<u>67,557,137</u>	<u>67,165,904</u>	<u>65,440,853</u>	<u>66,536,867</u>	<u>63,671,968</u>
Expenditures										
General government	6,410,086	5,918,110	6,062,763	5,689,510	5,881,344	5,792,852	4,900,770	5,232,405	6,380,771	4,891,569
Judicial administration	2,018,898	2,026,255	1,913,666	1,919,961	1,866,050	1,801,429	1,788,821	1,695,531	1,723,427	1,649,871
Public safety	16,403,627	15,824,899	15,779,717	16,358,165	16,371,685	15,353,250	14,792,022	14,358,932	14,371,192	14,397,297
Public works	8,452,569	14,672,498	10,709,120	11,087,740	11,502,485	11,988,380	11,656,775	11,101,013	12,113,469	12,156,138
Health and welfare	2,909,343	2,827,459	2,900,389	2,465,194	2,672,631	2,391,628	2,682,090	2,293,464	2,315,841	2,410,340
Education	19,760,242	19,739,512	19,151,270	25,103,243	30,295,228	18,471,653	18,420,000	18,420,000	18,420,000	17,995,000
Parks, recreation and cultural	5,071,566	4,482,414	4,401,263	4,323,040	4,508,319	4,403,170	4,203,452	4,204,705	4,716,767	4,464,456
Community development	3,178,844	1,087,606	1,062,184	857,219	829,081	981,483	879,709	618,217	1,148,291	469,835
Non-departmental	2,085,343	3,240,075	3,248,409	2,759,940	2,867,807	2,658,955	2,908,441	2,579,752	3,349,639	1,976,756
Capital projects	1,674,861	2,187,595	697,503	1,788,469	2,377,884	1,571,118	3,703,365	2,350,384	1,624,611	1,397,376
<i>Debt service:</i>										
Principal retirement	3,082,999	2,988,314	3,018,738	2,647,514	7,765,685	2,623,661	2,606,810	2,593,118	2,618,896	2,612,403
Interest	960,419	941,386	1,101,829	980,558	824,824	970,434	930,767	1,029,641	1,105,218	1,171,197
Bond Issuance Cost	-	32,987	10,377	15,500	45,750	31,900	117,689	-	-	-
Total expenditures	<u>72,008,797</u>	<u>75,969,110</u>	<u>70,057,228</u>	<u>75,996,053</u>	<u>87,808,773</u>	<u>69,039,913</u>	<u>69,590,711</u>	<u>66,477,162</u>	<u>69,888,122</u>	<u>65,592,238</u>
Excess (deficiency) of revenues over (under) expenditures	5,180,514	225,982	3,099,142	(5,343,338)	(16,181,251)	(1,482,776)	(2,424,807)	(1,036,309)	(3,351,255)	(1,920,270)
Other Financing Sources (Uses)										
Issuance of long-term debt	-	5,281,400	-	7,275,000	9,518,800	-	6,540,000	-	-	-
Issuance of refunding bonds	-	-	1,932,097	-	5,036,200	9,485,000	3,339,279	-	-	-
Payment to refunded bond escrow agent	-	-	(1,921,720)	-	-	(9,513,728)	(3,430,000)	-	-	-
Premium on sale of bonds	-	-	-	-	-	-	248,757	-	-	-
Discount on sale of bonds	-	-	-	-	-	-	(48,989)	-	-	-
Proceeds from sale of capital assets	177,345	211,254	505,014	-	-	-	-	-	-	-
Issuance of capital leases	-	375,000	-	-	-	-	-	-	-	-
Transfers in	7,676,999	7,930,241	7,766,233	6,832,903	5,626,851	6,458,723	5,683,661	4,985,609	6,043,796	6,474,312
Transfers out	(5,323,877)	(5,797,218)	(5,500,113)	(5,131,569)	(4,557,029)	(4,817,065)	(8,950,187)	(4,496,102)	(4,408,322)	(5,136,073)
Total other financing sources, net	<u>2,530,467</u>	<u>8,000,677</u>	<u>2,781,511</u>	<u>8,976,334</u>	<u>15,624,822</u>	<u>1,612,930</u>	<u>3,382,521</u>	<u>489,507</u>	<u>1,635,474</u>	<u>1,338,239</u>
Net change in fund balances	<u>\$ 7,710,981</u>	<u>\$ 8,226,659</u>	<u>\$ 5,880,653</u>	<u>\$ 3,632,996</u>	<u>\$ (556,429)</u>	<u>\$ 130,154</u>	<u>\$ 957,714</u>	<u>\$ (546,802)</u>	<u>\$ (1,715,781)</u>	<u>\$ (582,031)</u>
Debt service as a percentage of noncapital expenditures	5.87%	5.44%	6.06%	4.93%	10.16%	5.37%	5.39%	5.76%	5.73%	6.04%

Notes:

Source: City of Salem Finance Department

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

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

**TABLE 5
UNAUDITED**

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

Fiscal Year	Real Estate		Personal Property		Machinery and Tools		Public Service Corporation		Mobile Homes		Total Taxable Assessed Value	Total Direct Tax Rate
	Assessed Value	Direct Tax Rate	Assessed Value	Direct Tax Rate	Assessed Value	Direct Tax Rate	Assessed Value	Direct Tax Rate	Assessed Value	Direct Tax Rate		
2017	\$ 2,054,446,049	\$ 1.18	\$ 312,495,313	\$ 3.25	\$ 89,186,639	\$ 3.20	\$ 44,507,648	\$ 1.18	\$ 984,368	\$ 1.18	\$ 2,501,620,017	\$ 1.51
2016	2,022,951,024	1.18	295,173,346	3.25	91,322,128	3.20	41,308,358	1.18	1,059,063	1.18	2,451,813,919	1.50
2015	2,012,050,247	1.18	282,311,121	3.25	91,977,805	3.20	40,513,445	1.18	1,195,515	1.18	2,428,048,133	1.50
2014	2,003,007,334	1.18	276,846,201	3.20	91,226,535	3.20	41,408,575	1.18	1,249,050	1.18	2,413,737,695	1.49
2013	1,997,447,800	1.18	267,755,307	3.20	84,169,172	3.20	42,281,759	1.18	1,431,949	1.18	2,393,085,987	1.47
2012	1,977,986,400	1.18	267,877,285	3.20	90,287,324	3.20	37,468,284	1.18	1,668,743	1.18	2,375,288,036	1.48
2011	1,973,655,843	1.18	265,450,351	3.20	80,706,659	3.20	37,993,502	1.18	1,460,966	1.18	2,359,267,321	1.48
2010	1,940,941,700	1.18	262,153,501	3.20	79,120,695	3.20	36,874,789	1.18	1,543,032	1.18	2,320,633,717	1.48
2009	1,912,957,600	1.18	263,305,279	3.20	80,517,625	3.20	36,468,242	1.18	1,655,642	1.18	2,294,904,388	1.48
2008	1,805,483,900	1.18	263,662,393	3.20	82,535,751	3.20	36,451,099	1.18	1,780,273	1.18	2,189,913,416	1.50

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

**TABLE 6
UNAUDITED**

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

Calendar Year Ended December 31,	Taxes Levied for the Calendar Year	Collected within the Calendar Year of the Levy		Supplemental Assessments & Exonerations Levied in Subsequent Years	Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy			Amount	Percentage of Levy
2017	\$ 35,253,119	\$ 34,012,836	96.48%	\$ -	\$ -	\$ 34,012,836	96.48%
2016	33,896,364	32,608,317	96.20%	75,056	980,140	33,588,457	98.87%
2015	33,630,244	32,291,449	96.02%	(39,302)	1,187,662	33,479,111	99.67%
2014	32,905,743	31,229,276	94.91%	(78,361)	1,472,413	32,701,689	99.62%
2013	32,537,416	30,854,728	94.83%	64,770	1,643,844	32,498,572	99.68%
2012	32,672,916	31,351,991	95.96%	32,561	1,305,193	32,657,184	99.85%
2011	32,104,079	30,836,144	96.05%	105,503	1,279,113	32,115,257	99.71%
2010	31,627,310	30,440,194	96.25%	309,847	1,440,268	31,880,462	99.82%
2009	31,336,233	30,288,062	96.66%	124,862	1,123,329	31,411,391	99.84%
2008	29,846,597	28,917,802	96.89%	217,549	1,099,521	30,017,323	99.84%

Note:

Source: City of Salem Finance Department

**TABLE 7
UNAUDITED**

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

Taxpayer	2017			2008		
	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	\$ 39,425,000	1	1.96%	\$ 60,051,400	1	3.14%
Lewis Gale Clinic/HRT	22,673,500	2	1.13%			
Yokohama Industries	14,266,000	3	0.71%	16,167,800	2	0.85%
Lowes/VALO LLC	12,622,200	4	0.63%			
Spartan Square, Inc.	10,910,900	5	0.54%	10,571,000	4	0.55%
U.S. Food Service, Inc.	10,851,300	6	0.54%	8,495,100	6	0.44%
Chateau Riviera Apartments/CSW Associates	9,746,200	7	0.48%	7,443,100	7	0.39%
General Electric	9,694,200	8	0.48%	8,943,200	5	0.47%
Salem Terrace/White Whale	9,106,800	9	0.45%	10,598,700	3	0.55%
Carthy Corporation/Carter Machinery	8,663,300	10	0.43%			
Rowe Furniture/Salem Frame				6,603,200	8	0.35%
Wal-Mart Stores, Inc.				6,370,100	9	0.33%
Lakeside Plaza				6,035,600	10	0.32%

Note:

Source: City of Salem Real Estate Valuation Department

**TABLE 8
UNAUDITED**

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

Customer	2017			2008		
	Services Billed	Rank	Percentage of Total Services Billed	Services Billed	Rank	Percentage of Total Services Billed
Lewis Gale Hospital HCA	\$2,346,634	1	6.09%	\$1,373,766	1	4.51%
Roanoke College	1,275,258	2	3.31%	459,078	5	1.51%
Graham White	889,050	3	2.31%	313,398	9	1.03%
Rowe Furniture/Salem Frame	787,214	4	2.04%	495,289	3	1.63%
U.S. Food Service, Inc.	765,377	5	1.99%	473,951	4	1.56%
Lake Region Medical, Inc.	726,469	6	1.89%			
Kroger	609,040	7	1.58%	428,353	6	1.41%
Sewell Products	561,971	8	1.46%	326,020	8	1.07%
Carter Machinery Co.	498,313	9	1.29%	356,800	7	1.17%
Novozymes Jeffreys Biologicals, Inc.	475,638	10	1.24%			
Old Virginia Brick Co.				517,059	2	1.70%
Wal-Mart, Inc.				282,759	10	0.93%

Note:

Source: City of Salem Finance Department

**TABLE 9
UNAUDITED**

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

Fiscal Year	Governmental Activities			Business-Type Activities		Total Primary Government
	General Obligation Bonds	Other Long-term Debt	Total	General Obligation Bonds		
	(1)	(1)				
2017	\$ 33,916,905	\$ -	\$ 33,916,905	\$ 45,723,894	\$ 79,640,799	
2016	36,971,375	-	36,971,375	49,665,950	86,637,325	
2015	34,681,163	-	34,681,163	47,663,394	82,344,557	
2014	37,640,582	-	37,640,582	49,258,943	86,899,525	
2013	32,625,067	-	32,625,067	50,697,384	83,322,451	
2012	25,470,726	-	25,470,726	53,677,900	79,148,626	
2011	27,913,904	-	27,913,904	55,461,508	83,375,412	
2010	23,764,903	125,000	23,889,903	56,004,049	79,893,952	
2009	26,141,121	250,000	26,391,121	58,850,591	85,241,712	
2008	28,543,117	375,000	28,918,117	61,654,565	90,572,682	

Fiscal Year	Total Taxable Assessed Value	Percentage of Estimated Actual Value of Taxable Property	Population	Bonded Debt Per Capita	Per Capita Personal Income	Percentage of Bonded Debt Per Capita to Per Capita Personal Income
	(2)		(3)		(3)	
2017	\$ 2,501,620,017	3.18%	25,549	\$ 3,117	\$ 48,047	6.00%
2016	2,451,813,919	3.53%	25,432	3,407	45,577	7.00%
2015	2,428,048,133	3.39%	25,483	3,231	43,418	7.00%
2014	2,410,213,827	3.61%	25,299	3,435	42,288	8.00%
2013	2,393,085,987	3.48%	25,267	3,298	40,688	8.00%
2012	2,375,288,036	3.33%	25,145	3,148	39,866	8.00%
2011	2,359,267,321	3.53%	24,970	3,339	39,866	8.00%
2010	2,320,633,717	3.44%	24,860	3,214	39,866	8.00%
2009	2,294,904,388	3.71%	24,684	3,453	39,525	9.00%
2008	2,189,913,416	4.14%	24,673	3,671	40,760	9.00%

Notes:

Source: City of Salem Finance Department

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

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

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

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

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

TABLE 10
UNAUDITED

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

Fiscal Year	Assessed Value of Real Property	Debt Limit 10% of Assessed Value	Amount of Debt Applicable to Limit					Legal Debt Margin
			Total General Obligation Bonds	Total Other Long-term Debt	Enterprise Bonds	RVRA Supported Debt	Net Debt Applicable to Limit	
	(1)				(2)		(3)	
2017	\$ 2,098,953,697	\$ 209,895,370	\$ 79,640,799	\$ -	\$ (45,723,894)	\$ (1,425,312)	\$ 32,491,593	15.48%
2016	2,064,259,382	206,425,938	86,637,325	-	(49,665,950)	-	36,971,375	17.91%
2015	2,052,563,692	205,256,369	82,344,557	-	(47,663,394)	-	34,681,163	16.90%
2014	2,044,415,909	204,441,591	86,899,525	-	(49,258,943)	-	37,640,582	18.41%
2013	2,039,729,559	203,972,956	83,322,451	-	(50,697,384)	-	32,625,067	15.99%
2012	2,015,454,684	201,545,468	79,148,626	-	(53,677,900)	-	25,470,726	12.64%
2011	2,011,649,345	201,164,935	83,375,412	-	(55,461,508)	-	27,913,904	13.88%
2010	1,977,816,489	197,781,649	79,768,952	125,000	(56,004,049)	-	23,889,903	12.08%
2009	1,949,425,842	194,942,584	84,991,712	250,000	(58,850,591)	-	26,391,121	13.54%
2008	1,841,934,999	184,193,500	90,197,682	375,000	(61,654,565)	-	28,918,117	15.70%

Notes:

Source: City of Salem Finance Department

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

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

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

**TABLE 11
UNAUDITED**

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

Fiscal Year Ended	Population	Total Personal Income (In Thousands)	Per Capita Personal Income	Public School Enrollment	Unemployment Rate
(1)	(2)	(3)	(3)	(4)	(5)
2017	25,549	\$ 5,758,037	\$ 48,047	3,843	4.1%
2016	25,432	5,435,865	45,577	3,751	4.0%
2015	25,483	5,159,100	43,418	3,797	5.2%
2014	25,299	4,984,547	42,288	3,770	5.2%
2013	25,267	4,789,030	40,688	3,823	6.6%
2012	25,145	4,672,291	39,866	3,867	6.5%
2011	24,970	4,672,291	39,866	3,892	6.1%
2010	24,860	4,672,291	39,866	3,907	7.2%
2009	24,684	4,620,761	39,525	3,905	6.3%
2008	24,673	4,743,543	40,760	3,911	3.6%

Notes:

- (1) Population, public school enrollment and unemployment rate figures are based on fiscal years ending June 30. Per capita personal income figures are as of March 2016.
- (2) Population is based on Intercensal estimates of the resident population for counties of Virginia: April 1, 2000 to July 1, 2010. U.S. Census Bureau, Population Division. Population for 2011 through 2017 was obtained from U.S. Census Bureau Population Estimates Program.
- (3) Bureau of Economic Analysis (BEA). Total personal income reported is for Roanoke County and the City of Salem. No data is available for the City of Salem only. Per capital personal income was computed using Census Bureau midyear population estimates.
- (4) Director of Business, School Division
- (5) Virginia Employment Commission

**TABLE 12
UNAUDITED**

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

Employer	2017			2008		
	Employees	Rank	Percentage of Total City Employment (1)	Employees	Rank	Percentage of Total City Employment (1)
Veterans Administration Medical Center	2,000	1	9.54%	1,500	1	6.69%
Lewis-Gale Hospital HCA	1,050	2	5.01%	1,375	2	6.13%
Yokohama Industries	775	3	3.70%	900	5	4.01%
General Electric	619	4	2.95%	1,100	3	4.91%
Lewis-Gale Physicians	610	5	2.91%			
City of Salem Schools	562	6	2.68%	586	6	2.61%
City of Salem	497	7	2.37%	549	7	2.45%
Roanoke College	485	8	2.31%	464	8	2.07%
U.S. Food Service, Inc.	411	9	1.96%	422	9	1.88%
Virginia Department of Transportation	400	10	1.91%	940	4	4.19%
Carter Machinery				352	10	1.57%

Notes:

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

(1) Calculated using data provided by Virginia Employment Commission

**TABLE 13
UNAUDITED**

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

Function	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
General government	70	69	69	67	66	66	69	67	69	71
Judicial administration	20	18	19	19	19	21	20	20	20	20
Public safety	152	157	157	159	162	160	161	162	167	165
Public works	79	89	88	94	94	100	105	110	112	113
Parks, recreation and cultural	30	32	32	31	32	32	32	33	33	26
Community development	3	2	3	3	3	3	3	3	3	3
Electric	27	27	29	27	26	26	28	29	29	29
Water and sewage	47	48	52	49	49	51	52	53	58	58
Civic Center	15	16	17	17	17	18	18	17	18	20
Catering and concessions	4	4	4	4	4	4	4	4	5	5
Total	447	462	470	470	472	481	492	498	514	510

Notes:

Source: City of Salem Finance Department

TABLE 14
UNAUDITED

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

Function	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
General government										
<i>Finance</i>										
Accounts payable checks issued	10,942	9,238	8,601	9,280	8,937	11,002	12,260	13,595	12,104	13,991
<i>Human resources</i>										
Positions filled (full-time and temporary)	158	154	140	184	142	146	143	129	257	244
<i>Registrar</i>										
Number of registered voters	16,704	16,584	16,282	16,695	16,625	16,678	16,436	16,309	16,258	15,897
<i>Fleet</i>										
Pieces of equipment maintained	575	567	583	576	572	573	565	551	560	600
Judicial administration										
<i>Sheriff</i>										
Inmates housed	3,132	2,681	2,730	2,885	2,776	2,668	2,587	2,343	1,494	1,294
Inmate transports	1,333	1,222	1,137	1,240	1,062	1,069	1,276	1,879	1,594	1,545
Courts worked	680	595	614	699	686	648	691	676	695	624
Public safety										
<i>Police</i>										
Calls for service	41,650	32,310	32,798	32,203	39,519	36,549	33,903	34,342	35,159	34,526
Accidents	1,015	1,108	983	1,053	905	919	1,063	975	1,024	1,300
DUI Arrests	91	92	63	68	107	62	95	129	122	146
<i>Fire</i>										
Emergency responses - fire	3,467	3,019	3,203	3,181	3,337	3,241	3,661	3,270	3,441	3,083
Emergency responses - medic units	4,885	4,292	3,809	3,446	3,569	3,358	3,632	3,335	3,596	3,085
Hazardous conditions responses	113	127	80	77	125	105	137	134	161	182
<i>Building inspections</i>										
Residential construction permits	175	158	150	198	106	122	123	130	148	169
Commercial construction permits	120	133	139	148	110	116	124	63	71	103
Public works										
<i>Refuse collection</i>										
Refuse collected (tons per year)	29,860	88,565	80,827	82,905	80,609	81,427	81,485	83,607	88,365	77,027
Tons recycled	1,821	5,060	1,404	1,386	2,315	2,844	1,764	3,883	4,841	4,623
<i>Other public works</i>										
Tons of asphalt used in resurfacing	-	15,453	-	639	5,770	7,507	5,821	3,616	5,185	6,958
Square yards of milling completed	-	302,937	-	10,718	92,988	143,962	99,960	39,959	80,155	68,091
Tons of salt used	315	848	705	769	1,098	183	817	1,389	176	170
Leaves collected (loads)	113	295	360	293	316	369	494	507	448	323
Parks, recreation and cultural										
<i>Parks and recreation</i>										
Tournaments hosted	48	52	47	58	62	58	49	53	50	54
Special events held	26	25	26	24	24	24	24	25	24	24
Youth sports teams	151	151	155	164	170	205	225	210	195	252
Adult sports teams	28	29	27	29	39	37	44	49	48	59
<i>Library</i>										
Circulation	227,443	230,454	240,516	252,237	271,600	295,911	285,337	290,309	276,578	264,184
Children's program attendance	7,226	8,972	3,622	3,616	3,924	4,926	6,891	7,129	8,792	7,647
Patron visits to the library	170,879	172,012	178,323	195,878	211,605	226,696	232,559	245,807	239,745	233,524
New patrons	879	968	1,049	1,138	1,373	1,315	1,288	1,417	1,648	1,694
Internet sessions	28,554	25,944	27,571	28,965	33,885	51,033	52,397	58,517	50,711	62,650
Electric										
Number of customer accounts	12,838	12,880	13,021	13,204	13,198	13,202	13,163	13,131	13,175	13,130
Water										
Number of customer accounts	9,567	9,486	9,381	9,372	9,375	9,365	9,341	9,301	9,304	9,256
Million gallons sold to customers	850	932	989	876	838	955	1,004	977	1,003	1,067
Sewage										
Number of customer accounts	9,018	8,952	8,929	8,824	8,823	8,803	8,764	8,717	8,706	8,664
Waste/water treated (million gallons/day)	7.2	9.1	6.8	7.8	7.0	7.0	6.5	8.3	6.2	5.7
Civic Center										
Concerts	13	11	6	9	11	13	13	9	9	9
Meetings	660	852	778	721	614	792	936	1,156	1,216	1,295
Tickets sold	88,662	93,373	73,668	82,929	83,638	87,006	102,678	103,891	112,997	99,581
Arena utilization days	202	215	198	191	175	173	178	179	202	219

Notes:

Source: Various City of Salem Departments

TABLE 15
UNAUDITED

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

Function	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Public safety										
Police station	1	1	1	1	1	1	1	1	1	1
Law enforcement vehicles	47	47	46	48	47	47	47	46	49	50
Fire stations	3	3	3	3	3	3	3	3	3	3
Fire trucks	7	7	6	6	6	6	6	6	6	7
Ambulances	4	4	4	4	4	4	5	5	5	5
Public works										
Primary streets (lane miles)	68	68	68	68	68	68	68	68	68	68
Secondary streets (lane miles)	272	272	272	272	272	272	272	272	272	272
Alleys (lane miles)	12	12	12	12	12	12	12	12	12	12
Garbage trucks	16	16	16	14	13	12	12	12	12	13
Parks, recreation and cultural										
Community center/senior center	1	1	1	1	1	1	1	1	1	1
Parks/athletic fields	15	15	15	15	15	15	15	15	15	15
Acres of parks maintained	495	495	495	495	495	495	495	495	495	495
Library	1	1	1	1	1	1	1	1	1	1
Golf course	1	1	1	1	1	1	1	1	1	1
Dog park	1	1	1	1	1	1	-	-	-	-
Electric										
Substations	11	11	11	11	11	11	11	11	11	11
Overhead distribution lines (miles)	166	165	172	172	172	172	172	172	171	158
Underground distribution lines (miles)	40	42	38	38	38	38	38	38	38	33
Transmission lines (miles)	17	17	17	17	17	17	17	17	17	17
Water and sewage										
Water treatment plant	1	1	1	1	1	1	1	1	1	1
Water distribution lines (miles)	176	176	175	175	175	175	182	182	181	182
Sanitary sewer lines (miles)	170	170	170	170	170	177	177	177	171	176

Notes:

Source: City of Salem Finance Department

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COMPLIANCE SECTION



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

CITY OF SALEM, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017

Federal Grantor <i>Pass-through Grantor</i> Program Title or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Passed Through to Subrecipients
Department of Agriculture				
Local Environmental Agricultural Project Inc				
Food Insecurity Nutrition Incentive Grants Program	10.331	FINI-120	\$ 4,381	
Virginia Department of Agriculture and Consumer Services				
SNAP Cluster:				
Supplemental Nutrition Assistance Program	10.551	--	\$ 3,394	3,394
Child Nutrition Cluster:				
Food Distribution - Commodities	10.555	--	105,765	
Summer Food Service Program	10.559	--	407	
Virginia Department of Education				
Child Nutrition Cluster:				
National School Breakfast Program 2016	10.553	201616N109941	15,451	
National School Breakfast Program 2017	10.553	201717N109941	163,381	
National School Lunch Program 2016	10.555	201616N109941	60,646	
National School Lunch Program 2017	10.555	201717N109941	553,370	899,020
Department of Justice				
Direct Payments				
Bulletproof Vest Partnership Program	16.607			3,673
Equitable Sharing Program	16.922			17,639
Virginia Department of Criminal Justice Services				
Crime Victim Assistance	16.575	17-T9575VW15		71,437
Byrne Justice Assistance Grant:				
Byrne Justice Assistance Grant 2016	16.738	16-R1117LO15		1,030
Policing in the 21st Century - Police Bicycle Request	16.738	17-A6093AD13		12,822
Department of Transportation				
Virginia Department of Transportation				
Highway Planning and Construction Cluster:				
Highway Planning and Construction:				
Bicycle & Pedestrian Safety Improvement Program	20.205	UPC 100656	58,528	
Roanoke River Greenway Project Phase 2B	20.205	UPC 56409	47,134	
Roanoke River Greenway Project Phase 5	20.205	UPC 106486	128	
Mason Creek Greenway Phase 2	20.205	UPC 106268	54,006	
Roanoke Boulevard Multimodal Improvements	20.205	UPC 108899	5,240	
Downtown Streetscape and Intersection Improvements	20.205	UPC 109612	3,484	168,520
Virginia Division of Motor Vehicles				
Highway Safety Cluster:				
State and Community Highway Safety:				
Selective Enforcement - Speed FY16	20.600	SC-2016-56015-6215	391	
Selective Enforcement - Speed FY17	20.600	SC-2017-57017-6666	8,860	
Selective Enforcement - Occupant Protection FY16	20.600	OP-2016-56020-6220	195	
Selective Enforcement - Occupant Protection FY17	20.600	OP-2017-57019-6668	3,153	
Selective Enforcement - Pedestrian/Bicycle FY16	20.600	PS-2016-56045-6245	1,428	
Selective Enforcement - Pedestrian/Bicycle FY17	20.600	PS-2017-57020-6669	1,317	15,344
Alcohol Open Container Requirements:				
Selective Enforcement - Alcohol FY17	20.607	154AL-2017-57016-6665		8,948
Roanoke Valley DUI Task Force - Salem City	20.607	154AL-2017-57748-7084		88,707
Department of Education				
Virginia Department of Education				
Adult Education - Basic Grants to States 2015	84.002	V002A150047	19,113	12,452
Adult Education - Basic Grants to States 2016	84.002	V002A160047	295,799	194,283
Title I Grants to Local Educational Agencies 2014	84.010	S010A140046	10,233	
Title I Grants to Local Educational Agencies 2015	84.010	S010A150046	29,762	
Title I Grants to Local Educational Agencies 2016	84.010	S010A160046	409,420	
Special Education Cluster (IDEA):				
Special Education - Grants to States (IDEA, Part B) 2015	84.027	H027A150107	122,912	
Special Education - Grants to States (IDEA, Part B) 2016	84.027	H027A160107	596,584	
Special Education - Preschool Grants (IDEA Preschool) 2015	84.173	H173A150112	6,871	
Special Education - Preschool Grants (IDEA Preschool) 2016	84.173	H173A160112	12,361	738,728
Career and Technical Education - Basic Grants to States (Perkins IV)	84.048	V048A160046		45,549
English Language Acquisition State Grants 2015	84.365	S365A150046	2,425	
English Language Acquisition State Grants 2016	84.365	S365B150046	1,838	
Improving Teacher Quality State Grants 2015	84.367	S367A150044	11,719	
Improving Teacher Quality State Grants 2016	84.367	S367A160044	94,774	
County of Roanoke, Virginia				
English Language Acquisition State Grants 2015	84.365	S365A150046	11,059	

(Continued)

CITY OF SALEM, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017

<u>Federal Grantor</u> <i>Pass-through Grantor</i> Program Title or Cluster Title	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>	<u>Passed Through to Subrecipients</u>
<u>Department of Health and Human Services</u>				
<i>Goodwill Industries of the Valleys</i>				
Health Profession Opportunity Grants	93.093	90FX0038-01-01	\$ 35,079	
<u>Department of Homeland Security</u>				
<i>Virginia Department of Emergency Management</i>				
Assistance to Firefighters Grants	97.044	EMW-2014-FO-00721	255,546	
Homeland Security Grant Program:	97.067	15VA-HSGP-0204	78,418	
Total Expenditures of Federal Awards			<u>\$ 3,334,377</u>	<u>\$ 206,735</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, 2017, the School Division had food commodities in inventory of \$18,767.

Note 3: Indirect Cost Rate

The City and School Division did not elect to use the 10% de minimis indirect cost rate.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Salem, Virginia (the "City"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 16, 2017. Our report included an emphasis paragraph indicating that the net position as of June 30, 2016, of the governmental activities, business-type activities, and Electric Fund has been restated from the City's previously issued financial statements to reflect the correction of errors.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-001, which we consider to be a significant deficiency.

Compliance and Other Matters

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

City's Response to Finding

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

Purpose of this Report

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

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

Roanoke, Virginia
November 16, 2017

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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Salem, Virginia's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2017. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control over Compliance

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

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

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

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

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

Roanoke, Virginia
November 16, 2017

City of Salem, Virginia

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

A. Summary of Auditor's Results

1. The type of report issued on the financial statements: **Unmodified opinion**
2. Significant deficiencies in internal control disclosed by the audit of the financial statements: **Finding 2017-001**
3. Material weaknesses: **None**
4. Noncompliance, which is material to the financial statements: **None**
5. Significant deficiencies in internal control over major program: **None reported**
6. Material weaknesses: **None**
7. The type of report issued on compliance for major program: **Unmodified opinion**
8. Any audit findings which are required to be reported the Uniform Guidance: **None**
9. The program tested as a major program was:

<u>Name of Program</u>	<u>CFDA #</u>
Child Nutrition Cluster	10.553, 10.555, and 10.559

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

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

2017-001: Significant Deficiency – Internal Control over Financial Reporting – Annual External Financial Reporting In Accordance With GAAP

Criteria: Yearly, the City's Finance Department oversees the preparation, processing, and recordation of tens of thousands of financial transactions that ultimately will be reflected in the yearly Comprehensive Annual Financial Report ("CAFR") produced by the Finance Department. In order to ensure the transactions are fairly presented, procedures are in place and functioning to produce complete and accurate financial information, to include researching changes in accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). Specific to the recordation of transactions related to a refunding of debt, "for current refundings and advance refundings resulting in defeasance of debt reported by governmental activities, business-type activities, and proprietary funds, the difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter."

Condition: During the 2017 CAFR preparation process, it was determined that a misinterpretation of a particular requirement of GAAP that only relates to the refunding of debt, which by its nature at the City is not a routine or yearly transaction and, for which, the City adjusted previously reported financial statement balances to record deferred losses on debt refundings that were amortized too quickly in previous fiscal

City of Salem, Virginia

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

years. Accordingly, the net position of the City's governmental activities (\$505,646), business-type activities (\$570,190) and Electric Fund (\$570,190), as of June 30, 2016, has been restated.

Cause: Through review of implementation guidance pertaining to GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the amortization period for deferred gains and losses on refundings should be the remaining life of the old debt extended to the normal maturity date. Implementation guidance states "for purposes of determining the amortization period of the difference between the reacquisition price and the net carrying amount of the old debt, the remaining life of the old debt extends to the normal maturity date." The City's interpretation led them to incorrectly amortize the deferred losses on debt refundings too quickly.

Recommendation: We recommend the City follow the guidance researched during this process for any future debt refunding activities.

View of responsible officials: Management recorded the refunding entries, which are non-routine and only required in years when debt refundings are done, according to their understanding of the language in GASB 65. After five years had elapsed, further research revealed that these entries were not in accordance with GASB 65. This was discovered by further research in the Comprehensive Implementation Guide and the questions included in the Guide. Management agrees that a correction/restatement was needed. However, we do not believe this indicates our internal controls are deficient. These transactions were a misinterpretation of the language included in GASB 65.

C. Findings and Questioned Costs Relating to Federal Awards:

None reported

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

None reported

E. Summary Schedule of Prior Audit Findings

None reported

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

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Finance Administrative Secretary/
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Payroll Technician

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