

CITY OF SALEM, VIRGINIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT YEAR ENDED JUNE 30, 2018

DEPARTMENT OF FINANCE

**CITY OF SALEM, VIRGINIA
TABLE OF CONTENTS
JUNE 30, 2018**

	Page
INTRODUCTORY SECTION	
Letter of Transmittal	4
Directory of Principal Officials	13
Organizational Chart	14
Certificate of Achievement for Excellence in Financial Reporting	15
FINANCIAL SECTION	
Report of Independent Auditor	17
Management's Discussion and Analysis	20
Basic Financial Statements	
Government-wide Financial Statements	
Exhibit 1 Statement of Net Position	35
Exhibit 2 Statement of Activities	36
Governmental Funds' Financial Statements	
Exhibit 3 Balance Sheet	37
Exhibit 4 Reconciliation of the Governmental Funds' Balance Sheet to the Statement of Net Position	38
Exhibit 5 Statement of Revenues, Expenditures and Changes in Fund Balances	39
Exhibit 6 Reconciliation of the Governmental Funds' Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	40
Exhibit 7 Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual – General Fund	41
Proprietary Funds' Financial Statements	
Exhibit 8 Statement of Net Position	42
Exhibit 9 Statement of Revenues, Expenses and Changes in Net Position	43
Exhibit 10 Statement of Cash Flows	44
Fiduciary Funds' Financial Statements	
Exhibit 11 Statement of Fiduciary Net Position	45
Exhibit 12 Statement of Changes in Fiduciary Net Position	45
Component Units' Financial Statements	
Exhibit 13 Combining Statement of Net Position	46
Exhibit 14 Combining Statement of Activities	47
Notes to Financial Statements	48
Required Supplementary Information	
Exhibit 15 Schedule of Changes in Net Pension Liability (Asset) and Related Ratios	111
Exhibit 16 Schedule of Employer Pension Contributions	112
Exhibit 17 Schedule of Employer's Share of Net Pension Liability - VRS Teacher Retirement Plan	113
Exhibit 18 Schedule of Employer Pension Contributions - VRS Teacher Retirement Plan	114
Exhibit 19 Schedule of Changes in Net OPEB Liability and Related Ratios - Retiree Health Plan	115
Exhibit 20 Schedule of Employer Other Postemployment Benefits Contributions - Retiree Health Plan	116
Exhibit 21 Schedule of Changes in Net OPEB Liability and Related Ratios - Political Subdivision Health Insurance Credit Program	117

**CITY OF SALEM, VIRGINIA
TABLE OF CONTENTS
JUNE 30, 2018**

	Page
Exhibit 22 Schedule of Employer Other Postemployment Benefits Contributions - Political Subdivision Health Insurance Credit Program.....	118
Exhibit 23 Schedule of Employer’s Share of Net OPEB Liability – GLI and Teacher Employee HIC Programs.....	119
Exhibit 24 Schedule of Employer OPEB Contributions – GLI and Teacher Employee HIC Programs.....	120
Notes to Required Supplementary Information.....	121
 Other Supplementary Information	
Nonmajor Proprietary Funds’ Combining Schedules	
Exhibit 25 Combining Statement of Net Position.....	125
Exhibit 26 Combining Statement of Revenues, Expenses and Changes in Net Position.....	126
Exhibit 27 Combining Statement of Cash Flows.....	127
Agency Funds’ Combining Schedules	
Exhibit 28 Combining Statement of Fiduciary Assets and Liabilities.....	128
Exhibit 29 Combining Statement of Changes in Fiduciary Assets and Liabilities.....	129
Economic Development Authority of the City of Salem	
Exhibit 30 Balance Sheet.....	130
Exhibit 31 Statement of Revenues, Expenditures and Changes in Fund Balance.....	131
 STATISTICAL SECTION	
Table 1 Net Position by Component.....	134
Table 2 Changes in Net Position.....	135
Table 3 Fund Balances, Governmental Funds.....	137
Table 4 Changes in Fund Balance, Governmental Funds.....	138
Table 5 Assessed Value and Actual Value of Taxable Property.....	139
Table 6 Property Tax Levies and Collections.....	140
Table 7 Principal Real Estate Property Taxpayers.....	141
Table 8 Principal Electric Customers.....	141
Table 9 Ratios of General Bonded Debt Outstanding.....	142
Table 10 Legal Debt Margin Information.....	143
Table 11 Demographic Statistics.....	144
Table 12 Principal Employers.....	145
Table 13 Full-time Equivalent City Government Employees by Function.....	146
Table 14 Operating Indicators by Function.....	147
Table 15 Capital Asset Statistics by Function.....	148
 COMPLIANCE SECTION	
Schedule of Expenditures of Federal Awards.....	151
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 <i>Government Auditing Standards</i>	153
Report of Independent Auditor on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Uniform Guidance.....	155
Schedule of Findings and Questioned Costs.....	157

THIS PAGE INTENTIONALLY BLANK

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, 2017. It is the highest form of recognition in governmental financial reporting.

THIS PAGE INTENTIONALLY BLANK

November 16, 2018

**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, 2018. 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 2018 estimated population, 25,862, accounts for approximately 8.2% of the population in its metropolitan statistical area (MSA), which includes the neighboring City of Roanoke and Counties of Botetourt, Craig, Franklin and Roanoke.

The City of Salem operates under a Council-Manager form of government. 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 two discretely presented component units, City of Salem School Division and the Economic Development Authority of the City of Salem, because of the City's financial accountability for these organizations. The discretely presented component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position and results of operations from that of the primary government. Additional information concerning these legally separate organizations can be found in Note 1 to the financial statements.

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 is almost complete, with the first phase of construction slated to begin during fiscal year 2019. 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. In fiscal year 2018, over \$30,000 in grants was paid to various downtown businesses.

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.

Historic renovation of the Salem Motor Lofts, the former West Salem Body Shop on Main Street, is almost complete with 18 residential units and commercial space on the first floor. The renovation will be utilizing federal and state historic tax credits. Developers refurbished and repurposed many materials from the original building including brick, windows, tin, timber and beams. Wooden treads on the main staircase are made of reclaimed wood from the old Valleydale Plant. Two restaurants will be opening on the first floor.

Olde Salem Brewing Company renovated the building that was the longtime home of Tarpley's and Mac's Appliances on Main Street. A five-barrel brewing system was installed. The building space is approximately 7,700 square feet and seats 150 people. The upstairs is used as apartment space. Outdoor seating was also added.

Several other projects in the downtown area are underway. The historic Salem Theatre building is undergoing a major renovation. An upscale restaurant is planned for the lower level and the top floors will become a boutique hotel, which will be a much-needed addition to the downtown corridor. Renovations have also begun on the former Ridenhour Music building. Plans call for commercial space on the ground floor and apartments on the second floor.

The renovation and redevelopment of the Historic Blair Apartments, formerly Chestnut Manor Apartments, was completed at a cost of \$2 million. Originally constructed in 1948, this historic three-story complex got a new roof, electrical system, plumbing and HVAC. Each of the forty units feature a renovated kitchen and bathroom along with new flooring and lighting. Landscaping was done and includes a picnic and play area in the back of the complex. This project was the first to use federal and state historic tax credits in Salem. Units began leasing on August 1, 2018.

The old Peacock Salem Cleaners building has been purchased by investors for redevelopment to be used primarily as commercial space. The old Valleydale Packers property has also been purchased for redevelopment. Extensive interior demolition and exterior clean up have been done to prepare the property for marketing to prospective tenants. A brewery and residential apartments have been discussed as options for this property.

The Civic Center hotel project was delayed but continues to be a viable project. Once financing for the project is secured, construction will begin on the hotel with the construction of a restaurant to follow.

Positive economic trends continue, resulting in a decrease in Salem's unemployment rate of 3.4%, from the prior year rate of 4.1%. Salem's unemployment rate remained lower than the national unemployment rate of 4.2%, but was slightly higher than the state unemployment rate of 3.3%. Salem is fortunate to have a diversified economy comprised of health care, manufacturing, higher education, retail trade and government. 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. 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 2018, employing approximately 1,915 people. Lewis Gale Hospital and Lewis Gale Physicians remained major employers in Salem, with workforces of 1,603 and 646, respectively.

Real estate trends reflected growth in assessment from the prior year. During fiscal year 2018, fifteen new homes were constructed with an assessed value of \$3.4 million. In fiscal year 2017, twenty-seven new homes were constructed with an assessed value of almost \$7 million. As of December 31, 2017, the median sales price of homes in the City of Salem was \$172,000, an increase from \$170,000 as of December 31, 2016.

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 again named one of the top ten school districts in Virginia for 2018 by Niche. Salem High School was among 202 schools and 15 school division that earned 2018 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 2018 graduation rate of 96.7%. Approximately 87% of Salem High School graduates attend 2 or 4 year colleges or universities.

Salem, Virginia's Championship City, 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 basketball championships, Division II and III women's lacrosse championships in 2020 and Division II women's lacrosse in 2021. The Central Intercollegiate Athletic Association (CIAA) football championship was held in Salem in the fall of 2017 for the second year and will be back in 2018 and 2019. Attendance at this game is over 5,000. The CIAA cross country championship was held in Salem in the fall of 2017 and will also be returning in 2018 and 2019. CIAA softball was held in May 2018 and will be back in 2019. CIAA women's volleyball will be held in Salem in the fall of 2018. The City and the Old Dominion Athletic Conference (ODAC) was awarded Division III softball in 2020-2021. Division II softball, co-hosted by the Mountain East Conference, returned in 2018 and will be back in 2019 and 2020. In 2017-2018, nearly 21,000 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 women's lacrosse along with Division II softball for an economic impact of nearly \$6 million.

The City has been selected to host the Virginia High School League state championships in volleyball (Divisions 1, 2, 3 and 4) at the Salem Civic Center, football (Division 1 and 2) at Salem Stadium, indoor track (Divisions 1, 2, 3 and 4) at Roanoke College and wrestling (Division 1 and 2) at the Salem Civic Center. The Spring Jubilee, which includes softball, baseball, boys and girls tennis, lacrosse and soccer, will be held at various City sites in 2018-2019. Over 1,800 athletes will participate in these events with parents and fans coming from all over Virginia.

The James I. Moyer Complex hosted over 1,870 softball and baseball teams this year in tournaments, filling over 18,000 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 and the USA Girls Class A 18U Fast-Pitch Championship. Over 65,000 people attended events at the Moyer Sports Complex during the past year.

The second annual Salem Half Marathon was held in October 2017, attracting 380 runners from all over the Commonwealth and 15 other states. This City-wide event involved over 200 volunteers and many of our City departments. Runners were able to see Salem's downtown, Civic Center facility, Moyer Sports Complex, neighborhoods and vistas as they ran throughout the City. The Half Marathon also gave back over \$3,000 to local charities and volunteer groups.

The annual Salem Fair held at the Salem Civic Center is the largest fair in the state and celebrated its 30th year on the 14-acre midway from June 28 – July 9, 2017. Attendance at the 12-day fair approached the 350,000 mark, which is consistent with most recent years. Ticket sales for rides were up 5% over the prior year and food vendors did very well despite three days of rain during the Fair.

The Salem Red Sox played their ninth season at Salem Memorial Stadium. The 2017-2018 season was highlighted by the investment of approximately \$250,000 that allowed for installation of a new bluegrass turf field and upgraded safety netting around the backstop and over the dugouts. With an average annual attendance of over 200,000 fans, the Salem Red Sox games remain a destination for people throughout Southwest Virginia looking for a family-friendly outing.

The City continued work on several major projects in fiscal year 2018. Replacement of the Library roof was completed, along with the construction of a children's garden area. The Children's Garden incorporates a StoryWalk, raised garden beds, a floating wooden deck, new fencing paid for by the Salem Lion's Club and seating to provide a fun and educational outdoor experience for children. The remodel of

the Courthouse front entrance was substantially completed in fiscal year 2018. The remodel included roof replacement and an expansion of the entryway to improve safety and workflow. Construction was underway on the pedestrian bridge built under the Eddy Avenue bridge to separate greenway walkers and bicyclists from vehicle traffic. Funding from Virginia Department of Transportation will cover the cost of this greenway improvement. The City of Salem Street Department constructed a much-needed sidewalk along Electric Road from Rotary Park to Keagy Road at the Ridgewood Farm Shopping Center. The goal of this work was to provide a safe place for pedestrians to walk, improve crosswalks and connect the shopping center, Lewis Gale Hospital and surrounding neighborhoods with direct access to the Roanoke River Greenway. Federal and state grant money paid for this project.

Several large utility projects are underway. The City is moving forward with an automated meter reading infrastructure project for water and electric, which will result in operational efficiencies for the City. In May 2018, the City borrowed \$5.9 million from Virginia Department of Environmental Quality to continue work on the sewer system. On December 8, 2005, the City and the Virginia Department of Environmental Quality entered into a special order by consent to address issues to alleviate overflows in the sanitary sewer system by reducing rainfall derived inflow and infiltration (RDII). Significant rehabilitation is necessary to remove RDII. This project includes pipe bursting, slip lining, manhole rehabilitation and lateral replacement to reduce RDII in the downtown sewershed.

The fiscal year 2019 budget for the Electric Fund includes \$1,000,000 to cover Engineering costs for a major substation project. This multi-year project includes replacement of transformers and switchgear units at three substations as equipment currently in place is nearing end of life. This project also includes replacement of the 69 kv oil circuit breakers at two substations. The City expects to complete engineering and procurement documents in fiscal year 2019 so that the project can be bid in fiscal year 2020.

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 on 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.

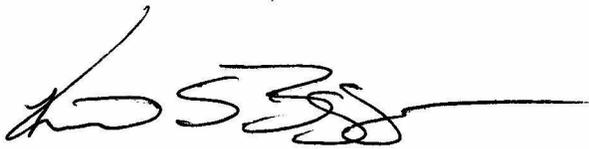
Certificate of Achievement for Excellence in Financial Reporting

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 2017. This represents the thirtieth 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,

A handwritten signature in black ink, appearing to read 'KS Boggess', with a long horizontal flourish extending to the right.

Kevin S. Boggess
City Manager

A handwritten signature in black ink that reads 'Rosemarie B. Jordan' in a cursive style.

Rosemarie B. Jordan
Director of Finance

**CITY OF SALEM, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
JUNE 30, 2018**

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

Danielle C. Crawford Treasurer
Linda M. Carroll Commissioner of the Revenue
Thomas E. Bowers Commonwealth's Attorney
Gary Chance Crawford Clerk of Circuit Court
April M. Staton City Sheriff

GENERAL CITY GOVERNMENT

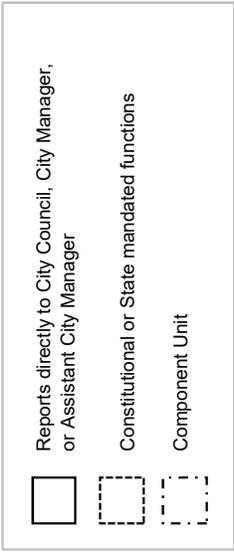
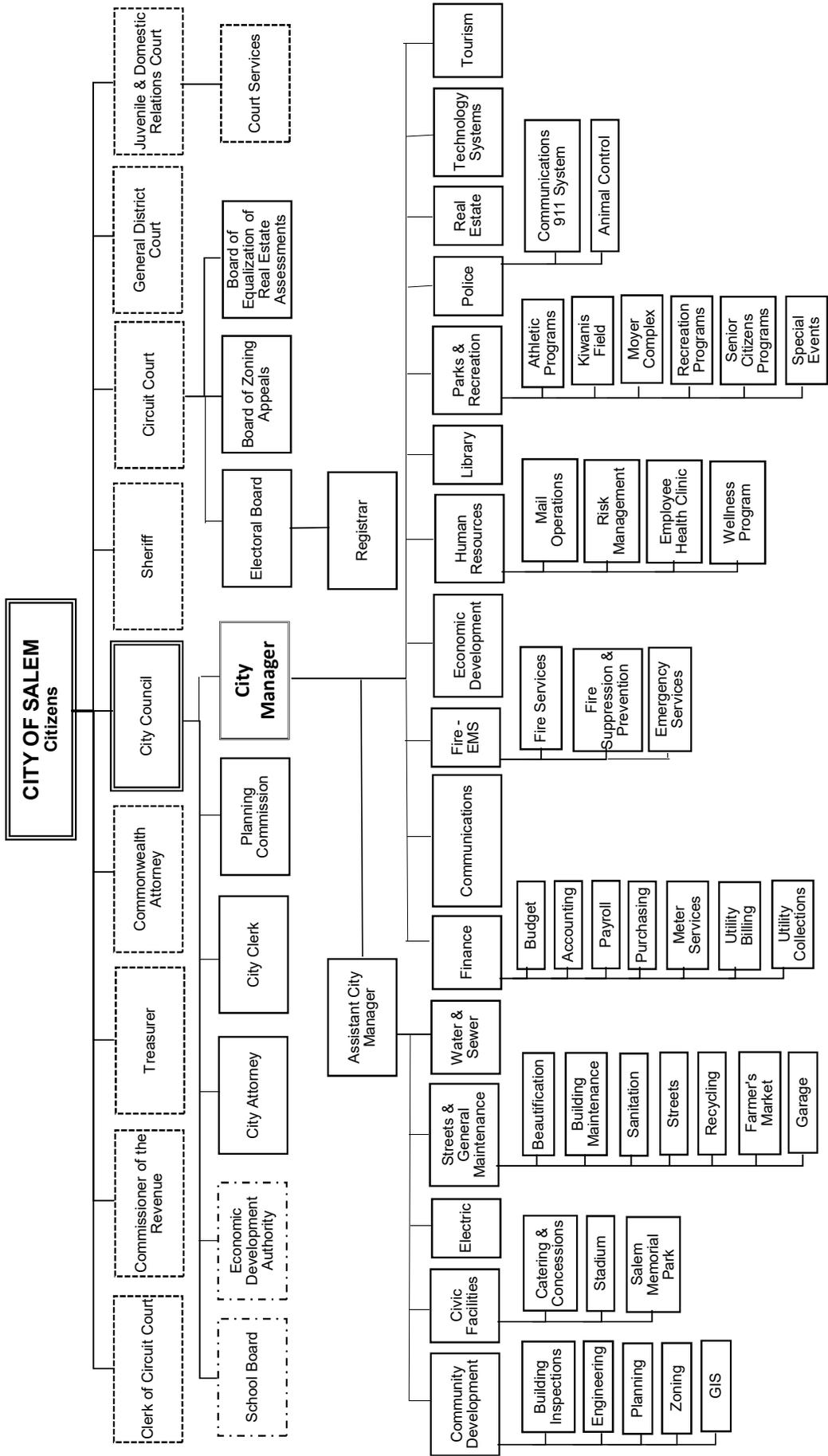
Kevin S. Boggess City Manager
James E. Taliaferro, II Assistant City Manager and Clerk of Council
Rosemarie B. Jordan, CPA Director of Finance
Stephen M. Yost City Attorney
Beth A. Rodgers Director of Human Resources
Kari J. Walls Chief Information Officer
Michael D. Crawley Police Chief
John W. Prillaman 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
Troy D. Loving 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
Dr. Forest I. Jones Director of Administrative Services
Rosemarie B. Jordan, CPA Director of Finance
Mandy C. Hall Director of Business
Jennifer P. Dean Director of Instructional Technology and Accountability
Curtis N. Hicks Assistant Superintendent
Kirstine M. Barber Director 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, 2017

Christopher P. Morill

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 aggregate discretely presented component units, 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, 2018, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the Statement of Revenues, Expenditures, and Changes in Fund Balances – 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

As presented in Note 19 and discussed in Notes 8, 14, and 15 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Reporting for Postemployment Benefits Other than Pensions*, effective July 1, 2017. 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 and the pension and other postemployment benefits trend information, as listed within 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, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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, 2018

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

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, 2018. It should be read in conjunction with the transmittal letter and the City's basic financial statements.

FINANCIAL HIGHLIGHTS

- As of June 30, 2018, the Primary Government had \$135.9 million in total net position, an increase of \$19.5 million from prior year. Unrestricted net position available to fund future expenses was \$6.7 million or 4.9% of total net position.
- As of June 30, 2018, the governmental activities had \$49 million in total net position, which increased \$9.3 million from prior year. Unrestricted net position (deficit) was \$(30.9) million or (63%) of total net position.
- As of June 30, 2018, the business-type activities had \$86.9 million in total net position, an increase of \$10.2 million from prior year. Unrestricted net position available to fund future expenses was \$37.5 million or 43.2% of total net position.
- The implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* resulted in net OPEB liabilities of \$16.3 million for governmental activities and \$4.7 million for business-type activities.
- As of June 30, 2018, the General Fund had \$34.4 million in total fund balance, which increased by \$6.6 million from prior year. Unassigned fund balance was \$28.8 million or 83.7% 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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.

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 units – Because of the City's financial accountability for these organizations, the City includes two discretely presented component units in this report, the City of Salem School Division (School Division) and the Economic Development Authority of the City of Salem (Economic Development Authority).

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 Activities		Business-type Activities		Total Primary Government		Component Unit	
	2018	2017	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 45.2	\$ 39.2	\$ 60.3	\$ 52.7	\$ 105.5	\$ 91.9	\$ 17.7	\$ 15.5
Capital assets, net	84.3	84.7	85.7	87.1	170.0	171.8	43.2	45.2
Total assets	129.5	123.9	146.0	139.8	275.5	263.7	60.9	60.7
Deferred outflows of resources	3.5	6.6	1.4	2.2	4.9	8.8	4.5	5.6
Current and other liabilities	4.7	3.9	5.0	4.6	9.7	8.5	6.8	6.1
Long-term liabilities	76.6	69.3	54.3	55.3	130.9	124.6	41.5	40.3
Total liabilities	81.3	73.2	59.3	59.9	140.6	133.1	48.3	46.4
Deferred inflows of revenues	2.7	0.6	1.2	0.5	3.9	1.1	5.7	3.4
Net investment in capital assets	75.6	76.7	49.4	46.8	125.0	123.5	43.2	45.1
Restricted	4.2	4.3	-	-	4.2	4.3	0.5	-
Unrestricted	(30.8)	(24.3)	37.5	34.8	6.7	10.5	(32.3)	(28.6)
Total net position	\$ 49.0	\$ 56.7	\$ 86.9	\$ 81.6	\$ 135.9	\$ 138.3	\$ 11.4	\$ 16.5

In fiscal year 2018, the City and Schools adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The overall effect of this new standard is to reflect the long-term OPEB obligations of the City and School Division in the government-wide financial statements. Previously, such amounts were disclosed, but were not recognized, as the City and Schools fully funded the annual required contributions. The new standard establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expense. Beginning net position has been restated as discussed in Note 19, and this has had a significant impact on the net position of the City and School Division. Net OPEB liabilities for governmental and business-type activities as of June 30, 2018 totaled \$16.3 million and \$4.7 million, respectively. Net OPEB liabilities for the School Division as of June 30, 2018 totaled \$6.4 million. Because information to restate prior years is not readily available, the prior year comparative information included in the table above and the table on pages 23-24 has not been restated. The following analysis of changes in net position is based on beginning net position as restated on Exhibit 2, as this will provide readers with more meaningful information.

The Primary Government net position increased from \$116.4 million (restated) to \$135.9 million. Net position of governmental activities increased \$9.3 million and net position of business-type activities increased \$10.2 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 \$6.7 million. Debt totaling \$3.1 million issued for Civic Center improvements is being repaid by governmental activities while the related asset is recorded in business-

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

type activities. The City also assumed \$15.9 million of debt issued for school improvements while the School Division recorded the related asset. As such, \$19 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 \$4.2 million as of June 30, 2018 for governmental activities. Approximately \$3.6 million in state funding was received, but not yet spent, for highway maintenance. Federal and state judicial administration and public safety grant funding totaling \$501,000 was received, but not yet spent, for fire programs, asset forfeiture and hazardous materials grants. Unspent donations totaling \$20,000 were restricted for law enforcement and public safety programs.

As of June 30, 2018, component units had \$11.4 million in total net position, an increase of \$1.7 million. Unrestricted net position (deficit) available to fund future expenses was (\$32.4) million. Net investment in capital assets was \$43.2 million, a decrease of \$1.9 million. The implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* resulted in net OPEB liabilities of \$6.4 million for the School Division.

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	
	2018	2017	2018	2017	2018	2017	2018	2017
Revenues								
<i>Program Revenues:</i>								
Charges for services	\$ 4.1	\$ 5.1	\$ 58.2	\$ 56.3	\$ 62.3	\$ 61.4	\$ 2.0	\$ 1.6
Operating grants and contributions	8.2	8.3	-	-	8.2	8.3	9.5	8.6
Capital grants and contributions	1.4	0.2	0.2	-	1.6	0.2	0.1	0.1
<i>General Revenues:</i>								
Property taxes	35.7	35.6	-	-	35.7	35.6	-	-
Local sales and use tax	7.0	7.2	-	-	7.0	7.2	-	-
Business license tax	5.3	5.3	-	-	5.3	5.3	-	-
Meals tax	4.8	4.7	-	-	4.8	4.7	-	-
Utility taxes	1.2	1.2	-	-	1.2	1.2	-	-
Other taxes	4.0	3.9	-	-	4.0	3.9	-	-
Intergovernmental revenue	4.0	3.9	-	-	4.0	3.9	-	-
Investment earnings	0.8	0.6	0.1	-	0.9	0.6	-	-
Payments from City of Salem	-	-	-	-	-	-	21.1	19.8
State aid	-	-	-	-	-	-	14.2	14.1
Other	0.6	0.7	-	-	0.6	0.7	0.1	1.0
Total revenues	77.1	76.7	58.5	56.3	135.6	133.0	47.0	45.2

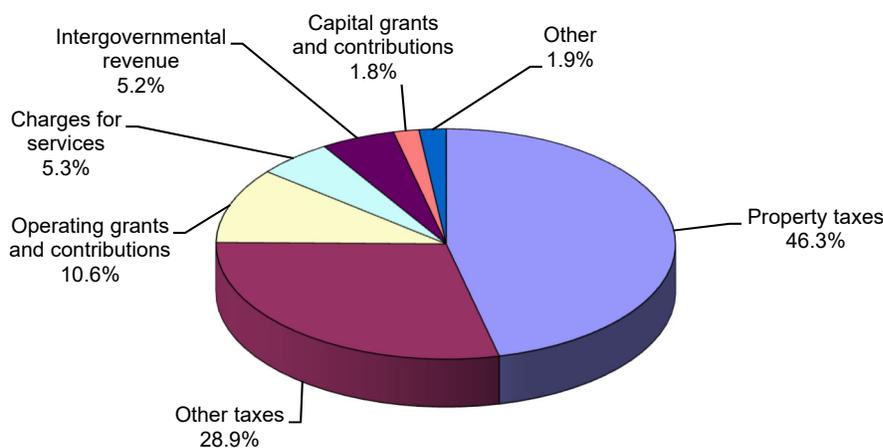
**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

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

	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2018	2017	2018	2017	2018	2017	2018	2017
Expenses								
General government	\$ 6.4	\$ 6.9	\$ -	\$ -	\$ 6.4	\$ 6.9	\$ -	\$ -
Judicial administration	2.0	2.1	-	-	2.0	2.1	-	-
Public safety	15.8	17.0	-	-	15.8	17.0	-	-
Public works	11.6	12.2	-	-	11.6	12.2	-	-
Health and welfare	3.3	3.0	-	-	3.3	3.0	-	-
Education	20.2	19.8	-	-	20.2	19.8	44.3	43.8
Parks, recreation and cultural	6.1	5.9	-	-	6.1	5.9	-	-
Community development	3.4	3.3	-	-	3.4	3.3	0.9	-
Interest and other fiscal charges	1.0	1.0	-	-	1.0	1.0	-	-
Electric	-	-	31.4	31.6	31.4	31.6	-	-
Water and sewage	-	-	9.2	9.8	9.2	9.8	-	-
Civic center	-	-	4.7	4.1	4.7	4.1	-	-
Catering and concessions	-	-	1.0	0.9	1.0	0.9	-	-
Total expenses	69.8	71.2	46.3	46.4	116.1	117.6	45.2	43.8
Excess before transfers	7.3	5.5	12.2	9.9	19.5	15.4	1.8	1.4
Transfers	2.0	2.4	(2.0)	(2.4)	-	-	-	-
Increase in net position	9.3	7.9	10.2	7.5	19.5	15.4	1.8	1.4
Net position, beginning, as restated	39.7	48.8	76.7	74.1	116.4	122.9	9.6	15.1
Net position, ending	\$ 49.0	\$ 56.7	\$ 86.9	\$ 81.6	\$ 135.9	\$ 138.3	\$ 11.4	\$ 16.5

Governmental Activities – Revenues

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



Property taxes, which were 46.3% of total governmental activities revenue, include real estate tax, the local portion of personal property tax, machinery and tools tax and public service corporation taxes. Property taxes in total remained fairly level with the previous year, increasing only \$57,000. Current year real estate tax revenue was up approximately 1.8% or \$448,000 from the previous year due to higher assessments. However, collection of delinquent real estate tax was \$192,000 lower than the previous year resulting in an overall increase in real estate tax of \$256,000 or 1% for the fiscal year. Machinery and tools tax assessments were up approximately 14%. However, prior year taxes were exonerated resulting in a net increase of \$246,000 or 8.5% in machinery and tools tax revenue. The increases in real estate and machinery and tools tax were partially offset by a decrease of \$529,000 or 6.9% in personal property taxes. Business personal property assessments dropped 5%.

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

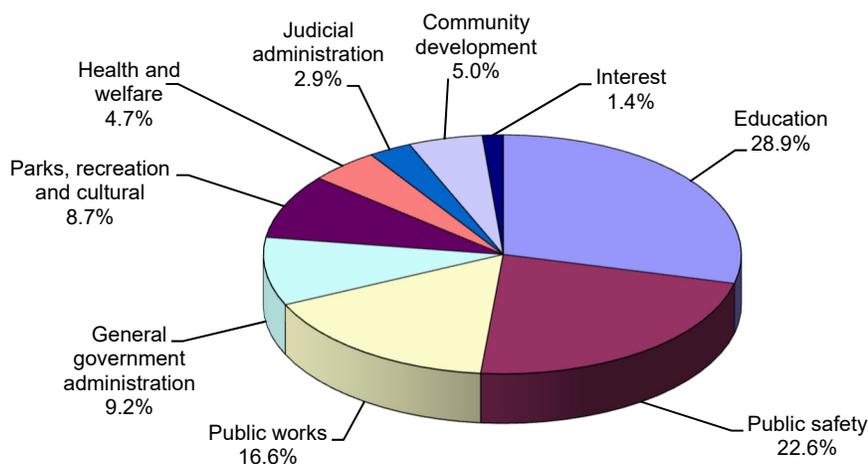
Charges for services, which were 5.3% of total governmental activities revenue, include fines, court fees, inspection fees, garbage collection fees, recreation fees and other program-based fees. These revenues decreased \$1 million or 19.9%. Roanoke Valley Resource Authority (RVRA) assumed operation of the City's Transfer Station effective November 1, 2016. Four months of disposal fees were collected in fiscal year 2017 while no revenue was recognized in fiscal year 2018.

Capital grants and contributions, which were 1.8% of total governmental activities revenue, increased \$1.2 million. In fiscal year 2018, a hazardous materials emergency response vehicle and trailer valued at \$275,000 were donated to the Fire Department by the Virginia Department of Emergency Management. In the parks, recreation and cultural function, grant revenue totaling \$630,000 was received for the Eddy Street bridge project. In addition, Salem Red Sox contributed \$101,000 to the turf replacement project at Salem Memorial Park. Grant revenue totaling \$187,000 was received in the public works function for the Bicycle and Pedestrian Safety Improvement Program, which was higher than the \$65,000 received in the previous year. More activity took place on grant-funded projects during fiscal year 2018 resulting in a higher amount of capital grant revenue.

Local sales and use taxes decreased \$159,000 or 2.2%. However, 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 tax years prior to 2017. Excluding the correction amount applicable to previous years, sales tax was up approximately 1%.

Governmental Activities – Expenses

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



As previously discussed, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. In fiscal year 2018, the calculation of OPEB expense included various components in an effort to better reflect the value of actual OPEB earned and incorporate differences between expected/projected and actual results. Prior year expenses were not restated on the statement of activities due to the unavailability of necessary information so OPEB expense for fiscal year 2017 reflects actual contributions.

Education expenses totaling \$20.2 million, or 28.9% of governmental activities, represented the largest allocation of resources. Funding of \$19.6 million was allocated to the School Division to cover operating costs, an increase of \$362,000 or 1.9%. Meals tax revenue is shared with the School Division and \$537,000 was transferred in fiscal year 2018. The amount of meals tax provided to the School Division was \$48,000 or 9.7% higher than the previous year.

Public works expenses were 16.6% of total governmental activities expenses and included engineering, solid waste management, building maintenance, street paving, traffic engineering and street maintenance. Expenses were down \$611,000 or 5%. RVRA assumed operation of the Transfer Station effective

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

November 1, 2016 so four months of expenditures and depreciation expense were incurred in fiscal year 2017 while no costs were incurred in fiscal year 2018. Pension expense decreased \$320,000. These decreases were partially offset by increased highway maintenance spending on paving projects.

Public safety expenses, which were 22.6% of total governmental activities expenses, decreased \$1.2 million or 7.3%. 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. Pension expense was \$729,000 lower than the previous year. Costs to house prisoners at Western Virginia Regional Jail decreased due to the City paying for fewer prisoner days. The number of prisoner days was 14% lower in fiscal year 2018 than the previous year. The Fire department expended more grant funding in the previous year. Fire department auto maintenance costs were also lower as several older pieces of equipment were replaced.

General government expenses were 9.2% of total governmental activities and includes administrative departments such as the City Manager's Office, City Garage, Technology Systems and Finance. Expenses were down \$475,000 or 6.9%. Depreciation expense was \$125,000 lower than the prior year as several technology assets were fully depreciated. Pension expense was \$126,000 lower than the prior year. Technology Systems expenses were down due to lower equipment and software maintenance charges.

Business-type Activities

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

Component Units

Payments from the City of Salem totaled \$21.1 million, an increase of \$1.3 million or 6.7%. Fiscal year 2018 was the first year that the Economic Development Authority was reported as a component unit. Funding from the City totaled \$912,000 during fiscal year 2018. Payments to the School Division totaled \$20.2 million and were up \$410,000 or 2.1% from the previous year. Operating support totaled \$19.6 million, an increase of 1.9%. Meals tax revenue dedicated to school capital projects totaled \$537,000, which was up \$48,000 or 9.6% from the prior year.

State aid provided to the School Division was up \$147,000 or 1% from the prior year. An increase of \$288,000 or 2.8% in basic aid was partially offset by a decrease in sales tax. The state appropriation act was amended during the 2018 legislative session and resulted in June accelerated sales tax not being paid to school divisions within the 60-day availability period like previous years.

The School Division provides instructional services to the Roanoke Valley Regional Board. Reimbursements totaling \$712,000 for this program were classified as charges for services in the instructional category in fiscal year 2018. However, these reimbursements were reported as other revenue in fiscal year 2017. This change in classification resulted in an increase in charges for services and a decrease in general revenues.

The School Division incurred expenses of \$44.3 million for the year ended June 30, 2018, an increase of \$1.4 million or 3.3% from prior year. Expenses of the Economic Development Authority accounted for a portion of this increase. A total of \$913,000 was expended in fiscal year 2018 and included various incentive and façade grant payments. Salary and benefit costs for the School Division were also higher in fiscal year 2018.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

As of June 30, 2018, the governmental funds had \$35.9 million in total fund balance, an increase of \$4.8 million from prior year. Unassigned fund balances available to fund future expenditures were \$28.8 million or 80.2% 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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

circumstances. Restricted fund balance totaled \$5 million and included \$903,000 of unspent bond proceeds and \$4.1 million that can be spent only for specific purposes stipulated by grantors and donors. Assigned fund balance totaled \$1.3 million and represents amounts set aside to liquidate encumbrances. Committed fund balance totaled \$95,000 and represents funds appropriated for the E-summons program and stormwater management.

General Fund

The General Fund is the chief operating fund of the City. As of June 30, 2018, the General Fund had \$34.4 million in total fund balance, which increased \$6.6 million from the prior year. Unassigned fund balance available to fund future expenditures was \$28.8 million or 83.7% of total fund balance and increased \$6.6 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 42% to 51.3%. Unassigned fund balance to total fund expenditures increased from 33.5% to 43%.

Property taxes, which were 47.9% of total General Fund revenue, decreased \$139,000 or .4% from the prior year. Current year real estate tax revenue was up \$491,000 or 2.1% due to higher assessments but this increase was partially offset by a decrease in collection of delinquent real estate taxes. A decrease of \$707,000 or 8.9% in personal property tax revenue was partially offset by an increase of \$246,000 in machinery and tools tax revenue. Assessments for business personal property were down. Penalties and interest revenue decreased \$78,000 or 16.9% due to lower collections of delinquent taxes.

Other local taxes, which comprised 29.6% of total General Fund revenue, remained level with the previous year, increasing less than 1%. Sales tax decreased 2.2% or \$159,000. However, in fiscal year 2017 a material amount of sales tax revenue was due to tax corrections that applied to previous years. Excluding the amounts applicable to previous tax years, sales tax was up approximately 1%. Meals tax increased \$84,000 or 1.8%. Lodging, recordation and bank franchise tax increased slightly while cigarette tax revenue decreased 4.1% or \$33,000 from fiscal year 2017. Business license tax, which is based on gross receipts of businesses, remained level with the prior year.

Charges for services, which were 4.1% of total General Fund revenue, decreased \$1.1 million or 25.6%. 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, four months of waste disposal revenue was earned in fiscal year 2017 and no revenue was earned in fiscal year 2018. A corresponding reduction in expenditures was reflected in the Public Works category. The decrease in waste disposal revenue was partially offset by an increase in container fees. Charges for ambulance services were up \$41,000 or 4.4% due to a higher volume of calls and an increase in emergency medical transport fees that was effective March 2018.

Intergovernmental revenue, which comprised 16% of General Fund revenue, decreased \$92,000. In fiscal year 2017, 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, federal asset forfeiture proceeds received in the previous year were \$78,000 higher than the amount received in fiscal year 2018. The receipt of a one-time grant of \$150,000 from the Virginia Department of Agriculture and Consumer Services partially offset these decreases. This grant was awarded to Parkway Brewing LLC for expansion of their operations.

Public works expenditures, which were 14.6% of total General Fund expenditures, increased \$1.3 million or 15.9% from the prior year. Highway maintenance expenditures were \$2.6 million higher than the previous year due to more paving work. This increase was partially offset by a decrease in expenditures for the Transfer Station. RVRA assumed operation of the Transfer Station effective November 1, 2016 so four months of expenditures were incurred in fiscal year 2017.

General Government expenditures were down \$731,000 or 11.4% from the previous year. Expenditures for the Technology Systems department were down due to lower equipment and software maintenance costs. In addition, capital spending in Technology Systems and the City Garage was down in fiscal year 2018 compared to the previous year.

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

Public safety expenditures were \$662,000 or 4% lower than the previous year. In fiscal year 2017, the Fire Department spent approximately \$300,000 on self-contained breathing apparatus packs and accessories, which was partially funded by grant proceeds. Fire Program and auto maintenance expenditures were lower in fiscal year 2018. Costs to house prisoners at Western Virginia Regional Jail decreased due to the City paying for fewer prisoner days. The number of prisoner days was 14% lower in fiscal year 2018 than the previous year.

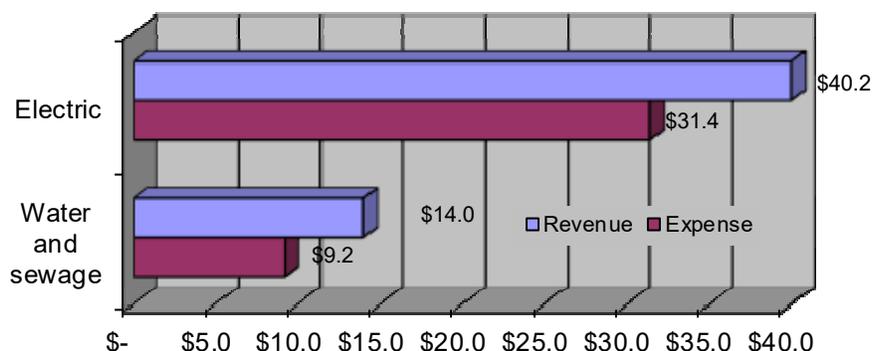
Education expenditures, which comprise 30.1% of total General Fund expenditures, were up \$410,000 or 2.1%. Of the \$20.2 million in expenditures, \$19.6 million represented local operating support provided to the School Division and \$537,000 was the transfer of meals tax collected by the City and dedicated to school capital projects. Local operating support was \$362,000 higher in fiscal year 2018. In addition, meals tax revenue increased in fiscal year 2018, resulting in a higher share for the Schools.

Capital Projects Fund

During fiscal year 2018, Capital Projects fund expenditures were \$3.3 million, which was \$1.6 million higher than the previous year. Fund balance decreased \$1.8 million as the City continued to spend bond proceeds. In June 2016, bonds totaling \$5,281,400 were issued to fund improvements and purchase equipment budgeted in the Capital Projects Fund. In fiscal year 2018, bond proceeds funded the following projects: Salem's share of phase 2 of the Social Services building renovation, library roof replacement, and courthouse front entrance and roof renovation. In addition, \$631,000 was spent on construction of the pedestrian bridge built under the Eddy Avenue Bridge. Funding from Virginia Department of Transportation covered the cost of this project.

Proprietary Funds

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



Electric Fund

As of June 30, 2018, the Electric fund had \$51.5 million in total net position, which increased by \$5.8 million from the prior year. Net investment in capital assets was \$16.3 million or 31.7% of total net position. Unrestricted net position available to fund future expenses was \$35.2 million or 68.3% of total net position.

For fiscal year 2018, operating revenue was \$40.2 million and increased \$717,000 or 1.8% from the prior year. An increase of 3.1% in charges for services was partially offset by a decrease in other revenue. In the previous year, the City received a one-time payment of \$468,000 from American Electric Power (AEP), refunding amounts erroneously included in rates charged in previous years. Operating expenses were \$30.7 million and were approximately \$396,000 lower than prior year largely due to a decrease in purchased power costs. Purchased power costs decreased \$411,000 or 1.6%. 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 2017 was a larger credit than the fiscal year 2018 true-up. However, transmission costs, which

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

are a component of purchased power costs, were down \$413,000 or 9% due to a large transmission cost allocation adjustment from PJM transmission owners.

Water and Sewage Fund

As of June 30, 2018, the Water and Sewage fund had \$36.3 million in total net position, an increase of \$4.7 million from prior year. Net investment in capital assets was \$29.5 million or 81.3% of total net position. Unrestricted net position available to fund future expenses was \$6.8 million or 18.7% of total net position.

For fiscal year 2018, operating revenue was \$14 million, an increase of \$479,000 or 3.5% increase from the prior year. Charges for services were up 3.9% due to a water rate increase and an increase in consumption. Operating expenses were \$8.7 million, approximately \$175,000 lower than prior year. Treatment of sewage costs were \$174,000 or 9.6% lower than the previous year due to a decrease in the gallons of sewage being treated by Western Virginia Water Authority (WVWA).

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 2018
(In Millions)**

	Original Budget	Budget As Amended	Actual
Revenues	\$ 71.9	\$ 72.9	\$ 75.7
Expenditures	(69.4)	(71.7)	(67.0)
Transfers in	3.3	3.3	3.3
Transfers out	(5.8)	(5.4)	(5.4)
Use of fund balance	\$ -	\$ (0.9)	\$ 6.6

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

- To re-appropriate monies for encumbrances established prior to June 30, 2017.
- To re-appropriate grants, donations and other revenues authorized in fiscal year 2017 or earlier, but not expended or encumbered as of June 30, 2018.
- To appropriate grants, donations and other revenues accepted or adjusted in fiscal year 2018 when official notice of approval was received.
- To appropriate 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 tax revenue exceeded budget for several reasons. Assessed values for machinery and tools and regular vehicles increased more than anticipated. 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 revenue exceeded budget by 2%. When current year real estate tax revenue budgets are calculated, a collection percentage is applied. Including taxes collected during the 60-day availability period and accrued in fiscal year 2018, the percentage of taxes collected was higher than estimated. In addition, delinquent real estate tax revenue exceeded estimates by \$129,000. Delinquent tax revenue is budgeted conservatively because collections are unpredictable.

Revenue from use of money and property exceeded budget by \$500,000 due to higher than budgeted interest earnings.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

General Government expenditures were under budget by \$975,000 largely due to amounts being encumbered, but not spent as of June 30, 2018. In addition, smaller amounts were unspent in Technology Systems, Human Resources and Finance departments. Public Works expenditures were under budget by \$693,000 due to amounts being encumbered, but not spent for highway maintenance. In the Non-departmental category, \$570,000 was budgeted for contingency and \$520,000 was budgeted as a reserve for fund balance replenishment.

CAPITAL ASSETS

The City's total Primary Government capital assets, net of accumulated depreciation, decreased 1.1% from \$171.8 million to \$170 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.

Capital Assets, Net of Depreciation
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2018	2017	2018	2017	2018	2017	2018	2017
Land	\$ 5.7	\$ 5.7	\$ 1.5	\$ 1.5	\$ 7.2	\$ 7.2	\$ 1.1	\$ 1.1
Construction in progress	2.7	0.8	2.3	1.6	5.0	2.4	0.2	0.1
Machinery and equipment	5.1	5.2	2.9	2.7	8.0	7.9	2.6	3.0
Buildings and improvements	20.8	21.2	16.1	16.9	36.9	38.1	39.3	41.0
Public domain infrastructure	50.0	51.8	-	-	50.0	51.8	-	-
Distribution and transmission	-	-	15.1	15.0	15.1	15.0	-	-
Utility plant	-	-	26.4	27.2	26.4	27.2	-	-
Sewage treatment contract	-	-	21.4	22.2	21.4	22.2	-	-
Total	\$ 84.3	\$ 84.7	\$ 85.7	\$ 87.1	\$170.0	\$171.8	\$ 43.2	\$ 45.2

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

- In May 2018, the Fire Department received a donation of a Freightliner Truck and Cargo Trailer from the Virginia Department of Emergency Management to assist with responses to hazardous material emergencies. Capitalized amounts totaled \$275,000.
- The Salem Public Library received a roof replacement in fiscal year 2018. The total capitalized cost was \$333,125, with total fiscal year 2018 expenses of \$292,397.
- The Fire Department acquired a 2016 Ford Ambulance in November 2017 at a total cost of \$211,322.
- The Salem Memorial Baseball Stadium received a new bluegrass turf field in April 2018. Capitalized costs totaled \$202,504.
- In May 2018, the Street Department completed construction of a sidewalk along Route 419 in Salem near Rotary Park. Capitalized costs totaled \$365,824. A grant from the Virginia Department of Transportation Bicycle and Pedestrian Safety Improvement Program funded the construction of the new sidewalk.
- The City constructed a retention pond at Mowles Spring Park in fiscal year 2018. Capitalized costs totaled \$103,504.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

- The Electric Department purchased a new Altec Bucket Truck in fiscal year 2018 at a cost of \$155,974.
- The Sewer Department purchased a new Caterpillar Dozer in fiscal year 2018 at a cost of \$131,500.
- The Electric Department completed construction of a new underground conduit system in the Wedgewood Forest community at a total capitalized cost of \$184,606.
- The Water Department removed and replaced one of the City's three well pumps in fiscal year 2018, at a total capitalized cost of \$124,110.
- The Electric Department spent \$861,807 on improvements to distribution and transmission infrastructure, including \$166,132 to replace relay panels at the Indiana Street substation and \$174,132 to place replay panels at the Cleveland Street Substation.

LONG-TERM DEBT

At June 30, 2018, the City's long-term liabilities, excluding capital lease obligations, compensated absences, net pension liabilities, net OPEB liabilities, bond premiums, and bond discounts, totaled \$72.5 million. This amount was comprised of \$30.9 million related to governmental activities (including \$15.9 million for debt held on behalf of the School Division and \$1.2 million recorded as a receivable from Roanoke Valley Resource Authority) and \$41.6 million related to business-type activities. The City made \$7.0 million in principal payments and amortized \$78,355 in discounts and premiums.

Total debt decreased \$7.0 million during the fiscal year. 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 \$1.2 million of general obligation debt. The City's tax-supported debt of \$29.7 million is below the legal debt limit of \$214.4 million. Table 10 of the statistical section provides additional information related to the legal debt margin.

The School Division relies upon the City to provide full faith and credit for any debt obligations incurred. Therefore, the City reports School Division long-term liabilities, other than capital lease obligations, compensated absences, net OPEB liabilities, and net pension liabilities, as its own. In addition to bonded debt, the City's long-term obligations include capital lease obligations, compensated absences, net OPEB liabilities, 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 2018 were \$950,247 or 1.4% of total governmental activities expenses.

FACTORS INFLUENCING FUTURE BUDGETS

Current economic conditions reflect improvement over the previous year. Salem's unemployment rate decreased from 4.1% to 3.4%. The City's unemployment rate remained lower than the national unemployment rate of 4.2%, but was slightly higher than the state unemployment rate of 3.3%. The health care industry remains a major employer in Salem, as does the manufacturing industry. The City continues to see on-going redevelopment in and around the downtown area. Several blighted properties have been redeveloped in the past year or have renovations in process.

General Fund revenues budgeted for fiscal year 2019 reflect an increase of 3.7%, due to growth in the property and local taxes categories. The General Fund budget includes \$1,000,000 for capital purchases,

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

which is an increase from the \$500,000 budgeted for capital in fiscal year 2018. A compensation and classification study was completed in fiscal year 2018 and recommendations from this study were phased in, with raises given in April 2018 and July 2018.

Because the recession lasted so long and the recovery has been slow, the City was forced to delay significant equipment replacements due to lack of funding. Over the next few years, the City needs to continue to make a substantial investment in equipment and other capital. A borrowing is planned for fiscal year 2019 to fund a new radio system, field turf replacement at Spartan Field, lighting at Oakey's Field, Civic Center roof replacement and other much-needed equipment. Funding for capital needs and equipment replacement will continue to put pressure on future budgets.

Electric and water consumption are expected to remain flat in fiscal year 2019. No rate increase was necessary for electric or sewer, but a 3% rate increase for water will be effective January 1, 2019 based on the five-year rate plan.

A substantial renovation and expansion of Salem High School is planned with design work to be completed during fiscal year 2020. The school originally opened for the 1978 school year and houses almost 1,200 students. Due to the scope of the project, the City will have to borrow funds to cover the majority of project costs. The City assumes debt issued on behalf of the School Division. As such, City Council and the School Board are working together to determine how much the City can afford to contribute to the project and how much work can be done within the established funding levels. The additional borrowing will affect future budgets.

In fiscal year 2018, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which revised and established new financial reporting requirements for governments that provide their employees with postemployment benefits. The City is now required to recognize a long-term obligation for these benefits in the Statement of Net Position and to comparably measure the annual costs for the first time. Implementing this standard resulted in a net OPEB obligation of \$21.1 million for the City and \$6.4 million for the School Division.

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.

THIS PAGE INTENTIONALLY BLANK

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, 2018

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 33,755,820	\$ 44,341,247	\$ 78,097,067	\$ 15,852,085
Receivables, net	3,062,481	8,458,244	11,520,725	596,312
Due from component unit	2,192	556,778	558,970	-
Due from other governmental units	6,792,335	-	6,792,335	900,378
Net pension asset	-	-	-	300,017
Inventories	537,671	1,749,778	2,287,449	37,579
Prepaid items	218,186	79,832	298,018	9,007
<i>Restricted assets:</i>				
Cash and cash equivalents	902,946	5,114,298	6,017,244	-
<i>Capital assets:</i>				
Nondepreciable	8,337,284	3,824,800	12,162,084	1,365,256
Depreciable, net	75,930,751	81,862,848	157,793,599	41,807,807
Total assets	<u>129,539,666</u>	<u>145,987,825</u>	<u>275,527,491</u>	<u>60,311,663</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>3,468,624</u>	<u>1,377,193</u>	<u>4,845,817</u>	<u>4,531,853</u>
LIABILITIES				
Accounts payable and accrued liabilities	2,742,207	3,184,853	5,927,060	401,206
Accrued payroll and related liabilities	1,164,037	335,087	1,499,124	4,978,617
Accrued interest	302,090	385,757	687,847	-
Self-insurance claims liability	395,057	-	395,057	839,919
Due to Primary Government	-	-	-	558,970
Unearned revenues	92,919	186,381	279,300	53,704
Customer security deposits	-	940,565	940,565	-
<i>Long-term liabilities due in less than one year:</i>				
Bonds payable	2,979,962	4,085,876	7,065,838	-
Capital lease obligation	76,549	-	76,549	-
Compensated absences	1,228,753	442,855	1,671,608	422,170
<i>Long-term liabilities due in more than one year:</i>				
Bonds payable	27,917,303	37,583,764	65,501,067	-
Capital lease obligation	121,467	-	121,467	-
Compensated absences	588,137	182,910	771,047	346,569
Net pension liability	27,364,678	7,266,362	34,631,040	34,284,000
Net OPEB liability	16,329,266	4,728,107	21,057,373	6,429,398
Total liabilities	<u>81,302,425</u>	<u>59,322,517</u>	<u>140,624,942</u>	<u>48,314,553</u>
DEFERRED INFLOWS OF RESOURCES	<u>2,718,443</u>	<u>1,106,624</u>	<u>3,825,067</u>	<u>5,725,798</u>
NET POSITION				
Net investment in capital assets	75,637,029	49,386,338	125,023,367	43,173,063
<i>Restricted for:</i>				
Grant programs	520,887	-	520,887	-
Highway maintenance	3,550,878	-	3,550,878	-
Capital projects	139,277	-	139,277	537,062
Unrestricted (deficit)	(30,860,649)	37,549,539	6,688,890	(32,350,182)
Total net position	<u>\$ 48,987,422</u>	<u>\$ 86,935,877</u>	<u>\$ 135,923,299</u>	<u>\$ 11,359,943</u>

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

CITY OF SALEM, VIRGINIA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	
Primary Government							
<i>Governmental activities:</i>							
General government	\$ 6,388,884	\$ 253,054	\$ 260,045	\$ -	\$ (5,875,785)	\$ (5,875,785)	
Judicial administration	2,009,007	250,875	1,128,107	-	(630,025)	(630,025)	
Public safety	15,776,102	1,358,612	1,154,062	275,000	(12,988,428)	(12,988,428)	
Public works	11,617,750	1,528,945	4,157,510	224,297	(5,706,998)	(5,706,998)	
Health and welfare	3,318,498	-	1,176,140	-	(2,142,358)	(2,142,358)	
Education	20,170,298	-	-	-	(20,170,298)	(20,170,298)	
Parks, recreation and cultural	6,129,809	658,264	170,154	840,227	(4,461,164)	(4,461,164)	
Community development	3,429,290	-	161,830	63,803	(3,203,657)	(3,203,657)	
Interest and other fiscal charges	950,247	-	-	-	(950,247)	(950,247)	
Total governmental activities	69,789,885	4,049,750	8,207,848	1,403,327	(56,128,960)	(56,128,960)	
<i>Business-type activities:</i>							
Electric	31,361,242	40,153,923	-	124,385	\$ 8,917,066	8,917,066	
Water and sewage	9,206,719	14,009,576	-	-	4,802,857	4,802,857	
Civic Center	4,708,634	3,106,144	-	51,133	(1,551,357)	(1,551,357)	
Catering and concessions	981,396	922,287	-	-	(59,109)	(59,109)	
Total business-type activities	46,257,991	58,191,930	-	175,518	12,109,457	12,109,457	
Total primary government	\$ 116,047,876	\$ 62,241,680	\$ 8,207,848	\$ 1,578,845	\$ (56,128,960)	\$ (44,019,503)	
Component Units	\$ 45,228,590	\$ 1,992,336	\$ 9,540,263	\$ 14,400		\$ (33,681,591)	
<i>General revenues:</i>							
Property taxes					35,688,231	35,688,231	-
Local sales and use taxes					7,015,296	7,015,296	-
Business license tax					5,333,382	5,333,382	-
Meals tax					4,802,780	4,802,780	-
Utility taxes					1,208,943	1,208,943	-
Other taxes					3,997,697	3,997,697	-
Intergovernmental revenue not restricted					3,952,121	3,952,121	-
Unrestricted investment earnings					78,511	78,511	-
Gain on sale of capital assets					35,647	35,647	-
Payments from City of Salem					-	-	21,081,800
State aid					-	-	14,222,573
Other					626,372	626,372	125,894
Transfers					2,008,304	2,008,304	-
Total general revenues and transfers					65,421,445	(1,921,310)	35,430,267
Change in net position					9,292,485	10,188,147	1,748,676
Net position, beginning, as restated (Note 19)					39,694,937	76,747,730	9,611,267
Net position, ending					\$ 48,987,422	\$ 86,935,877	\$ 11,359,943

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

**CITY OF SALEM, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 30,678,358	\$ -	\$ 7,671	\$ 30,686,029
Cash and cash equivalents, restricted	-	-	902,946	902,946
Receivables, net	2,922,852	-	101,252	3,024,104
Due from other funds	350,000	-	-	350,000
Due from component unit	2,192	-	-	2,192
Due from other governmental units	4,638,275	-	944,181	5,582,456
Inventories	537,671	-	-	537,671
Prepaid items	156,987	-	-	156,987
Total assets	<u>\$ 39,286,335</u>	<u>\$ -</u>	<u>\$ 1,956,050</u>	<u>\$ 41,242,385</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 2,596,363	\$ -	\$ 118,761	\$ 2,715,124
Accrued payroll and related liabilities	1,155,753	-	-	1,155,753
Due to other funds	-	-	350,000	350,000
Unearned revenues	54,252	-	-	54,252
Total liabilities	<u>3,806,368</u>	<u>-</u>	<u>468,761</u>	<u>4,275,129</u>
DEFERRED INFLOWS OF RESOURCES	<u>1,073,756</u>	<u>-</u>	<u>-</u>	<u>1,073,756</u>
FUND BALANCES				
Nonspendable	694,658	-	-	694,658
Restricted	4,071,765	-	935,933	5,007,698
Committed	94,789	-	-	94,789
Assigned	741,677	-	551,356	1,293,033
Unassigned	28,803,322	-	-	28,803,322
Total fund balances	<u>34,406,211</u>	<u>-</u>	<u>1,487,289</u>	<u>35,893,500</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 39,286,335</u>	<u>\$ -</u>	<u>\$ 1,956,050</u>	<u>\$ 41,242,385</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, 2018

Total fund balance of governmental funds	\$ 35,893,500
Capital assets used in governmental activities are not considered current financial resources and, therefore, are not reported in the governmental funds.	84,268,035
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	983,705
Receivable from Roanoke Valley Resource Authority	1,209,879
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	375,312
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	(30,913,989)
Bond premiums	(32,265)
Bond discounts	48,989
Accrued interest	(302,090)
Capital lease obligation	(198,016)
Compensated absences	(1,812,923)
Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds:	
Deferred outflows of resources related to pension	2,989,325
Deferred inflows of resources related to pension	(2,346,375)
Net pension liability	(27,143,437)
Financial statement elements related to OPEB are applicable to future periods and, therefore, are not reported in the governmental funds:	
Deferred outflows of resources related to OPEB	86,541
Deferred inflows of resources related to OPEB	(264,779)
Net OPEB liability	(16,293,566)
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.	2,439,576
Net position of governmental activities	<u><u>\$ 48,987,422</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, 2018

	General	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Property taxes	\$ 36,225,360	\$ -	\$ -	\$ 36,225,360
Other local taxes	22,358,099	-	-	22,358,099
Permits, fees and licenses	313,860	-	-	313,860
Fines and forfeitures	137,911	-	-	137,911
Revenue from use of money and property	1,015,168	-	34,200	1,049,368
Charges for services	3,118,065	-	-	3,118,065
Other	357,758	-	138,752	496,510
Intergovernmental	12,127,631	243,630	989,575	13,360,836
Total revenues	<u>75,653,852</u>	<u>243,630</u>	<u>1,162,527</u>	<u>77,060,009</u>
EXPENDITURES				
<i>Current:</i>				
General government	5,679,004	-	-	5,679,004
Judicial administration	2,033,068	-	-	2,033,068
Public safety	15,741,300	-	-	15,741,300
Public works	9,796,765	-	-	9,796,765
Health and welfare	3,202,498	-	-	3,202,498
Education	20,170,298	-	-	20,170,298
Parks, recreation and cultural	5,106,766	-	-	5,106,766
Community development	3,340,911	-	-	3,340,911
Non-departmental	1,978,778	-	-	1,978,778
Capital projects	-	-	3,302,614	3,302,614
<i>Debt service:</i>				
Principal retirement	-	3,055,319	-	3,055,319
Interest	-	908,720	-	908,720
Total expenditures	<u>67,049,388</u>	<u>3,964,039</u>	<u>3,302,614</u>	<u>74,316,041</u>
Excess (deficiency) of revenues over (under) expenditures	<u>8,604,464</u>	<u>(3,720,409)</u>	<u>(2,140,087)</u>	<u>2,743,968</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	34,084	-	-	34,084
Insurance recoveries	9,079	-	-	9,079
Transfers in	3,326,069	3,720,409	336,708	7,383,186
Transfers out	<u>(5,374,882)</u>	-	-	<u>(5,374,882)</u>
Total other financing sources (uses), net	<u>(2,005,650)</u>	<u>3,720,409</u>	<u>336,708</u>	<u>2,051,467</u>
Net change in fund balances	6,598,814	-	(1,803,379)	4,795,435
Fund balances, beginning	<u>27,807,397</u>	-	<u>3,290,668</u>	<u>31,098,065</u>
Fund balances, ending	<u>\$ 34,406,211</u>	<u>\$ -</u>	<u>\$ 1,487,289</u>	<u>\$ 35,893,500</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, 2018

Net changes in fund balances of governmental funds	\$ 4,795,435
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	3,722,280
Capital donated	275,000
Depreciation expense	(4,354,246)
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	(38,996)
Net loss from sale of assets	(55,248)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in governmental funds.	
	(103,485)
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	(215,433)
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	3,055,319
Amortization of current year bond premiums	37,508
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	25,272
Change in compensated absences	(78,223)
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	2,634,033
Pension expense	(1,623,171)
Governmental funds report employer OPEB contributions as expenditures. However, in the Statement of Activities the cost of OPEB benefits earned is reported as OPEB expense.	
Employer OPEB contributions	1,517,721
OPEB expense	(1,316,920)
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.	
	1,080,806
Change in net position of governmental activities	<u>\$ 9,292,485</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, 2018

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 34,535,830	\$ 34,535,830	\$ 36,225,360	\$ 1,689,530
Other local taxes	21,886,617	21,914,211	22,358,099	443,888
Permits, fees and licenses	264,700	264,700	313,860	49,160
Fines and forfeitures	122,000	122,000	137,911	15,911
Revenue from use of money and property	475,676	515,453	1,015,168	499,715
Charges for services	2,945,174	3,012,660	3,118,065	105,405
Other	354,550	354,550	357,758	3,208
Intergovernmental	11,296,602	12,154,688	12,127,631	(27,057)
Total revenues	<u>71,881,149</u>	<u>72,874,092</u>	<u>75,653,852</u>	<u>2,779,760</u>
EXPENDITURES				
General government	6,166,245	6,654,484	5,679,004	975,480
Judicial administration	2,055,285	2,111,217	2,033,068	78,149
Public safety	15,709,177	16,358,048	15,741,300	616,748
Public works	9,889,833	10,489,920	9,796,765	693,155
Health and welfare	2,627,196	3,418,233	3,202,498	215,735
Education	19,633,236	20,170,298	20,170,298	-
Parks, recreation and cultural	5,337,342	5,523,368	5,106,766	416,602
Community development	3,422,245	3,643,316	3,340,911	302,405
Non-departmental	4,574,980	3,377,398	1,978,778	1,398,620
Total expenditures	<u>69,415,539</u>	<u>71,746,282</u>	<u>67,049,388</u>	<u>4,696,894</u>
Excess of revenues over expenditures	<u>2,465,610</u>	<u>1,127,810</u>	<u>8,604,464</u>	<u>7,476,654</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	34,084	34,084
Insurance recoveries	-	-	9,079	9,079
Transfers in	3,323,000	3,323,000	3,326,069	3,069
Transfers out	(5,788,610)	(5,388,479)	(5,374,882)	13,597
Total other financing uses, net	<u>(2,465,610)</u>	<u>(2,065,479)</u>	<u>(2,005,650)</u>	<u>59,829</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ (937,669)</u>	<u>\$ 6,598,814</u>	<u>\$ 7,536,483</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, 2018

	Enterprise Funds				Internal Service Fund
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total	
ASSETS					
<i>Current assets:</i>					
Cash and cash equivalents	\$ 32,813,928	\$ 11,517,468	\$ 9,851	\$ 44,341,247	\$ 3,069,791
Cash and cash equivalents, restricted	2,557,149	2,557,149	-	5,114,298	-
Receivables, net	6,161,949	1,879,620	67,787	8,109,356	38,377
Due from other funds	1,860,000	-	-	1,860,000	-
Due from component unit	556,778	-	-	556,778	-
Inventories	1,451,183	270,578	28,017	1,749,778	-
Prepaid items	-	840	78,992	79,832	61,199
Total current assets	<u>45,400,987</u>	<u>16,225,655</u>	<u>184,647</u>	<u>61,811,289</u>	<u>3,169,367</u>
<i>Noncurrent assets:</i>					
Receivables, net	348,888	-	-	348,888	-
<i>Capital assets:</i>					
Nondepreciable	1,570,258	2,087,441	167,101	3,824,800	-
Depreciable, net	28,585,599	49,891,058	3,386,191	81,862,848	-
Total capital assets	<u>30,155,857</u>	<u>51,978,499</u>	<u>3,553,292</u>	<u>85,687,648</u>	<u>-</u>
Total noncurrent assets	<u>30,504,745</u>	<u>51,978,499</u>	<u>3,553,292</u>	<u>86,036,536</u>	<u>-</u>
Total assets	<u>75,905,732</u>	<u>68,204,154</u>	<u>3,737,939</u>	<u>147,847,825</u>	<u>3,169,367</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>836,714</u>	<u>367,185</u>	<u>173,294</u>	<u>1,377,193</u>	<u>17,446</u>
LIABILITIES AND DEFERRED INFLOWS					
<i>Current liabilities:</i>					
Accounts payable and accrued liabilities	2,471,179	584,796	128,878	3,184,853	27,083
Accrued payroll and related liabilities	128,174	125,272	81,641	335,087	8,284
Accrued interest	120,411	265,346	-	385,757	-
Self-insurance claims liability	-	-	-	-	395,057
Due to other funds	-	-	1,860,000	1,860,000	-
Unearned revenues	14,500	11,640	160,241	186,381	38,667
Customer security deposits	940,565	-	-	940,565	-
Bonds payable	1,220,001	2,865,875	-	4,085,876	-
Compensated absences	205,149	178,067	59,639	442,855	3,967
Total current liabilities	<u>5,099,979</u>	<u>4,030,996</u>	<u>2,290,399</u>	<u>11,421,374</u>	<u>473,058</u>
<i>Noncurrent liabilities:</i>					
Bonds payable	15,635,494	21,948,270	-	37,583,764	-
Compensated absences	95,962	5,447	81,501	182,910	-
Net pension liability	2,790,623	2,997,348	1,478,391	7,266,362	221,241
Net OPEB liability	1,380,774	2,559,984	787,349	4,728,107	35,700
Total noncurrent liabilities	<u>19,902,853</u>	<u>27,511,049</u>	<u>2,347,241</u>	<u>49,761,143</u>	<u>256,941</u>
Total liabilities	<u>25,002,832</u>	<u>31,542,045</u>	<u>4,637,640</u>	<u>61,182,517</u>	<u>729,999</u>
DEFERRED INFLOWS OF RESOURCES	<u>275,861</u>	<u>685,996</u>	<u>144,767</u>	<u>1,106,624</u>	<u>17,238</u>
NET POSITION					
Net investment in capital assets	16,293,238	29,539,808	3,553,292	49,386,338	-
Unrestricted (deficit)	35,170,515	6,803,490	(4,424,466)	37,549,539	2,439,576
Total net position	<u>\$ 51,463,753</u>	<u>\$ 36,343,298</u>	<u>\$ (871,174)</u>	<u>\$ 86,935,877</u>	<u>\$ 2,439,576</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, 2018

	Enterprise Funds				Internal Service Fund
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total	
OPERATING REVENUES					
Charges for services	\$ 39,693,790	\$ 13,513,199	\$ 3,965,081	\$ 57,172,070	\$ 5,868,168
Connections and transfers	30,945	147,080	-	178,025	-
Penalties	177,444	170,262	-	347,706	-
Pole rentals	180,496	-	-	180,496	-
Commissions	-	-	24,106	24,106	-
Other	71,248	179,035	39,244	289,527	206,868
Total operating revenues	<u>40,153,923</u>	<u>14,009,576</u>	<u>4,028,431</u>	<u>58,191,930</u>	<u>6,075,036</u>
OPERATING EXPENSES					
Salaries	-	1,728,973	1,335,252	3,064,225	117,278
Fringe benefits	-	738,185	425,126	1,163,311	41,898
Show expenses	-	-	2,449,185	2,449,185	-
Maintenance	-	757,243	212,259	969,502	9,768
Billing and collection	477,608	457,156	-	934,764	-
Professional services	17,994	136,484	14,639	169,117	233,204
Insurance	17,571	50,372	18,113	86,056	-
Purchased power	24,967,107	-	-	24,967,107	-
Distribution - operations	814,407	-	-	814,407	-
Distribution - maintenance	1,716,781	-	-	1,716,781	-
Administration	830,443	355,482	119,700	1,305,625	2,599
Travel and training	12,777	16,815	5,013	34,605	-
Materials and supplies	-	188,667	293,324	481,991	7,791
Expendable equipment and small tools	128,017	58,412	2,450	188,879	-
Utilities	-	420,671	286,799	707,470	4,893
Miscellaneous	204,775	2,305	1,801	208,881	3,285
Depreciation	1,531,860	2,105,965	291,870	3,929,695	-
Treatment of sewage	-	1,638,360	-	1,638,360	-
Commissions	-	-	234,499	234,499	-
Claims	-	-	-	-	4,595,842
Total operating expenses	<u>30,719,340</u>	<u>8,655,090</u>	<u>5,690,030</u>	<u>45,064,460</u>	<u>5,016,558</u>
Operating income (loss)	<u>9,434,583</u>	<u>5,354,486</u>	<u>(1,661,599)</u>	<u>13,127,470</u>	<u>1,058,478</u>
NONOPERATING REVENUES (EXPENSES)					
Interest income	39,218	39,218	75	78,511	22,328
Interest expense	(614,880)	(551,205)	-	(1,166,085)	-
Bond issuance costs	-	(424)	-	(424)	-
Gain (loss) on sale of capital assets	(27,022)	5,596	2,887	(18,539)	-
Net nonoperating revenues (expenses)	<u>(602,684)</u>	<u>(506,815)</u>	<u>2,962</u>	<u>(1,106,537)</u>	<u>22,328</u>
Income (loss) before transfers	<u>8,831,899</u>	<u>4,847,671</u>	<u>(1,658,637)</u>	<u>12,020,933</u>	<u>1,080,806</u>
Capital contributions in	124,385	-	51,133	175,518	-
Transfers in	-	-	1,317,765	1,317,765	-
Transfers out	(3,160,000)	(166,069)	-	(3,326,069)	-
Change in net position	<u>5,796,284</u>	<u>4,681,602</u>	<u>(289,739)</u>	<u>10,188,147</u>	<u>1,080,806</u>
Net position, beginning, as restated (Note 19)	<u>45,667,469</u>	<u>31,661,696</u>	<u>(581,435)</u>	<u>76,747,730</u>	<u>1,358,770</u>
Net position, ending	<u>\$ 51,463,753</u>	<u>\$ 36,343,298</u>	<u>\$ (871,174)</u>	<u>\$ 86,935,877</u>	<u>\$ 2,439,576</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, 2018**

	Enterprise Funds				Internal Service Fund
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total	
OPERATING ACTIVITIES					
Receipts from customers	\$ 38,980,624	\$ 13,600,491	\$ 3,949,528	\$ 56,530,643	\$ 5,864,147
Payments to suppliers	(26,275,141)	(4,126,487)	(3,464,929)	(33,866,557)	(249,924)
Payments to employees	(2,476,086)	(2,593,676)	(1,843,595)	(6,913,357)	(159,953)
Payments for claims	-	-	-	-	(4,578,240)
Other receipts	71,248	179,035	39,244	289,527	206,868
Net cash provided by (used in) operating activities	10,300,645	7,059,363	(1,319,752)	16,040,256	1,082,898
NONCAPITAL FINANCING ACTIVITIES					
Interfund loan	(27,000)	-	27,000	-	-
Component unit loan	(556,778)	-	-	(556,778)	-
Transfers in	-	-	1,317,765	1,317,765	-
Transfers out	(3,160,000)	(166,069)	-	(3,326,069)	-
Net cash provided by (used in) noncapital financing activities	(3,743,778)	(166,069)	1,344,765	(2,565,082)	-
CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of capital assets	19,186	5,596	2,887	27,669	-
Purchases of capital assets	(1,396,942)	(1,112,494)	(79,831)	(2,589,267)	-
Proceeds from capital debt	-	4,000	-	4,000	-
Payment of refunding issuance costs	-	(424)	-	(424)	-
Principal paid on capital debt	(1,192,740)	(2,824,687)	-	(4,017,427)	-
Interest paid on capital debt	(568,614)	(666,789)	-	(1,235,403)	-
Capital contributions	124,385	-	51,133	175,518	-
Net cash provided by (used in) capital and related financing activities	(3,014,725)	(4,594,798)	25,322	(7,584,201)	-
INVESTING ACTIVITIES					
Interest received	39,218	39,218	75	78,511	22,328
Net cash provided by investing activities	39,218	39,218	75	78,511	22,328
Net increase (decrease) in cash and cash equivalents	3,581,360	2,337,714	(723)	5,918,351	1,105,226
Cash and cash equivalents, beginning	31,789,717	11,736,903	10,574	43,537,194	1,964,565
Cash and cash equivalents, ending	<u>\$ 35,371,077</u>	<u>\$ 14,074,617</u>	<u>\$ 9,851</u>	<u>\$ 49,455,545</u>	<u>\$ 3,069,791</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR IS COMPRISED OF THE FOLLOWING:					
Cash and cash equivalents	\$ 32,813,928	\$ 11,517,468	\$ 9,851	\$ 44,341,247	\$ 3,069,791
Cash and cash equivalents, restricted	2,557,149	2,557,149	-	5,114,298	-
Total	<u>\$ 35,371,077</u>	<u>\$ 14,074,617</u>	<u>\$ 9,851</u>	<u>\$ 49,455,545</u>	<u>\$ 3,069,791</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Operating income (loss)	\$ 9,434,583	\$ 5,354,486	\$ (1,661,599)	\$ 13,127,470	\$ 1,058,478
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i>					
Depreciation	1,531,860	2,105,965	291,870	3,929,695	-
Pension expense, net of employer contributions	(115,931)	(127,352)	(58,578)	(301,861)	1,501
OPEB expense, net of employer contributions	(13,931)	(14,817)	(6,327)	(35,075)	(704)
<i>Decrease (increase) in assets:</i>					
Receivables, net	(1,153,563)	(226,900)	5,454	(1,375,009)	(5,841)
Inventories	66,206	5,063	2,505	73,774	-
Prepaid items	-	1,287	99,742	101,029	88,220
<i>Increase (decrease) in liabilities:</i>					
Accounts payable and accrued liabilities	475,716	(50,870)	70,606	495,452	11,421
Accrued payroll and related liabilities	6,651	1,974	(18,210)	(9,585)	(2,326)
Self-insurance claims liability	-	-	-	-	(70,618)
Unearned revenues	14,500	(3,150)	(45,113)	(33,763)	1,820
Customer security deposits payable	37,012	-	-	37,012	-
Compensated absences	17,542	13,677	(102)	31,117	947
Net cash provided by (used in) operating activities	<u>\$ 10,300,645</u>	<u>\$ 7,059,363</u>	<u>\$ (1,319,752)</u>	<u>\$ 16,040,256</u>	<u>\$ 1,082,898</u>
<i>Noncash investing, capital, and financing activities</i>					
Capital assets financed with accounts payable	<u>\$ -</u>	<u>\$ 45,824</u>	<u>\$ -</u>	<u>\$ 45,824</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, 2018**

	Agency Funds	OPEB Trust Fund
ASSETS		
Cash and cash equivalents	\$ 1,874,227	\$ -
Investments held by trustee, fair value of pooled funds	-	6,593,184
Receivables, net	110	-
Due from Commonwealth of Virginia	57,714	-
Total assets	1,932,051	6,593,184
LIABILITIES		
Accounts payable	34,996	-
Liability to agency	1,897,055	-
Total liabilities	\$ 1,932,051	-
NET POSITION		
Net position restricted for OPEB		\$ 6,593,184

**CITY OF SALEM, VIRGINIA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2018**

	OPEB Trust Fund
ADDITIONS	
Employer contributions - City	\$ 1,824,467
Employer contributions - Agency entities	101,001
<i>Investment Income</i>	
Increase in fair value of investments	554,485
Total additions	2,479,953
DEDUCTIONS	
Retirement benefits - City	(1,589,537)
Retirement benefits - Agency entities	(81,901)
Administrative expenses	(6,936)
Total deductions	(1,678,374)
Net increase in plan net position	801,579
Net position held in trust for other postemployment benefits, beginning	5,791,605
Net position held in trust for other postemployment benefits, ending	\$ 6,593,184

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

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF NET POSITION
COMPONENT UNITS
JUNE 30, 2018

	School Division	Economic Development Authority	Total
ASSETS			
Cash and cash equivalents	\$ 15,848,476	\$ 3,609	\$ 15,852,085
Receivables, net	39,534	556,778	596,312
Due from other governmental units	900,378	-	900,378
Net pension asset	300,017	-	300,017
Inventories	37,579	-	37,579
Prepaid items	9,007	-	9,007
<i>Capital assets:</i>			
Nondepreciable	1,365,256	-	1,365,256
Depreciable, net	41,807,807	-	41,807,807
Total assets	<u>60,308,054</u>	<u>560,387</u>	<u>60,868,441</u>
DEFERRED OUTFLOWS OF RESOURCES			
	<u>4,531,853</u>	-	<u>4,531,853</u>
LIABILITIES			
Accounts payable and accrued liabilities	401,206	-	401,206
Accrued payroll and related liabilities	4,978,617	-	4,978,617
Self-insurance claims liability	839,919	-	839,919
Due to primary government	-	558,970	558,970
Unearned revenues	53,704	-	53,704
<i>Long-term liabilities due in less than one year:</i>			
Compensated absences	422,170	-	422,170
<i>Long-term liabilities due in more than one year:</i>			
Compensated absences	346,569	-	346,569
Net pension liability	34,284,000	-	34,284,000
Net OPEB liability	6,429,398	-	6,429,398
Total liabilities	<u>47,755,583</u>	<u>558,970</u>	<u>48,314,553</u>
DEFERRED INFLOWS OF RESOURCES			
	<u>5,725,798</u>	-	<u>5,725,798</u>
NET POSITION			
Net investment in capital assets	43,173,063	-	43,173,063
Restricted for:			
Capital projects	537,062	-	537,062
Unrestricted (deficit)	(32,351,599)	1,417	(32,350,182)
Total net position	<u>\$ 11,358,526</u>	<u>\$ 1,417</u>	<u>\$ 11,359,943</u>

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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 Units

The City of Salem discretely presents two component units: The City of Salem School Division and the Economic Development Authority of the City of Salem.

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 \$19,633,236 of operating support and \$537,062 of capital support to the School Division and made debt service payments of \$2,067,221 on behalf of the School Division.

The Economic Development Authority of the City of Salem (Economic Development Authority) is a legally separate entity, which operates under the direction of City Council. The City provides financial resources to the Economic Development Authority, which it then uses for economic development incentives for local businesses. Based on these facts, the City reports the Economic Development Authority as a discretely presented component unit. During the current year, the City provided \$911,502 in operating support to the Economic Development Authority.

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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

1. Summary of Significant Accounting Policies (Continued)

Government-wide Financial Statements (Continued)

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.

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.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1. Summary of Significant Accounting Policies (Continued)

Fund Financial Statements (Continued)

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.

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, insurance recoveries 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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

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.

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 \$1,930,612 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, 2018 total \$1,378,438 in the General Fund and \$852,129 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.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1. Summary of Significant Accounting Policies (Continued)

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 2018 was \$1.18 per \$100 of assessed value.

The City levies personal property taxes on motor vehicles and business and other tangible personal property each year as of January 1. Personal property taxes are due the following May 31 and are considered delinquent after the due date. Personal property taxes do not create a lien on property; however, 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 2018 was \$3.25 per \$100 of assessed value. The tax rate for machinery and tools for 2018 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 units 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 and software maintenance and support for a subsequent period. The payments are recorded as an expenditure in the fiscal year related to the agreement period. Prepaid leases are amortized using the consumption method.

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. Health Insurance fund prepaid items consist primarily of retiree health insurance premiums. These premiums are expensed in the subsequent fiscal year to obtain a proper matching of revenues and expenses.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

1. Summary of Significant Accounting Policies (Continued)

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.

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.

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 and OPEB 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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

1. Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources (Continued)

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 amounts related to pension and OPEB as a deferred inflow or outflow, as appropriate. Deferred amounts for pension result from differences between expected and actual experience of the pension plan, changes in actuarial assumptions, and the net difference between projected and actual earnings on pension plan investments. Deferred amounts for OPEB result from the differences between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in actuarial assumptions and changes in proportion. Experience differences and changes in assumptions and proportions are deferred and amortized over the remaining service life of all participants. Earnings differences are deferred and amortized over a closed five-year period.

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.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1. Summary of Significant Accounting Policies (Continued)

Long-Term Obligations (Continued)

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

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.

Pensions

The Virginia Retirement System (VRS) Retirement Plan is a multi-employer, agent plan. The 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 – Retiree Health Plan

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.

Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit

The VRS Group Life Insurance Program and VRS Teacher Employee Health Insurance Credit Program are multiple-employer, cost-sharing plans. The VRS Political Subdivision Health Insurance Credit Program is a multiple-employer, agent defined benefit plan. The Group Life Insurance Program was established pursuant to §51.1-500 et seq. of the *Code of Virginia*, as amended, which provides the authority under which benefit terms are established or may be amended. The Political Subdivision Health Insurance Credit Program and Teacher Employee Health Insurance Credit Program were established pursuant to §51.1-1400 et seq. of the *Code of Virginia*, as amended, which provides the authority under which benefit terms are established or may be amended. The Group Life Insurance Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. The Political Subdivision Health Insurance Credit Program and Teacher Employee Health Insurance Program are defined benefits plans that provide a credit toward the cost of health insurance coverage for retired political subdivision employees of participating employers and teachers. For purposes of measuring the net OPEB liability for each plan, deferred outflows of resources and deferred inflows of resources related to each plan, and OPEB expense, information about the fiduciary net position of each plan and the additions to/deductions from net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

1. Summary of Significant Accounting Policies (Continued)

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 \$15,921,987 of School Division debt, \$3,138,030 of Civic Center debt, and \$1,209,879 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 \$1,013,858 and \$242,966 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.
- **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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

1. Summary of Significant Accounting Policies (Continued)

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 Units
Cash and cash equivalents	\$ 78,097,067	\$ 15,852,085
Cash and cash equivalents, restricted	6,017,244	-
	\$ 84,114,311	\$ 15,852,085

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

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, 2018, the City had no investments.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

2. Deposits and Investments (Continued)

Credit Risk

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

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 Units
		Electric	Water and Sewage	Nonmajor Proprietary	
Tax receivables	\$ 2,415,179	\$ -	\$ -	\$ -	\$ -
Account receivables	38,377	6,615,885	1,917,671	74,236	-
Other receivables	1,690,253	-	-	-	596,312
Gross receivables	4,143,809	6,615,885	1,917,671	74,236	596,312
Allowance for uncollectibles	(1,081,328)	(105,048)	(38,051)	(6,449)	-
Receivables, net	\$ 3,062,481	\$ 6,510,837	\$ 1,879,620	\$ 67,787	\$ 596,312

4. Interfund Balances and Transfers

The composition of the interfund balances is as follows:

Due to (fund)		Due from (fund)	
		Nonmajor enterprise	Total
Electric	Electric	\$ 1,860,000	\$ 1,860,000
	Total	\$ 1,860,000	\$ 1,860,000

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

4. Interfund Balances and Transfers (Continued)

The composition of the interfund transfers is as follows:

	Transfer out (fund)			
	General	Electric	Water and Sewage	Total
Transfer in (fund)				
General	\$ -	\$ 3,160,000	\$ 166,069	\$ 3,326,069
Debt service	3,720,409	-	-	3,720,409
Capital projects	336,708	-	-	336,708
Nonmajor enterprise	1,317,765	-	-	1,317,765
Total	<u>\$ 5,374,882</u>	<u>\$ 3,160,000</u>	<u>\$ 166,069</u>	<u>\$ 8,700,951</u>

Transfers to the General Fund include payments in lieu of taxes. 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 Units
Commonwealth of Virginia		
Personal property tax	\$ 2,588,707	\$ -
Local sales tax	1,270,763	-
Capital projects funding	944,181	-
Sales tax	-	462,911
Comprehensive Services Act	200,860	-
Communications tax	156,906	-
Other	404,949	240
Federal government		
School funds	-	436,954
Lease payment from General Services Administration	10,754	-
Other	5,336	273
Roanoke Valley Resource Authority	1,209,879	-
	<u>\$ 6,792,335</u>	<u>\$ 900,378</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

6. Capital Assets

Capital asset activity for the year is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets, nondepreciable				
Land	\$ 5,664,640	\$ 11,186	\$ -	\$ 5,675,826
Construction in progress	844,613	2,291,117	(474,272)	2,661,458
Capital assets, nondepreciable	<u>6,509,253</u>	<u>2,302,303</u>	<u>(474,272)</u>	<u>8,337,284</u>
Capital assets, depreciable				
Machinery and equipment	22,071,395	975,917	(1,242,458)	21,804,854
Buildings and improvements	38,524,155	640,672	(181,954)	38,982,873
Leasehold improvements	42,806	-	-	42,806
Public domain infrastructure	99,674,189	621,579	(30,288)	100,265,480
Capital assets, depreciable	<u>160,312,545</u>	<u>2,238,168</u>	<u>(1,454,700)</u>	<u>161,096,013</u>
Accumulated depreciation				
Machinery and equipment	(16,854,149)	(1,118,461)	1,236,105	(16,736,505)
Buildings and improvements	(17,356,500)	(937,448)	97,346	(18,196,602)
Leasehold improvements	(3,329)	(2,854)	-	(6,183)
Public domain infrastructure	(47,888,575)	(2,364,402)	27,005	(50,225,972)
Accumulated depreciation	<u>(82,102,553)</u>	<u>(4,423,165)</u>	<u>1,360,456</u>	<u>(85,165,262)</u>
Capital assets, depreciable, net	<u>78,209,992</u>	<u>(2,184,997)</u>	<u>(94,244)</u>	<u>75,930,751</u>
Capital assets, net	<u>\$ 84,719,245</u>	<u>\$ 117,306</u>	<u>\$ (568,516)</u>	<u>\$ 84,268,035</u>
Business-type Activities				
Capital assets, nondepreciable				
Land	\$ 1,545,170	\$ 2,747	\$ -	\$ 1,547,917
Construction in progress	1,625,909	887,341	(236,367)	2,276,883
Capital assets, nondepreciable	<u>3,171,079</u>	<u>890,088</u>	<u>(236,367)</u>	<u>3,824,800</u>
Capital assets, depreciable				
Machinery and equipment	8,987,354	747,667	(234,418)	9,500,603
Buildings and improvements	27,140,383	54,707	(7,403)	27,187,687
Distribution and transmission	36,513,553	861,807	(326,991)	37,048,369
Utility plant	78,214,453	247,782	(21,875)	78,440,360
Sewage treatment contract	31,955,606	-	-	31,955,606
Capital assets, depreciable	<u>182,811,349</u>	<u>1,911,963</u>	<u>(590,687)</u>	<u>184,132,625</u>
Accumulated depreciation				
Machinery and equipment	(6,309,659)	(559,652)	234,147	(6,635,164)
Buildings and improvements	(10,334,649)	(758,336)	7,403	(11,085,582)
Distribution and transmission	(21,506,541)	(757,518)	281,054	(21,983,005)
Utility plant	(50,982,285)	(1,030,565)	21,875	(51,990,975)
Sewage treatment contract	(9,730,391)	(844,660)	-	(10,575,051)
Accumulated depreciation	<u>(98,863,525)</u>	<u>(3,950,731)</u>	<u>544,479</u>	<u>(102,269,777)</u>
Capital assets, depreciable, net	<u>83,947,824</u>	<u>(2,038,768)</u>	<u>(46,208)</u>	<u>81,862,848</u>
Capital assets, net	<u>\$ 87,118,903</u>	<u>\$ (1,148,680)</u>	<u>\$ (282,575)</u>	<u>\$ 85,687,648</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

6. Capital Assets (Continued)

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

Governmental Activities		Business-type Activities	
General government	\$ 521,182	Electric	\$ 1,531,860
Judicial administration	34,301	Water and sewage	2,105,965
Public safety	599,127	Civic Center	287,940
Public works	2,387,923	Catering	3,930
Parks, recreation and cultural	811,713	Total depreciation expense	<u>\$ 3,929,695</u>
Total depreciation expense	<u>\$ 4,354,246</u>		

Current year increases to accumulated depreciation shown in the capital asset table for governmental activities exceeds depreciation expense by \$68,919 because the table includes accumulated depreciation for machinery and equipment transferred to technology systems, street department, and the finance department from the electric department and meter readers. Current year increases to accumulated depreciation shown in the capital asset table for business-type activities exceeds depreciation expense by \$21,036 because the table includes accumulated depreciation for machinery and equipment transferred to the civic center from the parks and recreation department.

	Beginning Balance	Increases	Decreases	Ending Balance
Component Unit - School Division				
Capital assets, nondepreciable				
Land	\$ 1,123,637	\$ -	\$ -	\$ 1,123,637
Construction in progress	132,237	260,983	(151,601)	241,619
Capital assets, nondepreciable	<u>1,255,874</u>	<u>260,983</u>	<u>(151,601)</u>	<u>1,365,256</u>
Capital assets, depreciable				
Furniture and equipment	8,310,028	217,018	(233,947)	8,293,099
Buildings and improvements	69,341,112	213,195	(93,668)	69,460,639
Capital assets, depreciable	<u>77,651,140</u>	<u>430,213</u>	<u>(327,615)</u>	<u>77,753,738</u>
Accumulated depreciation				
Furniture and equipment	(5,288,221)	(634,607)	220,399	(5,702,429)
Buildings and improvements	(28,389,149)	(1,900,667)	46,314	(30,243,502)
Accumulated depreciation	<u>(33,677,370)</u>	<u>(2,535,274)</u>	<u>266,713</u>	<u>(35,945,931)</u>
Capital assets, depreciable, net	<u>43,973,770</u>	<u>(2,105,061)</u>	<u>(60,902)</u>	<u>41,807,807</u>
Capital assets, net	<u>\$ 45,229,644</u>	<u>\$ (1,844,078)</u>	<u>\$ (212,503)</u>	<u>\$ 43,173,063</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

7. Deferred Outflows/Inflows of Resources

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

	Governmental Activities	Business-type Activities	Component Units
Deferred outflows of resources			
Deferred loss on refunding of debt	\$ 375,312	\$ 492,876	\$ -
Pension	3,006,164	859,133	4,124,241
OPEB	87,148	25,184	407,612
Total deferred outflows of resources	<u>\$ 3,468,624</u>	<u>\$ 1,377,193</u>	<u>\$ 4,531,853</u>
Deferred inflows of resources			
Deferred gain on refunding of debt	\$ -	\$ 367,512	\$ -
Property taxes collected in advance	90,051	-	-
Pension	2,362,237	663,685	5,398,565
OPEB	266,155	75,427	327,233
Total deferred inflows of resources	<u>\$ 2,718,443</u>	<u>\$ 1,106,624</u>	<u>\$ 5,725,798</u>

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

	General Fund
Deferred inflows of resources	
Unavailable revenue - property taxes	\$ 749,777
Property taxes collected in advance	90,051
Unavailable revenue - charges for services and fees	233,928
Total deferred inflows of resources	<u>\$ 1,073,756</u>

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

	Electric	Water and Sewage	Nonmajor Proprietary Funds	Internal Service Fund
Deferred outflows of resources				
Deferred loss on refunding of debt	\$ 492,876	\$ -	\$ -	\$ -
Pension	334,092	356,623	168,418	16,839
OPEB	9,746	10,562	4,876	607
Total deferred outflows of resources	<u>\$ 836,714</u>	<u>\$ 367,185</u>	<u>\$ 173,294</u>	<u>\$ 17,446</u>
Deferred inflows of resources				
Deferred gain on refunding of debt	\$ -	\$ 367,512	\$ -	\$ -
Pension	249,675	283,303	130,707	15,862
OPEB	26,186	35,181	14,060	1,376
Total deferred inflows of resources	<u>\$ 275,861</u>	<u>\$ 685,996</u>	<u>\$ 144,767</u>	<u>\$ 17,238</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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.

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

	Beginning Balance*	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds	\$ 33,896,121	\$ -	\$ (2,982,132)	\$ 30,913,989	\$ 2,979,962
Bond premiums	69,773	-	(37,508)	32,265	-
Bond discounts	(48,989)	-	-	(48,989)	-
Bonds payable	33,916,905	-	(3,019,640)	30,897,265	2,979,962
Capital lease obligation	271,203	-	(73,187)	198,016	76,549
Compensated absences	1,737,720	1,310,946	(1,231,776)	1,816,890	1,228,753
Net pension liability	33,394,826	2,420,190	(8,450,338)	27,364,678	-
Net OPEB liability*	16,709,778	1,319,296	(1,699,808)	16,329,266	-
	<u>\$ 86,030,432</u>	<u>\$ 5,050,432</u>	<u>\$ (14,474,749)</u>	<u>\$ 76,606,115</u>	<u>\$ 4,285,264</u>

* Restated (Note 19)

The Debt Service Fund liquidates most long-term liabilities of governmental activities as shown above. However, a portion of compensated absences, the pension plan and other postemployment benefits (OPEB) are liquidated by the Internal Service Fund. The remaining portion of compensated absences and other postemployment benefits is liquidated by the General Fund.

	Beginning Balance*	Increases	Decreases	Ending Balance	Due Within One Year
Business-type Activities					
General obligation bonds	\$ 45,648,864	\$ 4,000	\$ (4,017,427)	\$ 41,635,437	\$ 4,085,876
Bond premiums	75,030	-	(40,827)	34,203	-
Bonds payable	45,723,894	4,000	(4,058,254)	41,669,640	4,085,876
Compensated absences	594,648	473,971	(442,854)	625,765	442,855
Net pension liability	8,931,652	675,365	(2,340,655)	7,266,362	-
Net OPEB liability*	4,813,426	380,922	(466,241)	4,728,107	-
	<u>\$ 60,063,620</u>	<u>\$ 1,534,258</u>	<u>\$ (7,308,004)</u>	<u>\$ 54,289,874</u>	<u>\$ 4,528,731</u>

Component Unit - School Division

Capital lease obligation	\$ 137,071	\$ -	\$ (137,071)	\$ -	\$ -
Compensated absences	868,888	322,021	(422,170)	768,739	422,170
Net pension liability (asset)	13,928	23,369	(337,314)	(300,017)	-
Net pension liability	39,276,000	5,670,000	(10,662,000)	34,284,000	-
Net OPEB liability*	6,908,265	450,259	(929,126)	6,429,398	-
	<u>\$ 47,204,152</u>	<u>\$ 6,465,649</u>	<u>\$ (12,487,681)</u>	<u>\$ 41,182,120</u>	<u>\$ 422,170</u>

* Restated (Note 19)

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

8. Long-Term Liabilities (Continued)

Details of long-term indebtedness are as follows:

	Interest Rates	Issue Date	Maturity Date	Issue Amount	Governmental Activities	Business-type Activities
General Obligation Bonds						
2004 Public Improvement	3.00%	04/04	07/26	11,052,222	\$ -	\$ 5,610,931
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	2,065,000	-
2010 Public Improvement	3.15%	09/10	03/30	3,648,124	-	2,575,306
2010 Refunding	2.50-5.25%	12/10	02/19	7,410,000	229,398	550,602
2011 Refunding	2.14%	12/11	10/23	9,485,000	5,445,121	-
2012 Public Improvement	2.35%	12/12	08/32	9,545,000	7,158,750	-
2013 Public Improvement	1.25%	03/13	04/35	3,058,522	-	2,684,463
2013 Public Improvement	3.03%	12/13	08/33	7,275,000	5,815,000	-
2015 Refunding	2.907%	04/15	04/31	18,813,000	1,694,449	14,804,551
2016A Public Improvement	2.50%	06/16	04/36	3,922,176	3,488,882	-
2016B Public Improvement	2.50%	06/16	04/26	6,393,385	1,107,510	4,101,888
2017A Refunding	2.30%	01/17	01/27	12,441,135	-	11,303,696
2018 Public Improvement	0.00%	05/18	07/39	4,000	-	4,000
General Obligation Bonds - RVRA						
2011 Refunding	2.14%	12/11	10/23		1,209,879	-
					30,913,989	41,635,437
				Bond premiums	32,265	34,203
				Bond discounts	(48,989)	-
					<u>\$ 30,897,265</u>	<u>\$ 41,669,640</u>

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
2019	\$ 2,768,165	\$ 796,784	\$ 211,797	\$ 23,625	\$ 4,085,876	\$ 1,073,473
2020	2,548,690	721,718	208,161	19,132	3,620,557	960,278
2021	2,554,235	657,571	204,525	14,716	3,708,482	866,865
2022	2,555,293	594,063	199,980	10,388	3,794,957	771,120
2023	2,556,060	530,397	195,435	6,156	3,875,830	673,106
2024-2028	9,141,237	1,791,909	189,981	2,033	17,138,105	1,845,047
2029-2033	6,793,890	583,651	-	-	5,230,217	282,968
2034-2038	786,540	26,956	-	-	181,113	1,669
2039-2040	-	-	-	-	300	-
	<u>\$ 29,704,110</u>	<u>\$ 5,703,049</u>	<u>\$ 1,209,879</u>	<u>\$ 76,050</u>	<u>\$ 41,635,437</u>	<u>\$ 6,474,526</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, 2018, the City has \$1,209,879 in outstanding general obligation debt, which will contractually be repaid by RVRA over the remaining 6 year amortization of the bonds. Further details are presented in note 18.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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 \$27,382 and \$52,567 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
2019	\$ 48,421	\$ 43,310
2020	44,258	41,325
2021	39,529	11,567
2022	22,499	3,425
2023	9,350	-
	<u>\$ 164,057</u>	<u>\$ 99,627</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 \$1,423,915 (cost of \$1,843,486 less accumulated depreciation of \$419,571) 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 \$129,044. Scheduled minimum rental revenues over the remaining lease period are \$1,046,921. Minimum rental revenues are determined using the current year change in the monthly rent payment of 0.19% projected for each future year of the lease.

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 \$119,291 (cost of \$127,891 less accumulated depreciation of \$8,600) 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 \$7,646,480 (cost of \$12,829,190 less accumulated depreciation of \$5,182,710) 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 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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

9. Operating Leases (Continued)

Scheduled minimum rental revenues are as follows:

Year Ending June 30	Amount
2019	\$ 164,658
2020	150,399
2021	150,620
2022	150,862
2023	151,104
2024-2027	433,941
	\$ 1,201,584

10. Capital Lease

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, 2018, 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 \$14,379.

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

Fiscal Year Ending	Amount
June 30, 2019	\$ 83,894
June 30, 2020	83,894
June 30, 2021	41,946
Total minimum lease payments	209,734
Less: Amount representing interest	(11,718)
Present value of minimum lease payments	\$ 198,016

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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	\$ 537,671	\$ -	\$ 537,671
Prepays	156,987	-	156,987
	<u>694,658</u>	<u>-</u>	<u>694,658</u>
Restricted for:			
Law enforcement	263,914	-	263,914
Fire and rescue	256,973	286,376	543,349
Building maintenance and improvements	-	125,485	125,485
Highway maintenance	3,550,878	-	3,550,878
Parks and recreation	-	73,154	73,154
Economic development	-	450,918	450,918
	<u>4,071,765</u>	<u>935,933</u>	<u>5,007,698</u>
Committed to:			
Law enforcement	73,422	-	73,422
Stormwater management	21,367	-	21,367
	<u>94,789</u>	<u>-</u>	<u>94,789</u>
Assigned to:			
Technology systems	358,883	53,958	412,841
Law enforcement	79,507	-	79,507
Fire and rescue	33,872	-	33,872
Street equipment	16,254	-	16,254
Building maintenance and improvements	81,966	2,679	84,645
Engineering	51,497	-	51,497
Public works	64,657	52,817	117,474
Parks and recreation	28,145	441,402	469,547
Library	2,435	-	2,435
Economic development	8,750	500	9,250
Other purposes	15,711	-	15,711
	<u>741,677</u>	<u>551,356</u>	<u>1,293,033</u>
Unassigned:	<u>28,803,322</u>	<u>-</u>	<u>28,803,322</u>
Total fund balances	<u>\$ 34,406,211</u>	<u>\$ 1,487,289</u>	<u>\$ 35,893,500</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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 \$501,721 and \$94,877 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 \$328,846.

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 \$128,082.

Line of Duty

The Line of Duty Act (LODA) provides benefits to local government employees who hold specified hazardous duty positions (*Code of Virginia* §9.1-400 et seq.). By statute, LODA benefits must be provided. The Virginia Department of Accounts administers the benefit. As of July 1, 2011, the General Assembly shifted the financial responsibility from the state government to local governments. The City provides an insured Line of Duty OPEB benefit plan through coverage with VMLIP. In exchange for annual premiums paid while employees are in active service, VMLIP covers the Line of Duty OPEB of those employees. The Line of Duty coverage provides a death benefit of \$100,000 to beneficiaries of public safety officers who die in the line of duty and a death benefit of \$25,000 to beneficiaries of public safety employees who die within five years of becoming disabled as a result of a qualifying illness as defined in the LODA. A health insurance benefit is also provided to the disabled public safety employees, their surviving spouses, and their dependents. The City retains an obligation for benefits in the event of VMLIP's insolvency. The Commonwealth of Virginia has the authority to establish and amend LODA. Total premiums for the current year to VMLIP for Line of Duty coverage were \$67,955.

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 \$175,000 per covered individual and approximately \$10,477,000 in the aggregate.

During the current fiscal year, total claim expenses of \$8,097,155, 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, 2018. The estimated liability for the City and School Division was \$395,057 and \$839,919, respectively for a total of \$1,234,976 at year-end.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

12. Risk Management (Continued)

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
2018	\$ 787,078	\$ 8,097,155	\$ 7,649,257	\$ 1,234,976
2017	863,950	7,007,489	7,084,361	787,078
2016	968,628	7,372,524	7,477,202	863,950

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 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, and they have not taken a refund.

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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

13. Pension Plan (Continued)

VRS PLAN 1 (Continued)

Retirement Contributions – Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. 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.

Earliest Reduced Retirement Eligibility – Members who are not in hazardous duty positions may retire with a reduced benefit at 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 at age 50 with at least five 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%.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

13. Pension Plan (Continued)

VRS PLAN 1 (Continued)

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.

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. 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.

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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

13. Pension Plan (Continued)

VRS PLAN 2 (Continued)

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.

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.

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.

- 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

* 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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

13. Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

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.

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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

13. Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

Service Retirement Multiplier

Defined Benefit Component: The retirement multiplier is 1.00%. For members who 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.

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.

Purchase of Prior Service

Defined Benefit Component: Same as VRS Plan 1, except Hybrid Retirement Plan members are ineligible for ported service.

Defined Contribution Component: Not applicable

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

13. Pension Plan (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the VRS Retirement Plan:

	<u>City of Salem</u>	<u>School Division (Non-Professional)</u>
Inactive members or their beneficiaries currently receiving benefits	580	65
Inactive members:		
Vested inactive members	153	11
Non-vested inactive members	172	33
Inactive members active elsewhere in VRS	288	19
Total inactive members	<u>613</u>	<u>63</u>
Active members	492	70
Total covered employees	<u><u>1,685</u></u>	<u><u>198</u></u>

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, 2018 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 \$3,449,145 and \$3,496,819 for the years ended June 30, 2018 and June 30, 2017, respectively.

The School Division's non-professional employees' contractually required contribution rate for the year ended June 30, 2018 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 \$51,241 and \$51,554 for the years ended June 30, 2018 and June 30, 2017, 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, 2018 was 16.32% 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 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. Contributions to the pension plan from the School Division were \$3,573,000 and \$3,172,295 for the years ended June 30, 2018 and June 30, 2017, respectively.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

13. Pension Plan (Continued)

Net Pension Liability

Under the VRS Retirement Plan, the City's and School Division's net pension liabilities were measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Under the VRS Teacher Retirement Plan, the School Division reported a liability of \$34,284,000 for its proportionate share of the net pension liability at June 30, 2018. The net pension liability was measured as of June 30, 2017 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, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the School Division's proportion was 0.27878% as compared to 0.28026% at June 30, 2016.

Under the VRS Teacher Retirement Plan, the net pension liability is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GAAP, less that system's fiduciary net position. As of June 30, 2017, net pension liability amounts for the VRS Teacher Retirement Plan is as follows (amounts expressed in thousands):

	Teacher Employee Retirement Plan
Total Pension Liability	\$ 45,417,520
Plan Fiduciary Net Position	33,119,545
Employers' Net Pension Liability	\$ 12,297,975
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.92%

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 VRS Retirement Plan was based on an actuarial valuation performed as of June 30, 2016, 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, 2017.

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*

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

13. Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

* 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 GASB 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:

Largest 10 – Non-Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

All Others (Non 10 Largest) – Non-Hazardous Duty: 15% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-Hazardous Duty:

- Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled) – Update to a more current mortality table-RP-2014 projected to 2020
- Retirement Rates – Lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal Rates – Adjusted rates to better fit experience at each age and service year
- Disability Rates – Lowered rates
- Salary Scale – No change
- Line of Duty Disability – Increase rate from 14% to 20%

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

13. Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

All Others (Non 10 Largest) – Non-Hazardous Duty:

- Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled) – Update to a more current mortality table-RP-2014 projected to 2020
- Retirement Rates – Lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal Rates – Adjusted rates to better fit experience at each age and service year
- Disability Rates – Lowered rates
- Salary Scale – No change
- Line of Duty Disability – Increase rate from 14% to 15%

Actuarial Assumptions – Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the VRS Retirement Plan was based on an actuarial valuation as of June 30, 2016, 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, 2017.

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 GASB 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:

Largest 10 – Hazardous Duty: 70% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 years, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

13. Pension Plan (Continued)

Actuarial Assumptions – Public Safety Employees

All Others (Non 10 Largest) – Hazardous Duty: 45% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 years, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Hazardous Duty:

- Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled) – Update to a more current mortality table-RP-2014 projected to 2020
- Retirement Rates – Lowered rates at older ages
- Withdrawal Rates – Adjusted rates to better fit experience at each age and service year
- Disability Rates – Increased rates
- Salary Scale – No change
- Line of Duty Disability – Increase rate from 60% to 70%

All Others (Non 10 Largest) – Hazardous Duty:

- Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled) – Update to a more current mortality table-RP-2014 projected to 2020
- Retirement Rates – Increased age 50 rates and lowered rates at older ages
- Withdrawal Rates – Adjusted rates to better fit experience at each age and service year
- Disability Rates – Adjusted rates to better fit experience
- Salary Scale – No change
- Line of Duty Disability – Decrease rate from 60% to 45%

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, 2016, 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, 2017.

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*

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

13. Pension Plan (Continued)

Actuarial Assumptions – VRS Teacher Retirement Plan (Continued)

* 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 GASB 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-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1.0% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled) – Update to a more current mortality table-RP-2014 projected to 2020
- Retirement Rates – Lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal Rates – Adjusted rates to better fit experience at each year age and service through 9 years of service
- Disability Rates – Adjusted rates to better match experience
- Salary Scale – No change

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:

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

13. Pension Plan (Continued)

Long-Term Expected Rate of Return (Continued)

<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>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	<u>100.00%</u>		<u>4.80%</u>
		Inflation	<u>2.50%</u>
		* Expected arithmetic nominal return	<u>7.30%</u>

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, 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 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, 2019, 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, 2019 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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

13. Pension Plan (Continued)

Changes in Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
City of Salem			
Balances at June 30, 2016	\$ 184,250,734	\$ 141,924,256	\$ 42,326,478
Changes for the year:			
Service cost	2,482,886	-	2,482,886
Interest	12,477,728	-	12,477,728
Changes of assumptions	279,953	-	279,953
Differences between expected and actual experience	(1,567,004)	-	(1,567,004)
Contributions - employer	-	3,496,819	(3,496,819)
Contributions - employee	-	1,106,906	(1,106,906)
Net investment income	-	16,881,766	(16,881,766)
Benefit payments, including refunds of employee contributions	(10,997,027)	(10,997,027)	-
Administrative expenses	-	(101,645)	101,645
Other changes	-	(14,845)	14,845
Net changes	<u>2,676,536</u>	<u>10,371,974</u>	<u>(7,695,438)</u>
Balances at June 30, 2017	<u>\$ 186,927,270</u>	<u>\$ 152,296,230</u>	<u>\$ 34,631,040</u>
School Division (Non-Professional Staff)			
Balances at June 30, 2016	\$ 5,106,219	\$ 5,092,291	\$ 13,928
Changes for the year:			
Service cost	120,806	-	120,806
Interest	345,744	-	345,744
Changes of assumptions	(23,501)	-	(23,501)
Differences between expected and actual experience	(39,860)	-	(39,860)
Contributions - employer	-	51,554	(51,554)
Contributions - employee	-	61,318	(61,318)
Net investment income	-	608,458	(608,458)
Benefit payments, including refunds of employee contributions	(334,040)	(334,040)	-
Administrative expenses	-	(3,661)	3,661
Other changes	-	(535)	535
Net changes	<u>69,149</u>	<u>383,094</u>	<u>(313,945)</u>
Balances at June 30, 2017	<u>\$ 5,175,368</u>	<u>\$ 5,475,385</u>	<u>\$ (300,017)</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

13. Pension Plan (Continued)

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:

	Net Pension Liability (Asset)		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
City of Salem			
Retirement Plan	\$ 57,445,025	\$ 34,631,040	\$ 15,559,981
School Division			
Retirement Plan (Non-Professional Staff)	294,030	(300,017)	(799,741)
Teacher Retirement Plan	51,198,000	34,284,000	20,293,000

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

For the year ended June 30, 2018, the City and School Division recognized pension expense of \$2,093,268 and \$(102,844), respectively, under the VRS Retirement Plan.

For the year ended June 30, 2018, the School Division recognized pension expense of \$1,832,000 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, 2018, the City and School Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	City of Salem	
Differences between expected and actual experience	\$ 244,290	\$ 961,983
Changes in assumptions	171,862	-
Net difference between projected and actual earnings on pension plan investments	-	2,063,939
Employer contributions subsequent to the measurement date	3,449,145	-
Total	\$ 3,865,297	\$ 3,025,922

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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 (Non-Professional Staff)		
Differences between expected and actual experience	\$ -	\$ 64,658
Changes in assumptions	-	13,009
Net difference between projected and actual earnings on pension plan investments	-	75,898
Employer contributions subsequent to the measurement date	51,241	-
Total	<u>\$ 51,241</u>	<u>\$ 153,565</u>

School Division - Teacher Retirement Plan		
Differences between expected and actual experience	\$ -	\$ 2,427,000
Changes in assumptions	500,000	-
Net difference between projected and actual earnings on pension plan investments	-	1,246,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	1,572,000
Employer contributions subsequent to the measurement date	3,573,000	-
Total	<u>\$ 4,073,000</u>	<u>\$ 5,245,000</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, 2019. 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>
2019	\$ (1,698,097)	\$ (122,672)	\$ (2,044,000)
2020	457,476	19,205	(621,000)
2021	69,625	1,880	(683,000)
2022	(1,438,774)	(51,978)	(1,249,000)
2022	-	-	(148,000)
	<u>\$ (2,609,770)</u>	<u>\$ (153,565)</u>	<u>\$ (4,745,000)</u>

Payable to the Pension Plan

At June 30, 2018, \$399,621 and \$13,281 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 2018 payroll.

At June 30, 2018, \$891,187 was payable to the System under the VRS Teacher Retirement Plan for the legally required contributions related to June 2018 payroll.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

13. Pension Plan (Continued)

Pension Plan Data

Information about the VRS Retirement Plan and the VRS Teacher Retirement Plan is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

14. Other Postemployment Benefits – Retiree Health Plan

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, 2018**

14. Other Postemployment Benefits – Retiree Health Plan (Continued)

Employees Covered by Benefit Terms

As of June 30, 2017, the date of the latest actuarial valuation for the City and School Division, the following employees were covered by the benefit terms of the Retiree Health Plan:

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

Contributions

The Retiree Health Plan is funded through member and employer contributions on a pay-as-you-go basis. 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 \$425,962 and \$281,236, respectively, of the total premiums through their required contributions of between \$11.20 and \$1,995, depending on the type of coverage and years of service.

The City and School Division contributed \$1,589,537 and \$136,054, respectively, in pay-as-you-go contributions to the Retiree Health Plan for the year ended June 30, 2018. In addition, the City and School Division contributed \$234,930 and \$97,135, respectively, to the OPEB Trust Fund. It is the intent of the City and School Division to fully fund the Actuarially Determined Contributions each year.

Net OPEB Liability

Under the Retiree Health Plan, the City's and School Division's net OPEB liabilities were measured as of June 30, 2018. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation performed as of June 30, 2017, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

The components of the net OPEB liability as of June 30, 2018 were as follows:

	City of Salem	School Division
Total OPEB liability	\$ 25,542,002	\$ 2,247,155
Plan fiduciary net position	6,263,466	1,303,775
Net OPEB liability	\$ 19,278,536	\$ 943,380
Plan fiduciary net position as a percentage of total OPEB liability	24.52%	58.02%

Actuarial 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
Measurement date	June 30, 2018
Inflation	2.50%
Investment rate of return	7.00%, net of investment expense

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

14. Other Postemployment Benefits – Retiree Health Plan (Continued)

Actuarial Assumptions (Continued)

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

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 monitors the investments to ensure adherence to the adopted policies and guidelines, while also reviewing and evaluating 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:

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

14. Other Postemployment Benefits – Retiree Health Plan (Continued)

Plan Investments (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Geometric Long-Term Expected Rate of Return</u>
Core Fixed Income	19.60%	1.17%	0.99%
High Yield Bonds	1.40%	3.38%	2.77%
Large Cap US Equities	26.00%	5.53%	4.14%
Small Cap US Equities	10.00%	6.58%	4.57%
Developed Foreign Equities	13.00%	6.43%	4.66%
Emerging Market Equities	5.00%	8.76%	5.64%
Private Equity	5.00%	9.10%	6.63%
Hedge Funds/Absolute Return	10.00%	3.03%	2.63%
Real Estate (REITS)	7.00%	5.05%	3.86%
Commodities	3.00%	3.37%	1.78%
Assumed Inflation		2.60%	2.60%
Portfolio Real Mean Return		4.97%	4.22%
Portfolio Nominal Mean Return		7.57%	6.93%
Portfolio Standard Deviation			12.55%
Long-Term Expected Rate of Return			7.00%

At June 30, 2018, the Plan held no investments in any one organization that represented 5% or more of fiduciary net position.

Rate of Return

As of June 30, 2018, the annual money-weighted rate of return on the plan investments, net of OPEB plan investment expense, was 9.55% for the City and 9.52% for the School Division. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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 Retiree Health 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 7.00% and, when applied to the periods of projected benefit payments, it is not anticipated that the Retiree Health Plan's assets will be exhausted; therefore, the expected municipal bond rate was not applied in determining the discount rate.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

14. Other Postemployment Benefits – Retiree Health Plan (Continued)

Changes in Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
City of Salem			
Balances at June 30, 2017	\$ 25,030,901	\$ 5,507,816	\$ 19,523,085
Changes for the year:			
Service cost	376,793	-	376,793
Interest	1,723,845	-	1,723,845
Contributions - employer	-	1,824,467	(1,824,467)
Net investment income	-	527,316	(527,316)
Benefit payments	(1,589,537)	(1,589,537)	-
Administrative expenses	-	(6,596)	6,596
Net changes	511,101	755,650	(244,549)
Balances at June 30, 2018	\$ 25,542,002	\$ 6,263,466	\$ 19,278,536
School Division			
Balances at June 30, 2017	\$ 2,159,732	\$ 1,102,777	\$ 1,056,955
Changes for the year:			
Service cost	71,941	-	71,941
Interest	151,536	-	151,536
Contributions - employer	-	233,189	(233,189)
Net investment income	-	105,580	(105,580)
Benefit payments	(136,054)	(136,054)	-
Administrative expenses	-	(1,717)	1,717
Net changes	87,423	200,998	(113,575)
Balances at June 30, 2018	\$ 2,247,155	\$ 1,303,775	\$ 943,380

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	\$ 21,744,775	\$ 19,278,536	\$ 17,124,180
School Division	1,138,798	943,380	766,272

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

14. Other Postemployment Benefits – Retiree Health Plan (Continued)

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	\$ 17,635,226	\$ 19,278,536	\$ 21,173,778
School Division	700,798	943,380	1,227,933

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the City and School Division recognized OPEB expense of \$1,686,865 and \$139,696, respectively. At June 30, 2018, the City and School Division reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources
City of Salem	
Net difference between projected and actual earnings on plan investments	106,947
Total	\$ 106,947
School Division	
Net difference between projected and actual earnings on plan investments	20,082
Total	\$ 20,082

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30,	City of Salem	School Division
2019	\$ (26,736)	\$ (5,020)
2020	(26,737)	(5,020)
2021	(26,737)	(5,020)
2022	(26,737)	(5,022)
	\$ (106,947)	\$ (20,082)

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

15. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit

Plan Description

All full-time, salaried permanent employees of the City and School Division are automatically covered by the VRS Group Life Insurance Program upon employment. This multiple-employer, cost-sharing plan is administered by the Virginia Retirement System (VRS or System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

All full-time, salaried permanent (non-professional) employees of the School Division are automatically covered by the VRS multiple-employer, agent defined Political Subdivision Health Insurance Credit Program. All full-time, salaried permanent (professional) employees of the School Division are automatically covered by the VRS multiple-employer, cost-sharing Teacher Employee Health Insurance Credit Program. The plans are administered by VRS, along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information for each plan, including eligibility, coverage and benefits is set out below:

GROUP LIFE INSURANCE PROGRAM

Eligible Employees – The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:

- City of Richmond
- City of Portsmouth
- City of Roanoke
- City of Norfolk
- Roanoke City School Board

Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.

Benefit Amounts – The benefits payable under the Group Life Insurance Program have several components.

- Natural Death Benefit – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.
- Accidental Death Benefit – The accidental death benefit is double the natural death benefit.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

15. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

GROUP LIFE INSURANCE PROGRAM (Continued)

- Other Benefit Provisions – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
 - Accidental dismemberment benefit
 - Safety belt benefit
 - Repatriation benefit
 - Felonious assault benefit
 - Accelerated death benefit option

Reduction in Benefit Amounts – The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.

Minimum Benefit Amounts and Cost-of-Living Adjustment (COLA) – For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.

POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM

Eligible Employees – The Political Subdivision Health Insurance Credit Program was established July 1, 1993 for retired political subdivision employees of employers who elect the benefit and who retire with at least 15 years of service credit. Eligible employees of participating employers are enrolled automatically upon employment. They include:

- Full-time permanent salaried employees of the participating political subdivisions who are covered under the VRS pension plan.

Benefit Amounts – The Political Subdivision Health Insurance Credit Program provides the following benefits for eligible employees:

- At Retirement – For employees who retire, the monthly benefit is \$1.50 per year of service per month with a maximum benefit of \$45.00 per month.
- Disability Retirement – For employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is \$45.00 per month.

Health Insurance Credit Program Notes:

- The monthly Health Insurance Credit benefit cannot exceed the individual premium amount.
- No health insurance credit for premiums paid and qualified under LODA; however, the employee may receive the credit for premiums paid for other qualified health plans.
- Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

15. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

TEACHER EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM

Eligible Employees – The Teacher Employee Health Insurance Credit Program was established July 1, 1993 for retired Teacher Employees covered under VRS who retire with at least 15 years of service credit. Eligible employees are enrolled automatically upon employment. They include:

- Full-time permanent (professional) salaried employees of public school divisions covered under VRS.

Benefit Amounts – The Teacher Employee Health Insurance Credit Program provides the following benefits for eligible employees:

- At Retirement – For Teachers and other professional school employees who retire, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount.
- Disability Retirement – For Teachers and other professional school employees who retire on disability or go on long-term disability under the VLDP, the monthly benefit is either:
 - \$4.00 per month, multiplied by twice the amount of service credit, or
 - \$4.00 per month, multiplied by the amount of service earned had the employee been active until age 60, whichever is lower.

Health Insurance Credit Program Notes:

- The monthly Health Insurance Credit benefit cannot exceed the individual premium amount.
- Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree.

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the Political Subdivision Health Insurance Credit OPEB plan:

Inactive members or their beneficiaries currently receiving benefits	27
Inactive members:	
Vested inactive members	4
Total inactive members	<hr style="width: 100%; border: 0.5px solid black;"/>
Active members	70
Total covered employees	<hr style="width: 100%; border: 0.5px solid black;"/> <hr style="width: 100%; border: 0.5px solid black;"/>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

15. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Employer contributions from the City were \$112,331 and \$110,641 for the years ended June 30, 2018 and June 30, 2017, respectively. Employer contributions from the School Division for non-professional employees were \$6,655 and \$6,000 for the years ended June 30, 2018 and June 30, 2017, respectively. Employer contributions from the School Division for professional employees were \$116,539 and \$112,000 for years ended June 30, 2018 and June 30, 2017, respectively.

The contribution requirement for active employees in the Political Subdivision Health Insurance Credit Program is governed by §51.1-1402(E) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to political subdivisions by the Virginia General Assembly. The School Division's contractually required employer contribution rate for the year ended June 30, 2018 was 0.69% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the School Division were \$8,831 and \$8,704 for years ended June 30, 2018 and June 30, 2017, respectively.

The contribution requirement for active employees in the Teacher Employee Health Insurance Credit Program is governed by §51.1-1401(E) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Each School Division's contractually required employer contribution rate for the year ended June 30, 2018 was 1.23% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the School Division were \$272,305 and \$242,000 for years ended June 30, 2018 and June 30, 2017, respectively.

Net OPEB Liability

Under the Political Subdivision Health Insurance Credit Program, the School Divisions net OPEB liability was measured as of June 30, 2017. The total OPEB liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

15. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

Net OPEB Liability (Continued)

Under the Group Life Insurance Program, the City, School Division Non-Professional employees, and School Division Professional employees reported liabilities of \$1,778,837, \$103,000, and \$1,781,000, respectively, for their proportionate share of the Group Life Insurance Program net OPEB liability. Under the Teacher Employee Health Insurance Credit Program, the School Division reported a liability of \$3,506,000 for its proportionate share of the Teacher Employee Health Insurance Credit Program net OPEB liability. The net OPEB liability for each plan was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the net OPEB liability was based on the covered employer's actuarially determined employer contributions to the plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers.

At June 30, 2017, the proportion of the Group Life Insurance Program for the City, School Division Non-Professional employees, and School Division Professional employees was 0.12390%, 0.00687%, and 0.11835%, respectively, as compared to 0.12647%, 0.00663%, and 0.11906%, respectively, at June 30, 2016. At June 30, 2017, the proportion of the Teacher Employee Health Insurance Credit Program for the School Division was 0.27639% as compared to 0.28024% at June 30, 2016.

The net OPEB liabilities for the Group Life Insurance Program and the Teacher Employee Health Insurance Credit Program represent each program's total OPEB liability determined in accordance with GAAP, less the associated fiduciary net position. As of June 30, 2017, net OPEB liability amounts are as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program	Teacher Employee HIC OPEB Program
Total OPEB liability	\$ 2,942,426	\$ 1,364,702
Plan fiduciary net position	1,437,586	96,091
Net OPEB liability	\$ 1,504,840	\$ 1,268,611
Plan fiduciary net position as a percentage of total OPEB liability	48.86%	7.04%

The total OPEB 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 OPEB 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

The total OPEB liability for each plan was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.50%
Salary increases, including inflation	
Teachers	3.50% - 5.95%
Locality – General employees	3.50% - 5.35%
Locality – Hazardous Duty employees	3.50% - 4.75%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

15. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

Actuarial Assumptions (Continued)

* 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 GASB 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 the OPEB liabilities.

Mortality rates - Teachers:

Pre-Retirement:

RP-2014 Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1.0% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled) – Updated to a more current mortality table-RP-2014 projected to 2020
- Retirement Rates – Lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal Rates – Adjusted rates to better fit experience at each year age and service through 9 years of service
- Disability Rates – Adjusted rates to better match experience
- Salary Scale – No change

Mortality rates – General Employees:

Largest Ten Locality Employers:

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

15. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

Actuarial Assumptions (Continued):

Non-Largest Ten Locality Employers:

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest Ten Locality Employers:

- Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled) – Update to a more current mortality table-RP-2014 projected to 2020
- Retirement Rates – Lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal Rates – Adjusted rates to better fit experience at each age and service year
- Disability Rates – Lowered rates
- Salary Scale – No change
- Line of Duty Disability – Increase rate from 14% to 20%

Non-Largest Ten Locality Employers:

- Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled) – Update to a more current mortality table-RP-2014 projected to 2020
- Retirement Rates – Lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal Rates – Adjusted rates to better fit experience at each age and service year
- Disability Rates – Lowered rates
- Salary Scale – No change
- Line of Duty Disability – Increase rate from 14% to 15%

Mortality rates – Hazardous Duty Employees:

Largest Ten Locality Employers:

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 years, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

15. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

Actuarial Assumptions (Continued):

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

Non-Largest Ten Locality Employers:

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 years, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest Ten Locality Employers:

- Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled) – Update to a more current mortality table-RP-2014 projected to 2020
- Retirement Rates – Lowered rates at older ages
- Withdrawal Rates – Adjusted rates to better fit experience at each age and service year
- Disability Rates – Increased rates
- Salary Scale – No change
- Line of Duty Disability – Increase rate from 60% to 70%

Non-Largest Ten Locality Employers:

- Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled) – Update to a more current mortality table-RP-2014 projected to 2020
- Retirement Rates – Increased age 50 rates and lowered rates at older ages
- Withdrawal Rates – Adjusted rates to better fit experience at each age and service year
- Disability Rates – Adjusted rates to better fit experience
- Salary Scale – No change
- Line of Duty Disability – Decrease rate from 60% to 45%

Long-Term Expected Rate of Return

The long-term expected rate of return on the System's 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 System's 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 of each major asset class are summarized in the table on the next page:

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

15. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

Long-Term Expected Rate of Return (Continued)

<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>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	<u>100.00%</u>		<u>4.80%</u>
		Inflation	<u>2.50%</u>
		* Expected arithmetic nominal return	<u>7.30%</u>

* The allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

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 member contributions will be made per the VRS guidance 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, 2019, the rate contributed by the employer for the OPEB Plans will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB plans' fiduciary net position were projected to be available to make all projected future benefit payments of eligible, 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 OPEB liabilities.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

15. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

Changes in Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
School Division - Political Subdivision HIC			
Balances at June 30, 2016	\$ 159,369	\$ 61,059	\$ 98,310
Changes for the year:			
Service cost	2,412	-	2,412
Interest	10,832	-	10,832
Changes in assumptions	370	-	370
Contributions - employer	-	8,704	(8,704)
Net investment income	-	6,952	(6,952)
Benefit payments	(9,254)	(9,254)	-
Administrative expenses	-	(109)	109
Other changes	-	359	(359)
Net changes	4,360	6,652	(2,292)
Balances at June 30, 2017	\$ 163,729	\$ 67,711	\$ 96,018

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

The following presents the City's and School Division's proportionate share of the Group Life Insurance Program net GLI OPEB liability, the School Division's Political Subdivision Health Insurance Credit Program net HIC OPEB liability, and the School Division's proportionate share of the Teacher Employee Health Insurance Credit Program net HIC OPEB liability 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			
Group Life Insurance	\$ 2,300,566	\$ 1,778,837	\$ 1,355,350
School Division (Rounded)			
Group Life Insurance (Non-Professional)	133,000	103,000	79,000
Group Life Insurance (Professional)	2,304,000	1,781,000	1,358,000
Political Subdivision Health Insurance Credit	110,000	96,000	84,000
Teacher Employee Health Insurance Credit	3,913,000	3,506,000	3,160,000

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

15. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018 the City, School Division Non-Professional employees, and School Division Professional employees recognized Group Life Insurance OPEB Expense of \$13,353, \$2,000, and \$18,000, respectively. For the year ended June 30, 2018, the School Division recognized Political Subdivision Health Insurance Credit Program OPEB expense of \$8,281 and Teacher Employee Health Insurance Credit Program OPEB expense of \$279,000. Since there was a change in proportionate share between measurement dates for the Group Life Insurance Program and the Teacher Employee Health Insurance Credit Program, a portion of the OPEB expense for these plans was related to deferred amounts from changes in proportion.

At June 30, 2018, the City and School Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
City of Salem - Group Life Insurance		
Differences between expected and actual experience	\$ -	\$ 40,060
Net difference between projected and actual earnings on program investments	-	66,766
Changes in assumptions	-	91,565
Changes in proportion	-	36,244
Employer contributions subsequent to the measurement date	112,331	-
Total	\$ 112,331	\$ 234,635
School Division - Non-Professional GLI		
Differences between expected and actual experience	\$ -	\$ 3,000
Net difference between projected and actual earnings on program investments	-	4,000
Changes in assumptions	-	5,000
Changes in proportion	3,000	-
Employer contributions subsequent to the measurement date	6,655	-
Total	\$ 9,655	\$ 12,000

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

15. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
School Division - Professional GLI		
Differences between expected and actual experience	\$ -	\$ 39,000
Net difference between projected and actual earnings on program investments	-	67,000
Changes in assumptions	-	92,000
Changes in proportion	-	10,000
Employer contributions subsequent to the measurement date	116,539	-
Total	<u>\$ 116,539</u>	<u>\$ 208,000</u>
School Division - Political Subdivision HIC		
Net difference between projected and actual earnings on program investments	\$ -	\$ 2,151
Changes in assumptions	282	-
Employer contributions subsequent to the measurement date	8,831	-
Total	<u>\$ 9,113</u>	<u>\$ 2,151</u>
School Division - Teacher Employee HIC		
Net difference between projected and actual earnings on program investments	\$ -	\$ 6,000
Changes in assumptions	-	36,000
Changes in proportion	-	43,000
Employer contributions subsequent to the measurement date	272,305	-
Total	<u>\$ 272,305</u>	<u>\$ 85,000</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

15. Other Postemployment Benefits – Group Life Insurance and Health Insurance Credit (Continued)

OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

Deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

		City of Salem			
Year ended June 30,					
	GLI				
2019	\$	(47,690)			
2020		(47,690)			
2021		(47,690)			
2022		(47,690)			
2023		(30,522)			
Thereafter		(13,353)			
	\$	(234,635)			

		School Division			
Year ended June 30,	GLI		Political		Teacher
	Non-Professional	Professional	Subdivision HIC		Employee HIC
2019	\$	(1,000)	\$	(43,000)	
2020		(1,000)		(43,000)	
2021		(1,000)		(43,000)	
2022		(2,000)		(1,869)	(13,000)
2023		(1,000)		(11,000)	
Thereafter		(3,000)		(22,000)	
	\$	(9,000)	\$	(208,000)	
			\$	(1,869)	
				\$ (85,000)	

Payables to the OPEB Plans

At June 30, 2018, \$25,179, \$2,691, and \$64,770 were payable to the System under the Group Life Insurance Program from the City, School Division Non-Professional employees, and School Division Professional employees, respectively, for contributions related to June 2018 payroll.

At June 30, 2018, \$1,417 and \$60,920 were payable to the System under the Political Subdivision Health Insurance Credit Program and the Teacher Employee Health Insurance Program, respectively, from the School Division for contributions related to June 2018 payroll.

Program Plan Data

Information about the Group Life Insurance Program, the Political Subdivision Health Insurance Credit Program, and the Teacher Employee Health Insurance Credit Program is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-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, 2018**

16. Commitments and Contingencies

Construction Commitments

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

	Spent To Date	Remaining Contract
Salem Courthouse Entrance Renovation	\$ 690,170	\$ 36,325
Pedestrian Bridge on Eddy Avenue	494,640	407,427
Downtown CCTV Inspection and Cleaning of Sanitary Sewer	287,477	212,508
Downtown Sanitary Sewer Rehabilitation	-	4,250,230
East Salem Elementary School Parking Lot Renovation	175,791	494,762
	<u>\$ 1,648,078</u>	<u>\$ 5,401,252</u>

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, 2017 resulted in a credit of \$336,658 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 purpose. 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, 2018**

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, 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, lodging 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 2018, tax abatements for economic development incentives totaled \$448,052.

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, 2018, the City remitted \$845,032 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, 2018**

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, 2018, the City remitted \$124,474 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, 2018, the City remitted \$62,475 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, 2018, the School Division remitted \$784,054 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, 2018, the City remitted \$7,090 for operating costs of the facility. Financial statements may be obtained from the Center at 1220 Kesler 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, 2018, the City remitted \$1,218,900 for per diem charges and \$348,711 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, 2018**

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, 2018, the City remitted \$327,198 for operating costs and \$333,501 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, 2018, the City remitted \$4,634 for operating budget member dues and \$43,553 for debt service 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, 2018, the School Division remitted \$42,435 for services. Financial statements may be obtained from RVGS at 2104 Grandin Road, Roanoke, Virginia 24015.

19. Accounting Change and Restatement

In the current year, the City and Schools adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

19. Accounting Change and Restatement (Continued)

The following is a summary of the restatements to net position of governmental activities, business-type activities, and component units resulting from the adoption of GASB Statement No. 75:

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>School Division</u>
Net Position, beginning, as previously reported	\$ 56,699,478	\$ 81,613,686	\$ 16,445,877
OPEB asset, as of June 30, 2017	(294,763)	(52,530)	(295,049)
Recognition of Net OPEB Liability in accordance with GASB No. 75	<u>(16,709,778)</u>	<u>(4,813,426)</u>	<u>(6,539,561)</u>
Net Position, beginning, as restated	<u>\$ 39,694,937</u>	<u>\$ 76,747,730</u>	<u>\$ 9,611,267</u>

The following is a summary of the restatements to net position of electric, water and sewage, nonmajor proprietary funds, and the internal service fund resulting from the adoption of GASB Statement No. 75:

	<u>Electric</u>	<u>Water and Sewage</u>	<u>Nonmajor Proprietary Funds</u>	<u>Internal Service Fund</u>
Net Position, beginning, as previously reported	\$ 47,093,775	\$ 34,291,466	\$ 228,445	\$ 1,396,074
OPEB asset, as of June 30, 2017	(15,161)	(30,349)	(7,020)	(131)
Recognition of Net OPEB Liability in accordance with GASB No. 75	<u>(1,411,145)</u>	<u>(2,599,421)</u>	<u>(802,860)</u>	<u>(37,173)</u>
Net Position, beginning, as restated	<u>\$ 45,667,469</u>	<u>\$ 31,661,696</u>	<u>\$ (581,435)</u>	<u>\$ 1,358,770</u>

20. New Accounting Standards

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.

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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

20. New Accounting Standards (Continued)

The GASB has issued Statement No. 87, *Leases*, to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This 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 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.

The GASB has issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. 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.

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, 2018, 2017, 2016, AND 2015**

	City of Salem				School Division (Non-Professional Staff)			
	2018	2017	2016	2015	2018	2017	2016	2015
Total pension liability								
Service cost	\$ 2,482,886	\$ 2,507,103	\$ 2,505,415	\$ 2,527,218	\$ 120,806	\$ 124,227	\$ 132,051	\$ 145,676
Interest	12,477,728	12,159,380	12,004,363	11,654,127	345,744	347,691	337,943	323,812
Differences between expected and actual experience	(1,567,004)	906,524	(2,262,692)	-	(39,860)	(182,245)	(45,142)	-
Changes in assumptions	279,953	-	-	-	(23,501)	-	-	-
Benefit payments, including refunds of employee contributions	(10,997,027)	(10,244,175)	(9,521,624)	(8,944,860)	(334,040)	(300,945)	(270,236)	(264,987)
Net change in total pension liability	2,676,536	5,328,832	2,725,462	5,236,485	69,149	(11,272)	154,616	204,501
Total pension liability - beginning	184,250,734	178,921,902	176,196,440	170,959,955	5,106,219	5,117,491	4,962,875	4,758,374
Total pension liability - ending	\$ 186,927,270	\$ 184,250,734	\$ 178,921,902	\$ 176,196,440	\$ 5,175,368	\$ 5,106,219	\$ 5,117,491	\$ 4,962,875
Plan fiduciary net position								
Contributions - employer	\$ 3,496,819	\$ 3,915,838	\$ 3,942,152	\$ 3,507,946	\$ 51,554	\$ 92,100	\$ 93,028	\$ 97,271
Contributions - employee	1,106,906	1,149,948	1,094,070	1,098,206	61,318	58,188	59,073	61,480
Net investment income	16,881,766	2,383,779	6,436,800	19,787,728	608,458	86,505	228,863	697,591
Benefit payments, including refunds of employee contributions	(10,997,027)	(10,244,175)	(9,521,624)	(8,944,860)	(334,040)	(300,945)	(270,236)	(264,987)
Administrative expense	(101,645)	(91,609)	(91,265)	(109,414)	(3,661)	(3,256)	(3,202)	(3,812)
Other	(14,845)	(1,041)	(1,350)	1,043	(535)	(37)	(47)	37
Net change in plan fiduciary net position	10,371,974	(2,887,260)	1,858,783	15,340,649	383,094	(67,445)	107,479	587,580
Plan fiduciary net position - beginning	141,924,256	144,811,516	142,952,733	127,612,084	5,092,291	5,159,736	5,052,257	4,464,677
Plan fiduciary net position - ending	\$ 152,296,230	\$ 141,924,256	\$ 144,811,516	\$ 142,952,733	\$ 5,475,385	\$ 5,092,291	\$ 5,159,736	\$ 5,052,257
Net pension liability (asset) - ending	\$ 34,631,040	\$ 42,326,478	\$ 34,110,386	\$ 33,243,707	\$ (300,017)	\$ 13,928	\$ (42,245)	\$ (89,382)
Plan fiduciary net position as a percentage of the total pension liability	81.47%	77.03%	80.94%	81.13%	105.80%	99.73%	100.83%	101.80%
Covered payroll	\$ 21,558,687	\$ 21,598,665	\$ 21,743,806	\$ 21,655,628	\$ 1,190,624	\$ 1,173,248	\$ 1,185,071	\$ 1,229,675
Net pension liability (asset) as a percentage of covered payroll	160.64%	195.97%	156.87%	153.51%	-25.20%	1.19%	-3.56%	-7.27%

Schedule is intended to show information for 10 years. Since 2018 is the fourth year for this presentation, only three 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, 2018, 2017, 2016, AND 2015**

Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
	(a)	(b)	(a-b)	(c)	(b/c)
City of Salem					
2018	\$ 3,449,145	\$ 3,449,145	\$ -	\$ 21,264,766	16.22%
2017*	3,496,819	3,496,819	-	21,558,687	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)					
2018	\$ 51,241	\$ 51,241	\$ -	\$ 1,183,395	4.33%
2017*	51,554	51,554	-	1,190,624	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 2018 is the fourth year for this presentation, only three additional years of data are available. However, additional years will be included as they become available.

* Revised to reflect actual 2017 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, 2018, 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	Covered Payroll	Employer's Share of the Net Pension Liability as a % of Covered Payroll	Plan Fiduciary Net Position as a % of the Total Pension Liability
		(a)	(b)	(a/b)	
2018	0.27878%	\$ 34,284,000	\$ 21,639,120	158.44%	72.92%
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 2018 is the fourth year for this presentation, only three 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
VRS TEACHER RETIREMENT PLAN
YEARS ENDED JUNE 30, 2018, 2017, 2016, AND 2015**

Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
	(a)	(b)	(a-b)	(c)	(b/c)
2018	\$ 3,573,000	\$ 3,573,000	\$ -	\$ 21,893,382	16.32%
2017*	3,172,295	3,172,295	-	21,639,120	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 2018 is the fourth year for this presentation, only three additional years of data are available. However, additional years will be included as they become available.

* Revised to reflect actual 2017 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
RETIREE HEALTH PLAN
YEARS ENDED JUNE 30, 2018 AND 2017

	<u>City of Salem</u>		<u>School Division</u>	
	<u>2018</u>	<u>2017*</u>	<u>2018</u>	<u>2017</u>
Total OPEB liability				
Service cost	\$ 376,793	\$ 352,143	\$ 71,941	\$ 67,235
Interest	1,723,845	1,688,424	151,536	145,477
Benefit payments	(1,589,537)	(1,533,462)	(136,054)	(125,858)
Net change in total OPEB liability	<u>511,101</u>	<u>507,105</u>	<u>87,423</u>	<u>86,854</u>
Total OPEB liability - beginning	<u>25,030,901</u>	<u>24,523,796</u>	<u>2,159,732</u>	<u>2,072,878</u>
Total OPEB liability - ending	<u>\$ 25,542,002</u>	<u>\$ 25,030,901</u>	<u>\$ 2,247,155</u>	<u>\$ 2,159,732</u>
Plan fiduciary net position				
Contributions - employer	\$ 1,824,467	\$ 1,772,562	\$ 233,189	\$ 211,531
Net investment income	527,316	601,076	105,580	116,176
Benefit payments	(1,589,537)	(1,533,462)	(136,054)	(125,858)
Administrative expense	(6,596)	(5,982)	(1,717)	(1,579)
Net change in plan fiduciary net position	<u>755,650</u>	<u>834,194</u>	<u>200,998</u>	<u>200,270</u>
Plan fiduciary net position - beginning	<u>5,507,816</u>	<u>4,673,622</u>	<u>1,102,777</u>	<u>902,507</u>
Plan fiduciary net position - ending	<u>\$ 6,263,466</u>	<u>\$ 5,507,816</u>	<u>\$ 1,303,775</u>	<u>\$ 1,102,777</u>
Net OPEB liability - ending	<u>\$ 19,278,536</u>	<u>\$ 19,523,085</u>	<u>\$ 943,380</u>	<u>\$ 1,056,955</u>
Plan fiduciary net position as a percentage of the total OPEB liability	24.52%	22.00%	58.02%	51.06%
Covered-employee payroll	\$ 22,779,070	\$ 22,779,070	\$ 23,076,891	\$ 23,076,891
Net OPEB liability as a percentage of covered-employee payroll	84.63%	85.71%	4.09%	4.58%
Annual money-weighted rate of return, net of investment expense	9.55%	12.83%	9.52%	12.79%

Schedule is intended to show information for 10 years. Since 2018 is the second year for this presentation, only one additional year of data is available. However, additional years will be included as they become available.

2018 data reflects totals for the City and excludes \$101,000 and \$81,901 of contributions and benefit payments of agency entities.

* Revised to reflect 2017 totals for the City, net of agency related entities.

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
RETIREE HEALTH PLAN
YEARS ENDED JUNE 30, 2018 AND 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					
2018	\$ 1,516,523	\$ 1,824,467	\$ (307,944)	\$ 22,779,070	8.01%
2017	1,475,809	1,772,562	(296,753)	22,779,070	7.78%
School Division					
2018	\$ 140,801	\$ 233,189	\$ (92,388)	\$ 23,076,891	1.01%
2017	136,700	211,531	(74,831)	23,076,891	0.92%

Schedule is intended to show information for 10 years. Since 2018 is the second year for this presentation, only one additional year of 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
Measurement date	June 30, 2018
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 CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM
YEAR ENDED JUNE 30, 2018**

	School Division
	2018
Total HIC OPEB liability	
Service cost	\$ 2,412
Interest	10,832
Changes in assumptions	370
Benefit payments	(9,254)
Net change in total HIC OPEB liability	4,360
Total HIC OPEB liability - beginning	159,369
Total HIC OPEB liability - ending	\$ 163,729
 Plan fiduciary net position	
Contributions - employer	\$ 8,704
Net investment income	6,952
Benefit payments	(9,254)
Administrative expense	(109)
Other	359
Net change in plan fiduciary net position	6,652
Plan fiduciary net position - beginning	61,059
Plan fiduciary net position - ending	\$ 67,711
 Net OPEB liability - ending	\$ 96,018
 Plan fiduciary net position as a percentage of the total OPEB liability	41.36%
 Covered payroll	\$ 1,261,449
 Net OPEB liability as a percentage of covered payroll	7.61%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, no other data is 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 OTHER POSTEMPLOYMENT BENEFITS CONTRIBUTIONS
 POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM
 YEAR ENDED JUNE 30, 2018**

Year Ended June 30	Contractually Required Contribution (a)	Contributions in Relation to Contractually Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a % of Covered Payroll (b/c)
2018	\$ 8,831	\$ 8,831	-	\$ 1,279,855	0.69%

Schedule is intended to show information for 10 years. Since 2018 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 EMPLOYER'S SHARE OF NET OPEB LIABILITY
GLI AND TEACHER EMPLOYEE HIC PROGRAMS
YEAR ENDED JUNE 30, 2018**

Year Ended June 30	Employer's Proportion of the Net OPEB Liability	Employer's Proportionate Share of the Net OPEB Liability (a)	Covered Payroll (b)	Employer's Share of the Net OPEB Liability as a % of Covered Payroll (a/b)	Plan Fiduciary Net Position as a % of the Total OPEB Liability
City of Salem - Group Life Insurance Program					
2018	0.12390%	\$ 1,778,837	\$ 22,853,532	7.78%	48.86%
School Division - Group Life Insurance Program (Non-Professional Staff)					
2018	0.00687%	\$ 103,000	\$ 1,268,277	8.12%	48.86%
School Division - Group Life Insurance Program (Professional Staff)					
2018	0.11835%	\$ 1,781,000	\$ 21,829,358	8.16%	48.86%
School Division - Teacher Employee Health Insurance Credit Program					
2018	0.27639%	\$ 3,506,000	\$ 21,812,560	16.07%	7.04%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, no other data is 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 OPEB CONTRIBUTIONS
GLI AND TEACHER EMPLOYEE HIC PROGRAMS
YEAR ENDED JUNE 30, 2018**

Year Ended June 30	Contractually Required Contribution (a)	Contributions in Relation to Contractually Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a % of Covered Payroll (b/c)
City of Salem - Group Life Insurance Program					
2018	\$ 112,331	\$ 112,331	\$ -	\$ 21,602,115	0.52%
School Division - Group Life Insurance Program (Non-Professional Staff)					
2018	\$ 6,655	\$ 6,655	\$ -	\$ 1,279,808	0.52%
School Division - Group Life Insurance Program (Professional Staff)					
2018	\$ 116,539	\$ 116,539	\$ -	\$ 22,411,346	0.52%
School Division - Teacher Employee Health Insurance Credit Program					
2018	\$ 272,305	\$ 272,305	\$ -	\$ 22,138,618	1.23%

Schedule is intended to show information for 10 years. Since 2018 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
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

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, 2017 is not material.

2. Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2016, based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest Ten Locality Employers – General Employees:

- Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled) – Updated to a more current mortality table-RP-2014 projected to 2020
- Retirement Rates – Lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal Rates – Adjusted rates to better fit experience at each age and service year
- Disability Rates – Lowered rates
- Salary Scale – No change
- Line of Duty Disability – Increase rate from 14% to 20%

Non-Largest Ten Locality Employers – General Employees:

- Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled) – Updated to a more current mortality table-RP-2014 projected to 2020
- Retirement Rates – Lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal Rates – Adjusted rates to better fit experience at each age and service year
- Disability Rates – Lowered rates
- Salary Scale – No change
- Line of Duty Disability – Increase rate from 14% to 15%

Largest Ten Locality Employers – Hazardous Duty Employees:

- Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled) – Updated to a more current mortality table-RP-2014 projected to 2020
- Retirement Rates – Lowered rates at older ages
- Withdrawal Rates – Adjusted rates to better fit experience at each age and service year
- Disability Rates – Increased rates
- Salary Scale – No change
- Line of Duty Disability – Increase rate from 60% to 70%

Non-Largest Ten Locality Employers – Hazardous Duty Employees:

- Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled) – Updated to a more current mortality table-RP-2014 projected to 2020
- Retirement Rates – Increased age 50 rates and lowered rates at older ages
- Withdrawal Rates – Adjusted rates to better fit experience at each age and service year
- Disability Rates – Adjusted rates to better fit experience
- Salary Scale – No change
- Line of Duty Disability – Decrease rate from 60% to 45%

**CITY OF SALEM, VIRGINIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

2. Changes of Assumptions (Continued)

Teachers:

- Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled) – Updated to a more current mortality table-RP-2014 projected to 2020
- Retirement Rates – Lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal Rates – Adjusted rates to better fit experience at each year age and service through 9 years of service
- Disability Rates – Adjusted rates to better match experience
- Salary Scale – No change

THIS PAGE INTENTIONALLY BLANK

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; and the balance sheet and statement of revenues, expenditures and changes in fund balance for the Economic Development Authority of the City of Salem.

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2018

	Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
ASSETS AND DEFERRED OUTFLOWS			
<i>Current assets:</i>			
Cash and cash equivalents	\$ 4,649	\$ 5,202	\$ 9,851
Receivables, net	27,696	40,091	67,787
Inventories	-	28,017	28,017
Prepaid items	78,992	-	78,992
Total current assets	<u>111,337</u>	<u>73,310</u>	<u>184,647</u>
<i>Capital assets:</i>			
Nondepreciable	167,101	-	167,101
Depreciable, net	3,358,769	27,422	3,386,191
Total capital assets	<u>3,525,870</u>	<u>27,422</u>	<u>3,553,292</u>
Total assets	<u>3,637,207</u>	<u>100,732</u>	<u>3,737,939</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>133,255</u>	<u>40,039</u>	<u>173,294</u>
LIABILITIES			
<i>Current liabilities:</i>			
Accounts payable and accrued liabilities	118,287	10,591	128,878
Accrued payroll and related liabilities	57,752	23,889	81,641
Due to other funds	1,640,000	220,000	1,860,000
Unearned revenues	160,241	-	160,241
Compensated absences	48,376	11,263	59,639
Total current liabilities	<u>2,024,656</u>	<u>265,743</u>	<u>2,290,399</u>
<i>Noncurrent liabilities:</i>			
Compensated absences	46,081	35,420	81,501
Net pension liability	1,149,756	328,635	1,478,391
Net OPEB liability	663,532	123,817	787,349
Total noncurrent liabilities	<u>1,859,369</u>	<u>487,872</u>	<u>2,347,241</u>
Total liabilities	<u>3,884,025</u>	<u>753,615</u>	<u>4,637,640</u>
DEFERRED INFLOWS OF RESOURCES	<u>111,706</u>	<u>33,061</u>	<u>144,767</u>
NET POSITION			
Net investment in capital assets	3,525,870	27,422	3,553,292
Unrestricted (deficit)	(3,751,139)	(673,327)	(4,424,466)
Total net position	<u>\$ (225,269)</u>	<u>\$ (645,905)</u>	<u>\$ (871,174)</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018

	Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
OPERATING REVENUES			
Charges for services	\$ 3,058,613	\$ 906,468	\$ 3,965,081
Commissions	24,106	-	24,106
Other	23,425	15,819	39,244
Total operating revenues	<u>3,106,144</u>	<u>922,287</u>	<u>4,028,431</u>
OPERATING EXPENSES			
Salaries	970,589	364,663	1,335,252
Fringe benefits	336,594	88,532	425,126
Show expenses	2,449,185	-	2,449,185
Maintenance	209,585	2,674	212,259
Professional services	6,394	8,245	14,639
Insurance	17,250	863	18,113
Administration	100,735	18,965	119,700
Travel and training	5,013	-	5,013
Materials and supplies	35,351	257,973	293,324
Expendable equipment and small tools	2,450	-	2,450
Utilities	285,841	958	286,799
Miscellaneous	1,707	94	1,801
Depreciation	287,940	3,930	291,870
Commissions	-	234,499	234,499
Total operating expenses	<u>4,708,634</u>	<u>981,396</u>	<u>5,690,030</u>
Operating loss	<u>(1,602,490)</u>	<u>(59,109)</u>	<u>(1,661,599)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	75	-	75
Gain on sale of capital assets	1,795	1,092	2,887
Net nonoperating revenues	<u>1,870</u>	<u>1,092</u>	<u>2,962</u>
Loss before transfers	<u>(1,600,620)</u>	<u>(58,017)</u>	<u>(1,658,637)</u>
Capital contributions in	51,133	-	51,133
Transfers in	1,258,766	58,999	1,317,765
Change in net position	<u>(290,721)</u>	<u>982</u>	<u>(289,739)</u>
Net position, beginning, as restated	65,452	(646,887)	(581,435)
Net position, ending	<u>\$ (225,269)</u>	<u>\$ (645,905)</u>	<u>\$ (871,174)</u>

**CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018**

	Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
OPERATING ACTIVITIES			
Receipts from customers	\$ 3,043,298	\$ 906,230	\$ 3,949,528
Payments to suppliers	(2,945,507)	(519,422)	(3,464,929)
Payments to employees	(1,375,806)	(467,789)	(1,843,595)
Other receipts	23,425	15,819	39,244
Net cash used in operating activities	<u>(1,254,590)</u>	<u>(65,162)</u>	<u>(1,319,752)</u>
NONCAPITAL FINANCING ACTIVITIES			
Interfund Loan	22,000	5,000	27,000
Transfers in	1,258,766	58,999	1,317,765
Net cash provided by noncapital financing activities	<u>1,280,766</u>	<u>63,999</u>	<u>1,344,765</u>
CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from sale of capital assets	1,795	1,092	2,887
Purchases of capital assets	(79,831)	-	(79,831)
Capital contributions	51,133	-	51,133
Net cash provided by (used in) capital and related financing activities	<u>(26,903)</u>	<u>1,092</u>	<u>(25,811)</u>
INVESTING ACTIVITIES			
Interest received	75	-	75
Net cash provided by investing activities	<u>75</u>	<u>-</u>	<u>75</u>
Net decrease in cash and cash equivalents	(652)	(71)	(723)
Cash and cash equivalents, beginning	5,301	5,273	10,574
Cash and cash equivalents, ending	<u>\$ 4,649</u>	<u>\$ 5,202</u>	<u>\$ 9,851</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR IS COMPRISED OF THE FOLLOWING:			
Cash and investments	\$ 4,649	\$ 5,202	\$ 9,851
Total	<u>\$ 4,649</u>	<u>\$ 5,202</u>	<u>\$ 9,851</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES			
Operating loss	\$ (1,602,490)	\$ (59,109)	\$ (1,661,599)
<i>Adjustments to reconcile operating loss to net cash used in operating activities</i>			
Depreciation	287,940	3,930	291,870
Pension expense, net of employer contributions	(44,393)	(14,185)	(58,578)
OPEB expense, net of employer contributions	(5,279)	(1,048)	(6,327)
<i>Decrease (increase) in assets:</i>			
Receivables, net	5,692	(238)	5,454
Inventories	-	2,505	2,505
Prepaid items	99,742	-	99,742
<i>Increase (decrease) in liabilities:</i>			
Accounts payable and accrued liabilities	68,262	2,344	70,606
Accrued payroll and related liabilities	(19,071)	861	(18,210)
Unearned revenues	(45,113)	-	(45,113)
Compensated absences	120	(222)	(102)
Net cash used in operating activities	<u>\$ (1,254,590)</u>	<u>\$ (65,162)</u>	<u>\$ (1,319,752)</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2018

	Cardinal Criminal Justice Academy	Court- Community Corrections Program	Total Agency Funds
ASSETS			
Cash and cash equivalents	\$ 503,630	\$ 1,370,597	\$ 1,874,227
Receivables, net	42	68	110
Due from Commonwealth of Virginia	-	57,714	57,714
Total assets	<u>\$ 503,672</u>	<u>\$ 1,428,379</u>	<u>\$ 1,932,051</u>
LIABILITIES			
Accounts payable	\$ 7,442	\$ 27,554	\$ 34,996
Liability to agency	496,230	1,400,825	1,897,055
Total liabilities	<u>\$ 503,672</u>	<u>\$ 1,428,379</u>	<u>\$ 1,932,051</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
YEAR ENDED JUNE 30, 2018

	<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	\$ 480,935	\$ 733,900	\$ (711,205)	\$ 503,630
Receivables, net	4,605	42	(4,605)	42
Total assets	<u>\$ 485,540</u>	<u>\$ 733,942</u>	<u>\$ (715,810)</u>	<u>\$ 503,672</u>
LIABILITIES				
Accounts payable	\$ 11,341	\$ 161,088	\$ (164,987)	\$ 7,442
Liability to agency	474,199	572,854	(550,823)	496,230
Total liabilities	<u>\$ 485,540</u>	<u>\$ 733,942</u>	<u>\$ (715,810)</u>	<u>\$ 503,672</u>
<u>COURT-COMMUNITY CORRECTIONS PROGRAM</u>				
ASSETS				
Cash and cash equivalents	\$ 1,206,208	\$ 1,821,881	\$ (1,657,492)	\$ 1,370,597
Receivables, net	214	143	(289)	68
Due from Commonwealth of Virginia	58,767	242,443	(243,496)	57,714
Total assets	<u>\$ 1,265,189</u>	<u>\$ 2,064,467</u>	<u>\$ (1,901,277)</u>	<u>\$ 1,428,379</u>
LIABILITIES				
Accounts payable	\$ 33,311	\$ 417,311	\$ (423,068)	\$ 27,554
Liability to agency	1,231,878	1,647,156	(1,478,209)	1,400,825
Total liabilities	<u>\$ 1,265,189</u>	<u>\$ 2,064,467</u>	<u>\$ (1,901,277)</u>	<u>\$ 1,428,379</u>
<u>TOTAL AGENCY FUNDS</u>				
ASSETS				
Cash and cash equivalents	\$ 1,687,143	\$ 2,555,781	\$ (2,368,697)	\$ 1,874,227
Receivables, net	4,819	185	(4,894)	110
Due from Commonwealth of Virginia	58,767	242,443	(243,496)	57,714
Total assets	<u>\$ 1,750,729</u>	<u>\$ 2,798,409</u>	<u>\$ (2,617,087)</u>	<u>\$ 1,932,051</u>
LIABILITIES				
Accounts payable	\$ 44,652	\$ 578,399	\$ (588,055)	\$ 34,996
Liability to agency	1,706,077	2,220,010	(2,029,032)	1,897,055
Total liabilities	<u>\$ 1,750,729</u>	<u>\$ 2,798,409</u>	<u>\$ (2,617,087)</u>	<u>\$ 1,932,051</u>

**CITY OF SALEM, VIRGINIA
BALANCE SHEET
ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF SALEM
GOVERNMENTAL FUND
JUNE 30, 2018**

ASSETS

Cash and cash equivalents	\$ 3,609
Receivables, net	556,778
Total assets	<u>560,387</u>

LIABILITIES

Due to Primary Government	<u>558,970</u>
Total liabilities	<u>558,970</u>

FUND BALANCE

Unassigned	<u>1,417</u>
Total fund balance	<u>1,417</u>

Total liabilities and fund balance	<u><u>\$ 560,387</u></u>
------------------------------------	--------------------------

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF SALEM
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2018

REVENUES

Other	\$ 2,500
Intergovernmental	911,502
Total revenues	<u>914,002</u>

EXPENDITURES

Community development	<u>912,585</u>
Total expenditures	<u>912,585</u>

Net change in fund balance	<u>1,417</u>
----------------------------	--------------

Fund balance, beginning	<u>-</u>
--------------------------------	----------

Fund balance, ending	<u><u>\$ 1,417</u></u>
-----------------------------	------------------------



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

Contents	Page
Financial Trends.....	134
<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.....	139
<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.....	142
<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.....	144
<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.....	146
<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>	

THIS PAGE INTENTIONALLY BLANK

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Governmental Activities										
Net investment in capital assets	\$ 75,637,029	\$ 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
Restricted	4,211,042	4,247,628	1,962,017	4,246,340	2,987,926	1,896,959	1,260,230	1,416,694	-	-
Unrestricted	(30,860,649)	(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)
Total governmental net position	\$ 48,987,422	\$ 56,699,478	\$ 48,824,648	\$ 41,935,319	\$ 65,127,123	\$ 69,044,502	\$ 77,966,745	\$ 77,266,686	\$ 80,885,233	\$ 79,242,185
Business-type activities										
Net investment in capital assets	\$ 49,386,338	\$ 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
Restricted	-	-	-	-	-	-	-	1,989,529	-	-
Unrestricted	37,549,539	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
Total business-type activities net position	\$ 86,935,877	\$ 81,613,686	\$ 74,052,535	\$ 66,601,986	\$ 70,468,015	\$ 67,686,906	\$ 62,719,106	\$ 65,058,392	\$ 63,618,271	\$ 64,114,961
Primary Government										
Net investment in capital assets	\$ 125,023,367	\$ 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
Restricted	4,211,042	4,247,628	1,962,017	4,246,340	2,987,926	1,896,959	1,260,230	3,406,223	-	-
Unrestricted	6,688,890	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
Total Primary Government net position	\$ 135,923,299	\$ 138,313,164	\$ 122,877,183	\$ 108,537,305	\$ 135,595,138	\$ 136,731,408	\$ 140,685,851	\$ 142,325,078	\$ 144,503,504	\$ 143,357,146

Notes:

Source: City of Salem Finance Department

- (1) In 2018, the City implemented GASB 75 requiring recognition of the net OPEB liability.
- (2) 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
- (3) Net investment in capital assets of governmental activities was restated to record deferred loss on refunding of debt from the 2011 refunding bonds
- (4) In 2015, the City implemented GASB 68 requiring recognition of the net pension liability.
- (5) 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.

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
			(1), (2)	(1), (2)	(2), (3), (4)	(2), (5)	(2)			
Expenses										
<i>Governmental activities:</i>										
General government	\$ 6,388,884	\$ 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
Judicial administration	2,009,007	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
Public safety	15,776,102	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
Public works	11,617,750	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
Health and welfare	3,318,498	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
Education	20,170,298	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
Parks, recreation and cultural	6,129,809	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
Community development	3,429,290	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
Interest and other fiscal changes	950,247	988,059	1,011,115	1,093,989	1,118,286	1,060,727	988,094	1,151,867	1,137,667	1,186,350
Total governmental activities	69,789,885	71,185,760	71,453,870	67,638,505	75,675,524	81,321,397	68,616,320	67,372,478	65,138,090	68,088,642
<i>Business-type activities:</i>										
Electric	31,361,242	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
Water and sewage	9,206,719	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
Civic Center	4,708,634	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
Catering and concessions	981,396	933,894	980,147	851,760	856,866	849,306	903,039	878,171	965,556	1,033,658
Total business-type activities	46,257,991	46,384,879	45,284,736	48,210,360	48,639,522	47,531,006	50,375,925	49,432,320	45,341,848	43,490,471
Total Primary Government	\$ 116,047,876	\$ 117,570,639	\$ 116,738,606	\$ 115,848,865	\$ 124,315,046	\$ 128,852,403	\$ 118,992,245	\$ 116,804,798	\$ 110,479,938	\$ 111,579,113
Program revenues										
<i>Governmental activities:</i>										
Charges for services										
Public safety	\$ 1,358,612	\$ 1,237,985	\$ 1,281,509	\$ 1,237,901	\$ 1,103,765	\$ 1,069,969	\$ 991,473	\$ 911,073	\$ 900,837	\$ 1,107,794
Public works	1,528,945	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
Other activities	1,162,193	1,254,639	779,384	849,596	1,009,342	1,034,129	1,005,691	782,662	716,248	587,294
Operating grants and contributions	8,207,848	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
Capital grants and contributions	1,403,327	202,451	80,406	192,430	391,399	2,003,251	595,986	1,517,633	2,709,381	2,119,392
Total governmental activities	13,660,925	13,577,385	14,470,891	14,199,057	13,175,872	15,067,514	13,278,093	13,789,176	14,402,532	14,205,122
<i>Business-type activities:</i>										
Charges for services										
Electric	40,153,923	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
Water and sewage	14,009,576	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
Civic Center	3,106,144	2,475,661	2,313,348	799,948	934,047	775,437	880,306	912,697	865,314	919,781
Catering and concessions	922,287	819,571	935,973	791,311	779,220	781,469	856,919	858,714	940,834	994,016
Capital grants and contributions	124,385	-	-	47,196	27,380	-	-	39,929	-	-
Electric	51,133	-	-	-	-	-	-	-	-	-
Civic Center	-	-	-	-	21,671	-	13,222	-	-	-
Water and sewage	-	-	-	-	-	-	-	-	-	-
Total business-type activities	58,367,448	56,263,221	54,866,780	55,012,441	54,268,735	53,566,822	49,689,008	47,526,282	45,051,008	43,758,430
Total Primary Government	\$ 72,028,373	\$ 69,840,606	\$ 69,337,671	\$ 69,211,498	\$ 67,444,607	\$ 68,634,336	\$ 62,967,101	\$ 61,315,458	\$ 59,453,540	\$ 57,963,552

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Net (expense) revenue										
Total governmental activities	\$ (56,128,960)	\$ (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)
Total business-type activities	12,109,457	9,878,342	9,582,044	6,802,081	5,629,213	6,035,816	(686,917)	(1,906,038)	(290,840)	267,959
Total primary government	<u>\$ (44,019,503)</u>	<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>
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes	\$ 35,688,231	\$ 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
Local sales and use taxes	7,015,296	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
Business license tax	5,333,382	5,320,865	5,391,215	5,068,724	5,078,755	5,107,983	4,751,638	4,564,531	4,421,129	4,827,348
Meals tax	4,802,780	4,718,631	4,715,137	4,464,873	4,277,741	4,118,041	3,242,532	2,551,980	2,429,239	2,448,064
Utility taxes	1,208,943	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
Other taxes	3,997,697	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
Intergovernmental revenue not restricted	3,952,121	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
Unrestricted investment earnings	752,672	554,437	269,350	164,585	143,186	134,650	127,210	129,640	132,522	213,671
Gain on sale of property	35,647	20,985	100,081	389,290	33,051	1,198	-	-	-	24,624
Other	626,372	676,502	986,182	586,008	554,303	606,657	411,355	603,696	324,136	375,139
Transfers	2,008,304	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
Total governmental activities	<u>65,421,445</u>	<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>
Business-type activities:										
Unrestricted investment earnings	78,511	35,931	93	158	172	168	4,121	8,049	23,297	179,714
Gain on sale of property	8,483	-	1,435	8,225	5,013	1,638	-	-	-	205,932
Other	-	-	-	-	-	-	-	-	346,520	21,924
Transfers	(2,008,304)	(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)
Total business-type activities	<u>(1,921,310)</u>	<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>
Total Primary Government	<u>\$ 63,500,135</u>	<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>

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Changes in Net Position										
Total governmental activities	\$ 9,292,485	\$ 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
Total business-type activities	10,188,147	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)
Total Primary Government	<u>\$ 19,480,632</u>	<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>

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

	2018	2017	2016	2015	2014	2013	2012	2011
Post-GASB 54 implementation:								
General Fund					(1)			
Nonspendable	\$ 694,658	\$ 588,204	\$ 567,605	\$ 514,556	\$ 421,117	\$ 447,097	\$ 497,206	\$ 554,962
Restricted	4,071,765	4,245,248	1,959,638	4,180,415	2,661,958	1,896,731	1,244,986	1,287,008
Committed	94,789	89,261	76,219	-	-	-	519,817	-
Assigned	741,677	672,251	743,727	505,633	465,178	941,626	1,256,103	1,588,768
Unassigned	28,803,322	22,212,433	15,701,124	9,797,393	5,271,609	3,517,718	3,469,721	3,351,935
Total General Fund	\$ 34,406,211	\$ 27,807,397	\$ 19,048,313	\$ 14,997,997	\$ 8,819,862	\$ 6,803,172	\$ 6,987,833	\$ 6,782,673
All Other Governmental Funds								
Restricted	\$ 935,933	\$ 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	551,356	342,149	63,848	-	8,291	-	-	-
Unassigned	-	-	-	-	-	(432,316)	-	-
Total all other governmental funds	\$ 1,487,289	\$ 3,290,668	\$ 4,338,771	\$ 162,428	\$ 459,910	\$ (317,088)	\$ 54,680	\$ 129,686
Pre-GASB 54 implementation:	2010	2009						
General Fund								
Reserved	\$ 1,038,347	\$ 916,227						
Unreserved	5,183,434	5,486,537						
Total General Fund	\$ 6,221,781	\$ 6,402,764						
All Other Governmental Funds								
Reserved	\$ 784,005	\$ 2,130,298						
Unreserved, reported in:	(1,051,141)	(2,031,615)						
Capital Projects Fund	\$ (267,136)	\$ 98,683						
Total all other governmental funds								

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Revenues				(1)	(1)	(2)				
Taxes	\$ 58,583,459	\$ 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
Permits, fees and licenses	313,860	277,582	394,968	394,827	218,804	198,742	202,342	218,094	243,035	228,687
Fines and forfeitures	137,911	145,820	116,417	127,002	126,761	153,584	160,816	164,161	159,179	171,056
Revenue from use of money and property	1,049,368	842,624	531,379	511,980	697,565	697,140	642,067	677,805	465,564	539,930
Charges for services	3,118,065	4,192,436	6,075,639	5,632,172	4,956,368	4,925,221	4,700,384	4,463,860	4,282,550	4,602,745
Other	496,510	409,131	357,115	153,748	160,095	247,149	104,701	284,324	172,872	195,505
Intergovernmental	13,360,836	12,662,827	11,603,416	11,638,740	11,289,569	13,129,214	11,462,504	12,562,674	12,525,033	12,526,047
Total revenues	77,060,009	77,189,311	76,195,092	73,156,370	70,652,715	71,627,522	67,557,137	67,165,904	65,440,853	66,536,867
Expenditures										
General government	5,679,004	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
Judicial administration	2,033,068	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
Public safety	15,741,300	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
Public works	9,796,765	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
Health and welfare	3,202,498	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
Education	20,170,298	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
Parks, recreation and cultural	5,106,766	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
Community development	3,340,911	3,178,844	1,087,606	1,062,184	857,219	829,081	981,483	879,709	618,217	1,148,291
Non-departmental	1,978,778	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
Capital projects	3,302,614	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
Debt service:										
Principal retirement	3,055,319	3,062,999	2,988,314	3,018,738	2,647,514	7,765,685	2,623,661	2,606,810	2,593,118	2,618,896
Interest	908,720	960,419	941,386	1,101,829	980,558	824,824	970,434	930,767	1,029,641	1,105,218
Bond issuance cost	-	-	32,987	10,377	15,500	45,750	31,900	117,689	-	-
Total expenditures	74,316,041	72,008,797	75,969,110	70,057,228	75,996,053	87,808,773	69,039,913	69,590,711	66,477,162	69,888,122
Excess (deficiency) of revenues over (under) expenditures	2,743,968	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)
Other Financing Sources (Uses)										
Issuance of long-term debt	-	5,281,400	-	-	7,275,000	9,518,800	-	6,540,000	-	-
Payment of refunded bond escrow agent	-	-	-	1,932,097	-	5,036,200	9,485,000	3,339,279	-	-
Premium on sale of bonds	-	-	-	(1,921,720)	-	-	(9,513,728)	(3,430,000)	-	-
Discount on sale of bonds	-	-	-	-	-	-	-	248,757	-	-
Proceeds from sale of capital assets	34,084	177,345	211,254	505,014	-	-	-	(48,989)	-	-
Issuance of capital leases	-	-	375,000	-	-	-	-	-	-	-
Insurance recoveries	9,079	-	-	-	-	-	-	-	-	-
Transfers in	7,383,186	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
Transfers out	(5,374,882)	(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)
Total other financing sources, net	2,051,467	2,530,467	8,000,677	2,781,511	8,976,334	15,624,822	1,612,930	3,382,521	489,507	1,635,474
Net change in fund balances	\$ 4,795,435	\$ 7,710,981	\$ 8,226,659	\$ 5,880,653	\$ 3,632,996	\$ (556,429)	\$ 130,154	\$ 957,714	\$ (546,802)	\$ (1,715,781)
Debt service as a percentage of noncapital expenditures	5.62%	5.87%	5.44%	6.06%	4.93%	10.16%	5.37%	5.39%	5.76%	5.73%

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		
	Assessed Value	Direct Tax Rate	Direct Tax Rate	Assessed Value	Direct Tax Rate	Direct Tax Rate	Assessed Value	Direct Tax Rate	Direct Tax Rate	Assessed Value	Direct Tax Rate	Direct Tax Rate	Assessed Value	Direct Tax Rate	Direct Tax Rate	Assessed Value	Direct Tax Rate	Direct Tax Rate
2018	\$ 2,092,863,676	\$ 1.18	\$ 3.25	\$ 306,890,700	\$ 3.25	\$ 3.20	\$ 97,999,444	\$ 3.20	\$ 1.18	\$ 51,247,569	\$ 1.18	\$ 816,174	\$ 1.18	\$ 2,549,817,563	\$ 1.50			
2017	2,054,446,049	1.18	3.25	312,495,313	3.25	3.20	89,186,639	3.20	1.18	44,507,648	1.18	984,368	1.18	2,501,620,017	1.51			
2016	2,022,951,024	1.18	3.25	295,173,346	3.25	3.20	91,322,128	3.20	1.18	41,308,358	1.18	1,059,063	1.18	2,451,813,919	1.50			
2015	2,012,050,247	1.18	3.25	282,311,121	3.25	3.20	91,977,805	3.20	1.18	40,513,445	1.18	1,195,515	1.18	2,428,048,133	1.50			
2014	2,003,007,334	1.18	3.20	276,846,201	3.20	3.20	91,226,535	3.20	1.18	41,408,575	1.18	1,249,050	1.18	2,413,737,695	1.49			
2013	1,997,447,800	1.18	3.20	267,755,307	3.20	3.20	84,169,172	3.20	1.18	42,281,759	1.18	1,431,949	1.18	2,393,085,987	1.47			
2012	1,977,986,400	1.18	3.20	267,877,285	3.20	3.20	90,287,324	3.20	1.18	37,468,284	1.18	1,668,743	1.18	2,375,288,036	1.48			
2011	1,973,655,843	1.18	3.20	265,450,351	3.20	3.20	80,706,659	3.20	1.18	37,993,502	1.18	1,460,966	1.18	2,359,267,321	1.48			
2010	1,940,941,700	1.18	3.20	262,153,501	3.20	3.20	79,120,695	3.20	1.18	36,874,789	1.18	1,543,032	1.18	2,320,633,717	1.48			
2009	1,912,957,600	1.18	3.20	263,305,279	3.20	3.20	80,517,625	3.20	1.18	36,468,242	1.18	1,655,642	1.18	2,294,904,388	1.48			

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
2018	\$ 35,837,963	\$ 34,375,408	95.92%	\$ -	-	\$ 34,375,408	95.92%
2017	35,253,119	34,012,836	96.48%	(52,288)	859,289	34,872,125	99.07%
2016	33,896,364	32,608,317	96.20%	9,616	1,117,348	33,725,665	99.47%
2015	33,630,244	32,291,449	96.02%	(55,465)	1,255,546	33,546,995	99.92%
2014	32,905,743	31,229,276	94.91%	(83,736)	1,509,177	32,738,453	99.75%
2013	32,537,416	30,854,728	94.83%	64,769	1,670,285	32,525,013	99.76%
2012	32,672,916	31,351,991	95.96%	32,561	1,315,461	32,667,452	99.88%
2011	32,104,079	30,836,144	96.05%	105,503	1,284,048	32,120,192	99.72%
2010	31,627,310	30,440,194	96.25%	309,847	1,446,091	31,886,285	99.84%
2009	31,336,233	30,288,062	96.66%	124,862	1,128,177	31,416,239	99.86%

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	2018			2009		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Lewis-Gale Medical Center LLC (1)	\$62,530,500	1	2.91%	\$ 60,940,600	1	3.18%
Yokohama Industries	14,940,900	2	0.70%	16,142,400	2	0.84%
Lowes/VALO LLC	13,174,100	3	0.61%			
Spartan Square	11,321,400	4	0.53%	8,804,100	6	0.46%
U.S. Food Service, Inc.	11,016,800	5	0.51%	10,524,500	4	0.55%
Carter Machinery/Carthy Corp/Mount Sinai	10,844,800	6	0.51%	7,586,000	7	0.40%
Chateau Riviera Apts/CSW Associates	9,694,700	7	0.45%	9,190,500	5	0.48%
General Electric	9,344,200	8	0.44%	10,655,700	3	0.56%
Salem Terrace/White Whale	8,682,900	9	0.40%			
D & S Development LLC	7,308,500	10	0.34%			
Wal-Mart Stores, Inc.				6,750,000	8	0.35%
Lakeside Plaza				6,717,100	9	0.35%
Ridgewood Farms Plaza				6,165,500	10	0.32%

Note:

Source: City of Salem Real Estate Valuation Department

(1) In 2018, Lewis-Gale Medical Center LLC acquired the assets of Lewis-Gale Hospital HCA and Lewis Gale Clinic/HRT.

**TABLE 8
UNAUDITED**

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

Customer	2018			2009		
	Services Billed	Rank	Percentage of Total Services Billed	Services Billed	Rank	Percentage of Total Services Billed
Lewis Gale Hospital HCA	\$2,344,107	1	5.91%	\$1,432,334	1	4.64%
Roanoke College	1,568,919	2	3.95%	991,422	2	3.21%
Graham White	892,636	3	2.25%	736,126	3	2.38%
U.S. Food Service, Inc.	769,327	4	1.94%	627,336	4	2.03%
Lake Region Medical, Inc.	760,399	5	1.92%			
Rowe Furniture/Salem Frame	755,278	6	1.90%	558,169	5	1.81%
Sewell Products	580,761	7	1.46%	331,878	9	1.07%
Kroger	578,525	8	1.46%	425,223	6	1.38%
Carter Machinery Co.	482,481	9	1.22%	407,588	7	1.32%
Novozymes Jeffreys Biologicals, Inc.	464,188	10	1.17%			
Old Va Brick Co.				343,708	8	1.11%
Wal-Mart, Inc.				286,071	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	Capital Lease Obligation
	General Obligation Bonds	Other Long-term Debt	Total	General Obligation Bonds			
	(1)	(1)					
2018	\$ 30,897,265	\$ -	\$ 30,897,265	\$ 41,669,640	\$ 72,566,905	\$ 198,016	
2017	33,916,905	-	33,916,905	45,723,894	79,640,799	271,203	
2016	36,971,375	-	36,971,375	49,665,950	86,637,325	341,175	
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	-	

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)	
2018	\$ 2,549,817,563	2.85%	25,862	\$ 2,806	\$ 48,384	6.00%
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	2,413,737,695	3.60%	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%

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	
2018	\$ 2,144,111,245	\$ 214,411,125	\$ 72,566,905	\$ -	\$ (41,669,640)	\$ (1,209,879)	\$ 29,687,386	13.85%
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%

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)
2018	25,862	\$ 5,785,780	\$ 48,384	3,889	3.4%
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%

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 2017.
- (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 2018 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 capita 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	2018			2009		
	Employees	Rank	Percentage of Total City Employment (1)	Employees	Rank	Percentage of Total City Employment (1)
Veterans Administration Medical Center	1,915	1	9.60%	1,700	1	7.61%
Lewis-Gale Hospital HCA	1,603	2	8.04%	1,497	2	6.70%
Yokohama Industries	760	3	3.81%	850	5	3.81%
Lewis-Gale Physicians	646	4	3.24%			
General Electric	545	5	2.73%	1,100	3	4.93%
City of Salem Schools	527	6	2.68%	596	6	2.67%
Roanoke College	467	7	2.34%	462	8	2.07%
City of Salem	460	8	2.48%	549	7	2.46%
U.S. Food Service, Inc.	398	9	2.00%	424	9	1.90%
Carter Machinery	370	10	1.86%	330	10	1.48%
Virginia Department of Transportation				900	4	4.03%

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	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
General government	76	70	69	69	67	66	66	69	67	69
Judicial administration	19	20	18	19	19	19	21	20	20	20
Public safety	153	152	157	157	159	162	160	161	162	167
Public works	82	79	89	88	94	94	100	105	110	112
Parks, recreation and cultural	32	30	32	32	31	32	32	32	33	33
Community development	3	3	2	3	3	3	3	3	3	3
Electric	28	27	27	29	27	26	26	28	29	29
Water and sewage	48	47	48	52	49	49	51	52	53	58
Civic Center	15	15	16	17	17	17	18	18	17	18
Catering and concessions	4	4	4	4	4	4	4	4	4	5
Total	460	447	462	470	470	472	481	492	498	514

Notes:

Source: City of Salem Finance Department

TABLE 14
UNAUDITED

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

Function	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
General government										
<i>Finance</i>										
Accounts payable checks issued	9,926	10,942	9,238	8,601	9,280	8,937	11,002	12,260	13,595	12,104
<i>Human resources</i>										
Positions filled (full-time and temporary)	164	158	154	140	184	142	146	143	129	257
<i>Registrar</i>										
Number of registered voters	16,887	16,704	16,584	16,282	16,695	16,625	16,678	16,436	16,309	16,258
<i>Fleet</i>										
Pieces of equipment maintained	568	575	567	583	576	572	573	565	551	560
Judicial administration										
<i>Sheriff</i>										
Inmates housed	2,961	3,132	2,681	2,730	2,885	2,776	2,668	2,587	2,343	1,494
Inmate transports	1,489	1,333	1,222	1,137	1,240	1,062	1,069	1,276	1,879	1,594
Courts worked	525	680	595	614	699	686	648	691	676	695
Public safety										
<i>Police</i>										
Calls for service	38,632	41,650	32,310	32,798	32,203	39,519	36,549	33,903	34,342	35,159
Accidents	1,026	1,015	1,108	983	1,053	905	919	1,063	975	1,024
DUI Arrests	137	91	92	63	68	107	62	95	129	122
<i>Fire</i>										
Emergency responses - fire	3,811	3,467	3,019	3,203	3,181	3,337	3,241	3,661	3,270	3,441
Emergency responses - medic units	5,261	4,885	4,292	3,809	3,446	3,569	3,358	3,632	3,335	3,596
Hazardous conditions responses	125	113	127	80	77	125	105	137	134	161
<i>Building inspections</i>										
Residential construction permits	188	175	158	150	198	106	122	123	130	148
Commercial construction permits	133	120	133	139	148	110	116	124	63	71
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
Tons recycled	-	1,821	5,060	1,404	1,386	2,315	2,844	1,764	3,883	4,841
<i>Other public works</i>										
Tons of asphalt used in resurfacing	13,263	-	15,453	-	639	5,770	7,507	5,821	3,616	5,185
Square yards of milling completed	219,862	-	302,937	-	10,718	92,988	143,962	99,960	39,959	80,155
Tons of salt used	1,330	315	848	705	769	1,098	183	817	1,389	176
Leaves collected (loads)	350	113	295	360	293	316	369	494	507	448
Parks, recreation and cultural										
<i>Parks and recreation</i>										
Tournaments hosted	52	48	52	47	58	62	58	49	53	50
Special events held	28	26	25	26	24	24	24	24	25	24
Youth sports teams	148	151	151	155	164	170	205	225	210	195
Adult sports teams	27	28	29	27	29	39	37	44	49	48
<i>Library</i>										
Circulation	212,350	227,443	230,454	240,516	252,237	271,600	295,911	285,337	290,309	276,578
Children's program attendance	10,901	7,226	8,972	3,622	3,616	3,924	4,926	6,891	7,129	8,792
Patron visits to the library	167,389	170,879	172,012	178,323	195,878	211,605	226,696	232,559	245,807	239,745
New patrons	904	879	968	1,049	1,138	1,373	1,315	1,288	1,417	1,648
Internet sessions	39,884	28,554	25,944	27,571	28,965	33,885	51,033	52,397	58,517	50,711
Electric										
Number of customer accounts	13,084	12,838	12,880	13,021	13,204	13,198	13,202	13,163	13,131	13,175
Water										
Number of customer accounts	9,482	9,567	9,486	9,381	9,372	9,375	9,365	9,341	9,301	9,304
Million gallons sold to customers	861	850	932	989	876	838	955	1,004	977	1,003
Sewage										
Number of customer accounts	9,041	9,018	8,952	8,929	8,824	8,823	8,803	8,764	8,717	8,706
Waste/water treated (million gallons/day)	6.0	7.2	9.1	6.8	7.8	7.0	7.0	6.5	8.3	6.2
Civic Center										
Concerts	15	13	11	6	9	11	13	13	9	9
Meetings	599	660	852	778	721	614	792	936	1,156	1,216
Tickets sold	93,510	88,662	93,373	73,668	82,929	83,638	87,006	102,678	103,891	112,997
Arena utilization days	162	202	215	198	191	175	173	178	179	202

Notes:

Source: Various City of Salem Departments

TABLE 15
UNAUDITED

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

Function	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Public safety										
Police station	1	1	1	1	1	1	1	1	1	1
Law enforcement vehicles	48	47	47	46	48	47	47	47	46	49
Fire stations	3	3	3	3	3	3	3	3	3	3
Fire trucks	7	7	7	6	6	6	6	6	6	6
Ambulances	4	4	4	4	4	4	4	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	16	14	13	12	12	12	12
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	1	-	-	-
Electric										
Substations	11	11	11	11	11	11	11	11	11	11
Overhead distribution lines (miles)	163	166	165	172	172	172	172	172	172	171
Underground distribution lines (miles)	42	40	42	38	38	38	38	38	38	38
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	176	175	175	175	175	182	182	181
Sanitary sewer lines (miles)	170	170	170	170	170	170	177	177	177	171

Notes:

Source: City of Salem Finance Department

THIS PAGE INTENTIONALLY BLANK

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, 2018

<u>Federal Grantor</u> <i>Pass-through Grantor</i>	<u>Federal</u> <u>CFDA</u> <u>Number</u>	<u>Pass-Through</u> <u>Entity Identifying</u> <u>Number</u>	<u>Federal</u> <u>Expenditures</u>	<u>Passed</u> <u>Through to</u> <u>Subrecipients</u>
Program Title or Cluster Title				
Department of Agriculture				
Local Environmental Agricultural Project Inc				
Food Insecurity Nutrition Incentive Grants Program	10.331	FINI-120	\$ 3,794	
Virginia Department of Agriculture and Consumer Services				
SNAP Cluster:				
Supplemental Nutrition Assistance Program	10.551	--	\$ 3,128	3,128
Child Nutrition Cluster:				
Food Distribution - Commodities	10.555	--	\$ 116,602	
Summer Food Service Program	10.559	--	965	
Virginia Department of Education				
Child Nutrition Cluster:				
National School Breakfast Program 2017	10.553	201717N109941	18,506	
National School Breakfast Program 2018	10.553	201818N109941	183,844	
National School Lunch Program 2017	10.555	201717N109941	71,122	
National School Lunch Program 2018	10.555	201818N109941	607,083	998,122
Department of Justice				
Direct Payments				
Bulletproof Vest Partnership Program	16.607			4,706
Equitable Sharing Program	16.922			4,140
Virginia Department of Criminal Justice Services				
Crime Victim Assistance	16.575	18-U9575VW16		73,718
Byrne Justice Assistance Grant:				
Byrne Justice Assistance Grant 2017	16.738	17-S1117LO16		1,199
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	168,141	
Hanging Rock Battlefield Phase 2	20.205	UPC 106268	26,851	
Roanoke River Greenway Project Phase 5	20.205	UPC 106486	630,130	
Roanoke Boulevard Multimodal Improvements	20.205	UPC 108899	37,473	
Downtown Streetscape and Intersection Improvements	20.205	UPC 109612	21,051	883,646
Virginia Division of Motor Vehicles				
Highway Safety Cluster:				
State and Community Highway Safety:				
Selective Enforcement - Occupant Protection FY17	20.600	OP-2017-57019-6668	147	
Selective Enforcement - Occupant Protection FY18	20.600	FOP-2018-58148-8148	3,297	
Selective Enforcement - Speed FY17	20.600	SC-2017-57017-6666	875	
Selective Enforcement - Speed FY18	20.600	FSC-2018-58147-8147	8,287	
Selective Enforcement - Pedestrian/Bicycle FY17	20.600	PS-2017-57020-6669	661	
Selective Enforcement - Pedestrian/Bicycle FY18	20.600	FPS-2018-58151-8151	1,234	14,501
Alcohol Open Container Requirements:				
Selective Enforcement - Alcohol FY17	20.607	154AL-2017-57016-6665		122
Selective Enforcement - Alcohol FY18	20.607	M6OT-2018-58145-8145		7,425
Roanoke Valley DUI Task Force - Salem City FY17	20.607	154AL-2017-57748-7084		20,242
Roanoke Valley DUI Task Force - Salem City FY18	20.607	154AL-2018-58203-8203		48,670
Department of Education				
Virginia Department of Education				
Adult Education - Basic Grants to States 2016	84.002	V002A160047	13,041	13,041
Adult Education - Basic Grants to States 2017	84.002	V002A170047	277,085	290,126
Title I Grants to Local Educational Agencies 2016	84.010	S010A160046	35,945	
Title I Grants to Local Educational Agencies 2017	84.010	S010A170046	394,628	430,573
Special Education Cluster (IDEA)				
Special Education - Grants to States (IDEA, Part B) 2016	84.027	H027A160107	134,878	
Special Education - Grants to States (IDEA, Part B) 2017	84.027	H027A170107	605,281	
Special Education - Preschool Grants (IDEA Preschool) 2016	84.173	H173A160112	4,616	
Special Education - Preschool Grants (IDEA Preschool) 2017	84.173	H173A170112	11,978	
Total Special Education Cluster (IDEA)				756,753
Career and Technical Education - Basic Grants to States (Perkins IV) 2016	84.048	V048A160046	788	
Career and Technical Education - Basic Grants to States (Perkins IV) 2017	84.048	V048A170046	45,055	45,843
English Language Acquisition State Grants 2015	84.365	S365B150046	451	
English Language Acquisition State Grants 2016	84.365	S365A160046	1,963	2,414
Improving Teacher Quality State Grants 2016	84.367	S367A160044	15,097	
Improving Teacher Quality State Grants 2017	84.367	S367A170044	54,230	69,327
Student Support and Academic Enrichment Grants 2017	84.424	S424A170048	11,778	11,778
County of Roanoke, Virginia				
English Language Acquisition State Grants 2017	84.365	S365A170046	10,953	10,953

(Continued)

CITY OF SALEM, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2018

<u>Federal Grantor</u> <i>Pass-through Grantor</i> Program Title or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Passed Through to Subrecipients
<u>Department of Health and Human Services</u>				
<i>Virginia Department of Health</i>				
Summer Food Service Program	10.559	--	18,336	18,336
<i>Goodwill Industries of the Valleys</i>				
Health Profession Opportunity Grants	93.093	90FX0038-01-01	30,754	30,754
<u>Department of Homeland Security</u>				
<i>Virginia Department of Emergency Management</i>				
Flood Mitigation Assistance	97.029	PDM-VA-2014-003	10,913	
Total Expenditures of Federal Awards			<u>\$ 3,741,183</u>	<u>\$ 219,068</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. As of June 30, 2018, the City of Salem School Division (School Division) had food commodities in inventory of \$22,659.

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 aggregate discretely presented component units, 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, 2018, 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, 2018. Our report recognizes that the City implemented a new accounting standard effective July 1, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free 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*.

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, 2018

Report of Independent Auditor on Compliance for Each Major Program and on Internal Control over Compliance Required by the 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, 2018. 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 of 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, 2018.

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 Behrman CP". The signature is written in a cursive, flowing style.

Roanoke, Virginia
November 16, 2018

City of Salem, Virginia

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

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: **None reported**
3. Material weaknesses in internal control disclosed by the audit of the financial statements: **No**
4. Noncompliance, which is material to the financial statements: **No**
5. Significant deficiencies in internal control over major program: **None reported**
6. Material weaknesses in internal control over major program: **No**
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: **No**
9. The program tested as a major program was:

<u>Name of Program</u>	<u>CFDA #</u>
Highway Planning and Construction	20.205

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*:

None reported

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

2017-001: Significant Deficiency – Internal Control over Financial Reporting – Annual External Financial Reporting In Accordance With GAAP - not repeated

THIS PAGE INTENTIONALLY BLANK

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

Rosemarie B. Jordan, CPA

Director of Finance

Accounting/Accounts Payable/Purchasing

Ellen T. Bowen, CPA

Senior Accountant

Yen T. Ha

Senior Accountant

Nicole G. Hunts, CPA

Financial Services Supervisor

Amy R. Morris, CPA

Special Projects Accountant

Mary Ann Penney, CPA

Accounting Supervisor

Tammy H. Todd, CPA, CPFO

Assistant Director of Finance

Kandy L. Stanley

Accounting Technician

Cassandra N. Switzer

Buyer

Administrative

Alyson R. Chaisson

Finance Administrative Secretary/
Accounting Technician

Payroll

Tara N. Pugh

Payroll Technician

Carrington R. Sumner

Payroll Manager