



CITY OF SALEM, VIRGINIA

Annual Comprehensive Financial Report

Year Ended June 30, 2021

CITY OF SALEM, VIRGINIA



ANNUAL COMPREHENSIVE FINANCIAL REPORT YEAR ENDED JUNE 30, 2021

DEPARTMENT OF FINANCE

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INTRODUCTORY SECTION



The Introductory Section of the City of Salem, Virginia's Annual Comprehensive 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 Annual Comprehensive Financial Report (previously called Comprehensive Annual Financial Report) for the fiscal year ended June 30, 2020. It is the highest form of recognition in governmental financial reporting.

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CITY OF SALEM, VIRGINIA

November 18, 2021

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

We are pleased to present the City of Salem, Virginia (City) Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2021, as required by state law. This report was prepared by the Department of Finance in accordance with the standards of financial reporting as prescribed by the Governmental Accounting Standards Board (GASB). Brown, Edwards & Company, L.L.P., has issued unmodified opinions on the City's basic financial statements as of and for the fiscal year ended June 30, 2021.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with City management. To the best of our knowledge and belief, 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 an understanding of the City's financial activities 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. 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 18 provides a narrative introduction, overview, and analysis to assist users in interpreting the basic financial statements. 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. 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 2021 population, 25,346, accounts for approximately 8.1% 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 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 Annual Comprehensive Financial Report includes all funds of the City as well as its component units. Component units are legally separate entities for which the primary government is financially accountable. The City's reporting entity includes two discretely presented component units, the City of Salem School Division and the Economic Development Authority of the City of Salem (EDA). 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.

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.

Local Economic Condition and Outlook

Challenges related to the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, continued in fiscal year 2021. While local taxes showed some recovery, business license, admissions, lodging, rental, and meals tax did not perform at pre-pandemic levels in fiscal year 2021.

Salem's unemployment rate was 7.7% as of June 30, 2020, but dropped to 4% by June 30, 2021, reflecting substantial recovery from the economic havoc caused by the pandemic. While still higher than normal, Salem's unemployment rate remained lower than the national unemployment rate of 6.1% and the state unemployment rate of 4.5%.

In fiscal years 2020 and 2021, the City received a total of \$4.4 million in Coronavirus Aid, Relief and Economic Security (CARES) Act funding from the federal government to assist with costs related to the pandemic. Funds were utilized to provide small business grants through the EDA, provide emergency assistance to citizens in need, cover costs of personal protective equipment, and purchase equipment, cleaning supplies and other items necessary to deal with the public health emergency.

On March 11, 2021, the American Rescue Plan Act (ARPA) was signed into law, providing Coronavirus Local Fiscal Recovery Funds (CLFRF) to localities. As of June 30, 2021, the City had received \$15.6 million of the total \$31.2 million allocated. United States Treasury has issued interim guidance on how localities may utilize funding, providing four general categorical uses. Funds must be obligated by December 31, 2024, and expended by December 31, 2026. Management is in the process of evaluating potential uses of funds within these guidelines. City Council will then determine how funds will be spent.

Despite the effects of the pandemic, Salem continued to provide an atmosphere and quality of life conducive to families and businesses. Over the years, Salem has been able to maintain stable property tax rates. 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 was fortunate to have ongoing investment by businesses located downtown and in other areas of the City.

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 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. Most visibly, construction of the new streetscape is underway. The first phase on College Avenue was completed in July 2020 with a second phase on Main Street at the Farmer's Market completed in May 2021. Engineering has begun on the sections from Thompson Memorial Drive to Market Street and Broad Street to Union Street. Additional phases are planned and will proceed as grant awards and other funding becomes available. The project has also been extremely timely, providing much needed outdoor seating for restaurants and businesses during the pandemic.

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 high-tech electronics, medical equipment, tires, steel, tool and die and railroad equipment, just to name a few. Health care remains an important part of Salem's economy. The Salem Veterans Affairs (VA) Medical Center remains Salem's largest employer, with approximately 1,700 workers.

Salem continued to see significant investment by current and new businesses in addition to regional initiatives. InnovAge is one of the country's largest providers of the Program of All-inclusive Care for the Elderly (PACE). Construction was completed on a new facility in the East Salem area that provides customized health care and social engagement to older adults to help them remain independent and able to live in their own homes.

IHG Hotels and Resorts constructed an 87-room hotel under their Avid brand, which opened in the summer of 2021. Redevelopment continued at the former Kmart building, with two new businesses opening. American Freight furniture store recently opened in a newly renovated 25,804 square foot space. Planet Fitness completed renovations and opened a 15,529 square foot 24-hour fitness center. The Sheetz location on West Main Street underwent a complete demolition and rebuild with expanded retail offerings, new fueling facilities and electric vehicle charging stations.

Two popular restaurant chains offering mexican and southwest-inspired menus came to Salem. Chipotle Mexican Grill and Moe's Southwest Grill both opened at their respective West Main Street locations. Frankie Rowland's, a premier Roanoke Valley steakhouse, opened a restaurant in the heart of downtown. The Rowland Hotel, a 16-room boutique hotel is under renovation in the same building with an anticipated opening in late 2021.

Salem is a member of the Western Virginia Regional Industrial Facility Authority (WVRIFA), which was formed in 2013 to provide a mechanism for localities to cooperate regionally on economic development projects. The WVRIFA is a voluntary cost and revenue sharing model, whereby multiple jurisdictions can jointly acquire and develop property and share in the revenues generated from new development. There are five other member localities in the WVRIFA: Roanoke County, Botetourt County, Franklin County, Roanoke City, and the Town of Vinton. The City of Salem, Roanoke County and the City of Roanoke are the only participants in the Wood Haven Technology Park. Specific project and development plans for the 109-acre park were produced in conjunction with a community engagement process. Additional property was acquired and rezoned in 2019 and 2020 to improve the development. Structures on the property have been demolished. Water and sewer utilities have been extended and an entrance road has been built. The project is currently in the construction phase with clearing and rough grading completed in the fall of 2021. The site represents a significant economic opportunity in the region, given its location at the intersection of I-81 and I-581.

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 has one of the highest on-time graduation rates in the area at 96.26%. Approximately 80% of Salem High School graduates attend a 2-year or 4-year college or university. Salem High School was named a Blue Star School for their students' outstanding performance on the 2019-2020 WISE Financial Literacy Certification Test. Salem High School is one of only 74 schools in the nation to earn this distinction.

Construction on the Salem High School renovation project continues. The multi-phase project includes classroom additions in the front and back of the building, a new administrative area in the front, façade improvements, a new roof, improved security, and a new cafeteria courtyard adjacent to the cafeteria. Renovations are being done in a way that will enable future incremental classroom modernization of the existing classrooms within the original structure. The project is scheduled for completion in the summer of

2022. The City issued \$27 million in general obligation bonds including premiums in June 2020 to pay for the renovation project.

Salem, known as Virginia's Championship City, has a reputation as a sports town, bringing to the community hundreds of high school, collegiate and amateur tournaments, and championships. The City was unable to host several Old Dominion Athletic Conference (ODAC) and Virginia High School League (VHSL) championships in fiscal year 2021 due to the pandemic. However, examples of events the City hosted in conjunction with Roanoke College include NCAA Division II and III women's lacrosse championship, Division III women's softball championship, Division III men's volleyball championship and the Mountain East (DII) softball championship. Approximately 9,500 people traveled to Salem to attend events in fiscal year 2021 with an estimated economic impact of \$1 million. Events returning in fiscal year 2022 include: the Central Intercollegiate Athletic Association (CIAA) football and cross-country championships, the ODAC men's and women's basketball, softball, indoor track and baseball championships and the Mountain East Conference softball championship.

The NCAA awarded Salem and its long-time partners, Old Dominion Athletic Conference (ODAC) and Roanoke College, 15 national championship events beginning in fiscal year 2023. The City will be hosting Division III championships in men's and women's soccer, women's basketball, softball, lacrosse and volleyball and men's volleyball. The historic 50th annual Amos Alonzo Stagg Bowl will be returning to Salem in 2023. Salem previously hosted the Stagg Bowl for 25 consecutive years, from 1993 to 2017.

The James I. Moyer Sports Complex rebounded in fiscal year 2021 after struggling in fiscal year 2020 due to pandemic-related event cancellations. The complex hosted 1,114 softball and baseball teams in tournaments, filling over 10,000 hotel rooms in the Roanoke Valley. Over 22,000 people attended events at the James I. Moyer Sports Complex during the past year. Approximately 11,000 athletes and 1,800 coaches participated in over 3,000 games at the Complex.

Due to the pandemic, the fifth annual Salem Half Marathon was run virtually from October 3, 2020, to October 18, 2020, attracting 350 runners from all over the Commonwealth and 12 other states. Runners were able to complete the race wherever they chose as long as they completed the race distance. The Half Marathon also gave back over \$1,500 to local charities and volunteer groups.

In fiscal year 2020, the City issued \$30 million in general obligation bonds including premiums, taking advantage of very favorable interest rates in the municipal bond market. Proceeds of \$27 million were allocated for Salem High School renovations. Proceeds of \$3 million funded various City projects and equipment. In fiscal year 2021, Civic Center boiler replacement and lower-level seat replacement and installation of drink/food rails at Salem Memorial Ballpark were completed. Several pieces of equipment for the Street Department were purchased including two refuse trucks, a dump truck, and a floor lift. Kiwanis field lighting upgrades were completed, and Longwood restroom replacement was underway.

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. Installation of electric meters is completed, and installation of water meters is underway. The infrastructure needed to receive and transmit meter readings has been installed. Implementation is expected to be complete in early 2022. 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). The sewer system rehabilitation project included pipe bursting, slip lining, manhole rehabilitation and lateral replacement and was primarily within the downtown sewershed. The project was completed during fiscal year 2021 at a cost of almost \$5.9 million.

Electric substation upgrades are underway. The 69 kilovolt oil circuit breakers at two substations have been replaced. Old transformers and switchgear at the Calhoun Street substation have been removed and replacement units have been delivered. Upgrades at the Electric Road and Indiana Street substations will also be done. The project is expected to cost \$11.6 million and be completed by the end of calendar year 2021.

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.

City Council adopted a formal fund balance policy to establish guidelines to maintain a prudent level of financial resources to ensure that a strong financial position is maintained. The policy establishes a minimum acceptable level of unassigned fund balance as 10% of the sum of General Fund, Debt Service Fund and School Division operating expenditures, net of the General Fund transfer to School Division. As of June 30, 2021, unassigned fund balance is 43.4%, well in excess of this minimum.

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 at least 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 six-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. The City may issue debt obligations to finance the construction or acquisition of capital assets or major renovations to existing capital assets within the guidelines established in the debt management policy.

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. Brown, Edwards & Company, L.L.P., has performed an annual audit of the basic financial statements and other supplementary information contained within the City's Annual Comprehensive 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* and *Specifications for Audits of Authorities, Boards, and Commissions* 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 Annual Comprehensive Financial Report for 2020. This represents the thirty-third 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 annual comprehensive financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. We believe this report conforms to the Certificate of Achievement Program requirements and standards and are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

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

Respectfully submitted,

A handwritten signature in black ink, reading "James E. Taliaferro, II". The signature is fluid and cursive, with a large, stylized initial "J".

James E. Taliaferro, II
City Manager

A handwritten signature in black ink, reading "Rosemarie B. Jordan". The signature is cursive and elegant, with a large, stylized initial "R".

Rosemarie B. Jordan
Director of Finance

**CITY OF SALEM, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
JUNE 30, 2021**

MEMBERS OF CITY COUNCIL

Renée F. Turk	Mayor
James W. Wallace, III	Vice-Mayor
Byron R. Foley	Member
William D. Jones	Member
John E. Saunders	Member

ELECTED OFFICERS

Danielle C. Crawford	Treasurer
Kristie D. Chittum	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

James E. Taliaferro, II	City Manager
H. Robert Light	Assistant City Manager
Rosemarie B. Jordan, CPA	Director of Finance
Jim H. Guynn, Jr.	City Attorney
Beth A. Rodgers	Director of Human Resources
Patrick W. Morton	Director of Technology Systems
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	Director of Elections
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
Wendy S. Delano	Director of Civic Facilities
R. Carey Harveycutter, Jr.	Director of Tourism
Mike Stevens	Director of Communications
Angela A. Sellers	Process Improvement/Business Efficiency Director

MEMBERS OF SCHOOL BOARD

David H. Preston	Chairman
Artice M. Ledbetter	Vice Chairman
Dr. Nancy A. Bradley	Member
John A. (Andy) Raines	Member
Teresa E. Sizemore-Hernandez	Member

SCHOOL ADMINISTRATION

Dr. H. Alan Seibert	Superintendent of Schools
Dr. Curtis N. Hicks	Assistant Superintendent
Kirstine M. Barber	Director of Human Resources
Jennifer P. Dean	Director of Instruction and Innovation
Mandy C. Hall	Director of Business
Dr. Randy L. Jennings	Director of Student Services
Dr. Forest I. Jones	Director of Administrative Services
Rosemarie B. Jordan, CPA	Director of Finance
Jamie C. Soltis	Director of Instruction and Career Readiness



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, 2020

Christopher P. Morill

Executive Director/CEO

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FINANCIAL SECTION



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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the 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, 2021, 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* and the *Specifications for audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Report on the Financial Statements (Continued)

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, 2021, 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.

Adoption of New Accounting Standard

As discussed in Note 24 to the financial statements, in 2021, the City adopted new accounting guidance, GASB Statement No. 84, *Fiduciary Activities*. Our opinion is 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 other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, other supplemental schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 18, 2021 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 18, 2021

**CITY OF SALEM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

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, 2021. It should be read in conjunction with the transmittal letter and the City's basic financial statements.

FINANCIAL HIGHLIGHTS

- As of June 30, 2021, the Primary Government had \$169.1 million in total net position, an increase of \$3.4 million from prior year. Unrestricted net position available to fund future expenses was \$22 million or 13% of total net position.
- As of June 30, 2021, the governmental activities had \$60.9 million in total net position, which decreased \$2.3 million from prior year. Unrestricted net position (deficit) was \$(25.2) million or (41.3%) of total net position.
- As of June 30, 2021, the business-type activities had \$108.2 million in total net position, an increase of \$5.7 million from prior year. Unrestricted net position available to fund future expenses was \$47.2 million or 43.6% of total net position.
- As of June 30, 2021, the General Fund had \$50 million in total fund balance, which increased by \$3.1 million from prior year. Unassigned fund balance was \$46 million or 91.9% of total fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

Component 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 35 and provide detailed information about the most significant funds, rather than the City as a whole. The City has three types of funds:

Governmental funds – Most of the City's basic services are 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, Special Revenue 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 and dental 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 resources for other postemployment benefits (OPEB) related to its healthcare plan for retirees in an OPEB trust fund and accounts for resources held on behalf of the Cardinal Criminal Justice Academy and the Court-Community Corrections Program in custodial funds. In custodial funds, the City recognizes liabilities when events occur that compel the City to disburse fiduciary resources.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

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

Summary of Net 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 Units	
	2021	2020	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 88.8	\$ 87.1	\$ 68.6	\$ 68.1	\$ 157.4	\$ 155.2	\$ 28.9	\$ 24.3
Capital assets, net	97.9	87.7	96.0	93.0	193.9	180.7	60.2	46.8
Total assets	186.7	174.8	164.6	161.1	351.3	335.9	89.1	71.1
Deferred outflows of resources	9.9	6.7	3.0	2.3	12.9	9.0	10.8	8.4
Current and other liabilities	21.3	6.3	8.0	7.2	29.3	13.5	13.2	10.1
Long-term liabilities	111.1	108.1	50.4	52.5	161.5	160.6	46.3	43.5
Total liabilities	132.4	114.4	58.4	59.7	190.8	174.1	59.5	53.6
Deferred inflows of revenues	3.3	3.9	1.0	1.2	4.3	5.1	4.0	4.7
Net investment in capital assets	83.8	74.0	61.0	55.2	144.8	129.2	60.2	46.7
Restricted	2.3	7.4	-	-	2.3	7.4	0.4	1.0
Unrestricted	(25.2)	(18.2)	47.2	47.3	22.0	29.1	(24.2)	(26.5)
Total net position	\$ 60.9	\$ 63.2	\$ 108.2	\$ 102.5	\$ 169.1	\$ 165.7	\$ 36.4	\$ 21.2

The Primary Government net position increased from \$165.7 million to \$169.1 million. Net position of governmental activities decreased \$2.3 million and net position of business-type activities increased \$5.7 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 \$22 million. Debt totaling \$1.4 million issued for Civic Center improvements is being repaid by governmental activities while the related asset is recorded in business-type activities. The City also assumed \$38.3 million of debt including premiums issued for school improvements while the School Division recorded the related asset. As such, \$39.7 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 \$2.3 million as of June 30, 2021, for governmental activities. Approximately \$1.7 million in state funding was received, but not yet spent, for highway maintenance. Federal and state grant funding totaling \$319,000 was received, but not yet spent, for fire programs, asset forfeiture, Four for Life, and hazardous materials grants. Unspent donations totaling \$235,000 were restricted for law enforcement and public safety programs.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

As of June 30, 2021, component units had \$36.4 million in total net position, an increase of \$14.6 million from restated beginning net position. Unrestricted net position (deficit) available to fund future expenses was (\$24.2) million. Net investment in capital assets was \$60.2 million, an increase of \$13.5 million.

Summary of Changes in Net Position

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

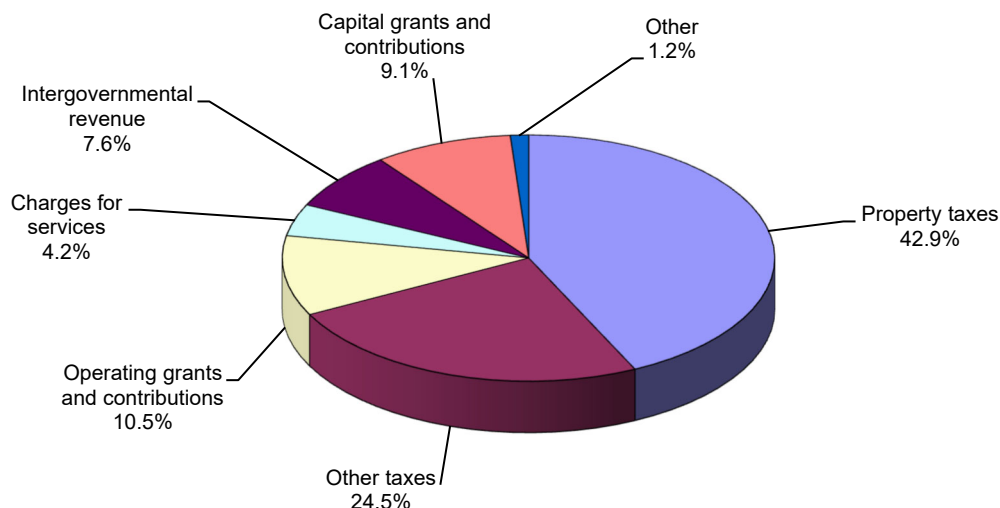
Summary of Changes in Net Position (In Millions)								
	Governmental Activities		Business-type Activities		Total Primary Government		Component Units	
	2021	2020	2021	2020	2021	2020	2021	2020
Revenues								
<i>Program Revenues:</i>								
Charges for services	\$ 4.0	\$ 4.0	\$ 53.0	\$ 55.6	\$ 57.0	\$ 59.6	\$ 1.2	\$ 1.6
Operating grants and contributions	9.9	9.5	-	-	9.9	9.5	12.9	10.7
Capital grants and contributions	8.6	1.3	0.5	0.1	9.1	1.4	-	-
<i>General Revenues:</i>								
Property taxes	40.4	38.4	-	-	40.4	38.4	-	-
Local sales and use tax	7.8	7.7	-	-	7.8	7.7	-	-
Business license tax	5.5	5.6	-	-	5.5	5.6	-	-
Meals tax	5.0	4.7	-	-	5.0	4.7	-	-
Utility taxes	1.2	1.2	-	-	1.2	1.2	-	-
Other taxes	3.6	3.5	-	-	3.6	3.5	-	-
Intergovernmental revenue	7.2	5.0	-	-	7.2	5.0	-	-
Investment earnings	0.2	1.7	0.1	0.2	0.3	1.9	0.1	-
Gain on sale of capital assets	0.1	-	-	-	0.1	-	-	-
Payments from City of Salem	-	-	-	-	-	-	35.2	26.2
State aid	-	-	-	-	-	-	16.1	14.9
Other	0.7	0.6	0.2	0.2	0.9	0.8	0.2	0.2
Total revenues	94.2	83.2	53.8	56.1	148.0	139.3	65.7	53.6
Expenses								
General government	\$ 7.4	\$ 7.8	\$ -	\$ -	\$ 7.4	\$ 7.8	\$ -	\$ -
Judicial administration	2.7	2.4	-	-	2.7	2.4	-	-
Public safety	19.7	19.7	-	-	19.7	19.7	-	-
Public works	16.7	10.3	-	-	16.7	10.3	-	-
Health and welfare	5.7	5.0	-	-	5.7	5.0	-	-
Education	34.6	25.3	-	-	34.6	25.3	50.0	47.6
Parks, recreation and cultural	6.9	6.3	-	-	6.9	6.3	-	-
Community development	3.0	3.4	-	-	3.0	3.4	1.1	0.3
Interest and other fiscal charges	1.6	1.3	-	-	1.6	1.3	-	-
Electric	-	-	32.8	32.3	32.8	32.3	-	-
Water and sewage	-	-	10.5	10.1	10.5	10.1	-	-
Civic center	-	-	2.7	4.4	2.7	4.4	-	-
Catering and concessions	-	-	0.4	0.9	0.4	0.9	-	-
Total expenses	98.3	81.5	46.4	47.7	144.7	129.2	51.1	47.9
Excess before transfers	(4.1)	1.7	7.4	8.4	3.3	10.1	14.6	5.7
Transfers	1.7	1.3	(1.7)	(1.3)	-	-	-	-
Increase (decrease) in net position	(2.4)	3.0	5.7	7.1	3.3	10.1	14.6	5.7
Net position, beginning*	63.3	60.2	102.5	95.4	165.8	155.6	21.8	15.5
Net position, ending	\$ 60.9	\$ 63.2	\$ 108.2	\$ 102.5	\$ 169.1	\$ 165.7	\$ 36.4	\$ 21.2

*As restated, Component Units

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Governmental Activities – Revenues

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



Property taxes, which were 42.9% of total governmental activities revenue, include real estate tax, the local portion of personal property tax, machinery and tools tax and public service corporation taxes. Property taxes in total increased \$2 million or 5.2% from the previous year. Current year real estate tax revenue was up approximately \$891,000 or 3.4% from the prior year due to higher assessments. Current year personal property tax revenue increased \$800,000 or 9.9%. Regular vehicle assessments were up from the previous year largely due to higher used car values. Tangible business property values were also higher. Machinery and tools tax in total increased \$312,000 or 10.9% due to an amended return that resulted in a large refund in fiscal year 2020.

Capital grants and contributions, which were 9.1% of total governmental activities revenue, increased \$7.3 million. The Virginia Department of Transportation completed the East Main Street improvement project in fiscal year 2021 which resulted in a \$6.9 million contribution. Approximately \$976,000 in grant funding was received for downtown improvement projects and \$360,000 in grant funding was received for the Colorado Street and Apperson Drive bridge projects. In fiscal year 2020, grant revenue was received for several large projects including \$734,000 for Roanoke Boulevard Multimodal improvements, \$428,000 for downtown improvements at East Main Street and College Avenue, and \$113,000 for the Colorado Street bridge replacement. Capital grants and contributions vary from year to year based on active projects.

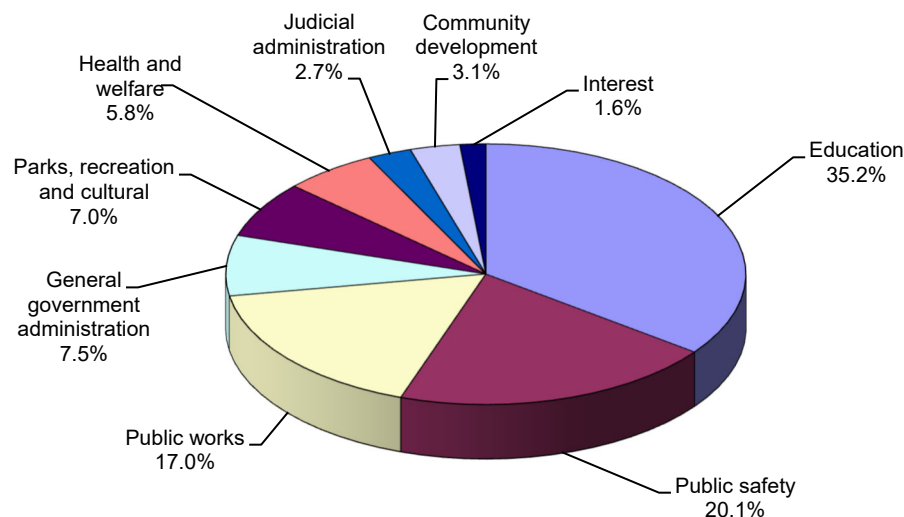
Intergovernmental revenue not restricted, which was 7.6% of total governmental activities revenue, increased \$2.2 million or 44%. In fiscal year 2021, \$3.3 million in funding authorized by the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020, was recognized. The CARES Act required that funds be used to pay necessary expenditures incurred due to the public health emergency. The City received a total of \$4.4 million in CARES Act funding with \$1.1 million recognized in fiscal year 2020.

Local sales and use taxes continued trending up, increasing \$176,000 or 2.3%. The City has seen growth in sales tax for the past 3 fiscal years. The pandemic that hit our area in March 2020 negatively impacted several categories of local taxes including business license and meals taxes. Business license tax, which is based on gross receipts for the previous calendar year, remained almost level with the prior year but has not rebounded to pre-pandemic levels. Meals tax increased \$226,000 or 4.76% from the prior year but also did not achieve pre-pandemic levels. Unrestricted investment earnings decreased \$1.5 million due to lower interest rates.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Governmental Activities – Expenses

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



Pension expense in all functions was higher than the previous year. Differences between actuarially assumed investment returns and actual investment returns is amortized over a five-year closed period. The expensed portion of current period differences between actual and projected earnings on plan investments contributed to higher pension expense in fiscal year 2021. This is partially offset by a reduction in the expensed portion of current-period changes of assumptions.

Education expenses totaling \$34.6 million, or 35.2% of governmental activities, represented the largest allocation of resources. Education expenses increased \$9.3 million or 36.6%. Funding of \$19.8 million was allocated to the School Division to cover operating costs, a decrease of \$135,000 or 0.7%. In fiscal year 2021, \$14.4 million was transferred to the School Division to cover Salem High School renovation costs compared to \$4.8 million transferred in fiscal year 2020. In fiscal year 2021, the City allocated \$360,000 of CARES Act funding to the School Division for Chromebook purchases. Meals tax revenue is shared with the School Division and \$530,000 was transferred in fiscal year 2020. No meals tax was transferred in fiscal year 2021 as it was used to pay debt service on the 2020 general obligation bonds that funded the Salem High School renovation.

Public works expenses were 17% of total governmental activities expenses and increased \$6.4 million or 61.7%. In fiscal year 2021, \$4.9 million of paving work was done compared to just \$48,000 in the previous year. CARES Act funding of \$621,000 was spent in this function. Depreciation expense was \$307,000 higher than the previous year due to a higher cost of assets capitalized in the current year.

Health and welfare expenses, which were 5.8% of total governmental activities expenses, increased \$738,000 or 14.8%. Expenses of the Children's Services Act (CSA) program were higher due to a larger number of children requiring care and the need for more intensive services. The City is required to provide an average local match of 35% while the State provides remaining funding for these costs. Administrative costs related to the CSA program were also higher. The City contracts with the Roanoke County Department of Social Services to administer this program. In addition, \$175,000 of CARES Act funding was used to provide assistance to citizens struggling to pay living expenses due to the pandemic.

Parks and recreation expenses were 7% of total governmental activities expense and increased \$585,000 or 9.3%. Salary and fringe benefit costs were higher because eleven employees were transferred from the public works function to better align job duties within reporting functions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Business-type Activities

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

Component Units

Payments from the City of Salem totaled \$35.2 million, an increase of \$9 million or 34.6%. Funding from the City to the Economic Development Authority totaled \$625,000 and decreased from the previous year due to lower incentive payments. Payments to the School Division totaled \$34.6 million and were up \$9.3 million or 36.6% from the previous year. Operating support totaled \$19.8 million and \$14.4 million was transferred to cover Salem High School renovation costs, which was higher than the \$4.8 million provided in the previous year. No meals tax was transferred in fiscal year 2021 as it was used to pay debt service on the 2020 general obligation bonds which funded Salem High School renovations. In the previous year, meals tax totaling \$530,000 was paid to the School Division. State aid provided to the School Division increased \$1.2 million or 7.8% due to higher sales tax, basic aid, and special education funding partially offset by a decrease in compensation supplement from the State. In addition, \$286,000 in no loss funding was received from the State.

The School Division incurred expenses of \$50 million for the year ended June 30, 2021, an increase of \$2.4 million or 4.9% from the prior year. Salary and benefit costs were higher. Pension expense increased \$852,000 million. Technology costs were up. Expenses of the Economic Development Authority totaled \$1.1 million and increased \$804,000. The City transferred \$500,000 of CARES Act funds in fiscal year 2020 and an additional \$500,000 in fiscal year 2021 to provide grants to businesses and non-profits. The \$1,000,000 in grants was paid in fiscal year 2021. This increase is partially offset by lower required incentive payments.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

As of June 30, 2021, the governmental funds had \$62.7 million in total fund balance, a decrease of \$12.8 million from prior year. Unassigned fund balances available to fund future expenditures were \$46 million or 73.3% of total fund balance. Unassigned fund balance, which contains all amounts not included in other classifications, is available to pay for future years' capital expenditures and provide for unforeseen circumstances. Restricted fund balance totaled \$13 million and included \$10.7 million of unspent bond proceeds and \$2.3 million that can be spent only for specific purposes stipulated by grantors and donors. Assigned fund balance totaled \$2.9 million and represents amounts set aside to liquidate encumbrances. Committed fund balance totaled \$98,000 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, 2021, the General Fund had \$50 million in total fund balance, which increased \$3.1 million from the prior year. Unassigned fund balance available to fund future expenditures was \$46 million or 91.9% of total fund balance and increased \$8.5 million from the previous year. As a measure of the General Fund's liquidity, it may be useful to compare both total fund balance and unassigned fund balance to total fund expenditures. Total fund balance to total fund expenditures decreased from 65% to 64%. Unassigned fund balance to total fund expenditures increased from 52% to 58.9%.

Property taxes, which were 47.8% of total General Fund revenue, increased \$2.4 million or 6.2% from the prior year. Current year real estate tax revenue was up \$886,000 or 3.4% due to higher assessments. Current year personal property tax revenue was up \$847,000 or 11.2% largely due to higher values for used cars. Tangible business property assessments were also higher. Collection of delinquent taxes was higher than the prior year, contributing to the \$122,000 increase in penalties and interest revenue. Machinery and tools tax revenue was higher due to a large refund in the previous year resulting from an amended return.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Intergovernmental revenue increased \$2.8 million or 19.4%. The City recognized \$3.3 million in CARES Act revenue, which was allocated to local governments as part of the first stimulus package approved in March 2020 to help cover certain costs associated with the pandemic. \$1.1 million was recognized in the previous year. In addition, expenditures of the Children's Services Act program were higher than the previous year resulting in an increase of \$223,000 in revenue from the State for their share of these costs. A corresponding increase in expenditures is reflected in the health and welfare function.

Revenue from use of money and property decreased \$1.4 million or 73.2%. Lower interest rates resulted in less interest revenue.

Other local taxes, which comprised 27.1% of total General Fund revenue increased \$485,000 or 2.1% from the previous year. Sales tax continued an upward trend, increasing \$176,000 or 2.3% from the previous year. Several revenue streams in the other local tax classification continued to be impacted by the pandemic. While meals tax showed growth of \$226,000 or 4.8%, it did not reach pre-pandemic levels. Lodging and admissions taxes decreased 11.7% and 69.3%, respectively. Business license tax, which is based on gross receipts of businesses, showed a slight decrease of .5% and remained lower than pre-pandemic amounts. Recordation taxes increased \$169,000 or 55.8%. Favorable interest rates spurred refinancing activity.

Public works expenditures, which were 19.4% of total General Fund expenditures, increased \$6.6 million or 78% from the prior year largely due to highway maintenance spending. Paving costs totaled \$4.9 million in fiscal year 2021 compared to \$48,000 in the previous year. Work done on the Mill Lane bridge totaled \$612,000 in fiscal year 2021. Over \$500,000 was spent on drainage improvements on Kesler Mill Road.

Health and Welfare expenditures were \$744,000 or 15.6% higher than the previous year. Expenditures of the Children's Services Act program were up due to an increase in the number of children requiring services and more children requiring a higher level of care. Costs for private day placements continued to go up, which has been the trend for the past several years. Administrative costs related to the CSA program were also higher. CARES Act funding of \$175,000 was used to provide assistance to citizens struggling to pay living expenses due to the pandemic.

Education expenditures, which comprise 25.9% of total General Fund expenditures, decreased \$1.7 million or 7.6%. Local operating support of \$19.8 million was provided to the School Division in fiscal year 2021, a decrease of \$135,000. The City allocated \$360,000 of CARES Act funding to the School Division to assist with the purchase of Chromebooks to promote distance learning. In the previous year, \$1.4 million was transferred to help pay for Salem High School renovations and meals tax totaling \$530,000 was collected by the City and transferred to the School Division to fund school capital projects. In fiscal year 2021, the School Division's allocation of meals tax was used to pay debt service on the 2020 general obligation bonds which funded the Salem High School renovations.

Community Development expenditures were \$391,000 or 12% lower than the previous year. Payment to the Economic Development Authority for incentives and façade grants was lower in fiscal year 2021. In addition, payments to Valley Metro were \$104,000 lower in fiscal year 2021 because they received federal funding that lowered the payments required from localities for bus service.

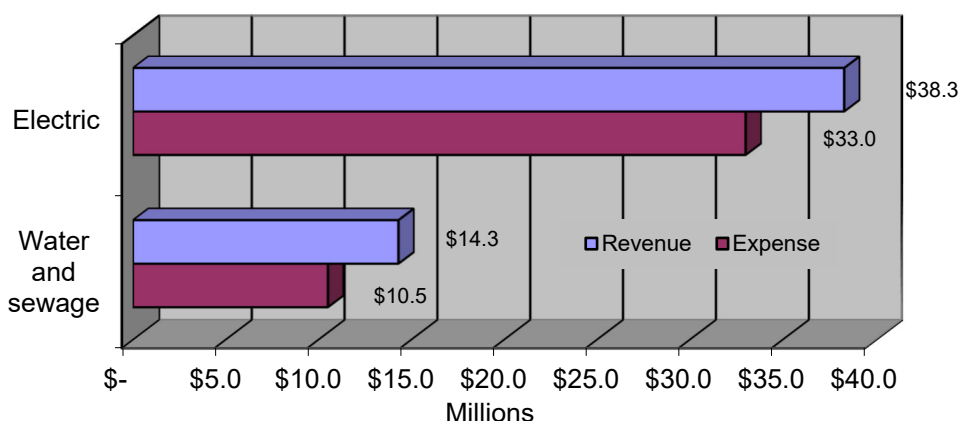
Capital Projects Fund

During fiscal year 2021, Capital Projects fund expenditures were \$18.6 million, which was \$12.1 million higher than the previous year. Bonds were issued in fiscal year 2020 to fund Salem High School renovations and purchase equipment budgeted in the Capital Projects Fund. Bond proceeds and premium totaled \$30.5 million. In fiscal year 2021, \$14.4 million was paid to the School Division to cover costs on the Salem High School renovation project. Bond proceeds of \$1.7 million funded Salem Memorial Park seat replacements, Kiwanis Field Lighting upgrades and Street Department equipment purchases, including two garbage trucks, a dump truck, and a floor lift. Grant funding largely covered downtown improvements totaling \$1.6 million and bridge work totaling \$365,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Proprietary Funds

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



Electric Fund

As of June 30, 2021, the Electric Fund had \$60.4 million in total net position, which increased by \$2.1 million from the prior year. Net investment in capital assets was \$23.4 million or 38.6% of total net position. Unrestricted net position available to fund future expenses was \$37.1 million or 61.4% of total net position.

For fiscal year 2021, operating revenue was \$38 million and decreased \$395,000 or 1%. Charges for services were down 0.8% while pole rentals increased by \$106,000. Penalties were waived for most of the fiscal year due to the pandemic, resulting in a decline of \$81,000. Operating expenses were \$32.4 million and were \$672,000 higher than the prior year due to an increase in purchased power costs. Purchased power costs increased \$709,000 or 2.8%.

Water and Sewage Fund

As of June 30, 2021, the Water and Sewage Fund had \$48.9 million in total net position, an increase of \$4.2 million from prior year. Net investment in capital assets was \$34.3 million or 70.1% of total net position. Unrestricted net position available to fund future expenses was \$14.6 million or 29.9% of total net position.

For fiscal year 2021, operating revenue was \$14.2 million, which was level with the previous year. A 2% water rate increase was effective January 1, 2021, which resulted in slightly higher charges for services. Operating expenses were \$10.1 million, an increase of \$381,000 or 3.9% from the prior year largely due to an increase in treatment of sewage costs. The rate paid to Western Virginia Water Authority (WVWA) increased effective August 2020 and the gallons of sewage treated was higher than the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City's budget is prepared in accordance with the *Code of Virginia*. On the following page is a condensed version of the budgetary comparison of the General Fund original budget, amended budget and actual amounts.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Budgetary Highlights for 2021 (In Millions)

	Original Budget	Budget As Amended	Actual
Revenues	\$ 77.6	\$ 81.7	\$ 85.4
Expenditures	(74.7)	(85.6)	(78.1)
Proceeds from sale of capital assets	-	-	0.1
Transfers in	3.3	3.3	3.4
Transfers out	(6.7)	(7.7)	(7.7)
Use of fund balance	<u>\$ (0.5)</u>	<u>\$ (8.3)</u>	<u>\$ 3.1</u>

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, 2020.
- To re-appropriate grants, donations and other revenues authorized in fiscal year 2020 or earlier, but not expended or encumbered as of June 30, 2021.
- To appropriate grants, donations and other revenues accepted or adjusted in fiscal year 2021 when official notice of approval was received.
- To appropriate unassigned General Fund balance to fund one-time bonuses to employees.

The Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual – General Fund is shown on page 39. Property tax revenue exceeded budget for several reasons. Assessed values of real estate and personal property 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. Delinquent tax revenue was higher than the prior year and exceeded estimates. Delinquent tax revenues are budgeted conservatively because collections are unpredictable.

Other local taxes revenue exceeded budget by 20%. Several revenues in this category were negatively impacted by the pandemic in fiscal year 2020 and thus were budgeted very conservatively in fiscal year 2021. Sales, business license and meals tax revenue did not decrease as much as anticipated, exceeding budget estimates. Revenue from use of money and property was under budget by \$983,000 due to lower than expected interest earnings.

Several functions ended the year with expenditures less than budget. Salary and fringe benefit costs in all functions were less than budgeted due to vacancies and turnover. Public Safety expenditures were under budget by \$2.3 million. Jail expenditures were less than the amended budget due to a lower inmate population. CARES Act funding not spent in the previous fiscal year was re-appropriated in fiscal year 2021. After the budget was amended, hazard duty pay was accrued, resulting in a lower carryover amount. The amount of CARES Act funding appropriated in this category was \$421,000 higher than actual expenditures because of the change in carryover. Public Works expenditures were under budget by \$2.3 million. Highway maintenance funding totaling \$1.2 million was encumbered, but not spent as of June 30, 2021.

CAPITAL ASSETS

The City's total Primary Government capital assets, net of accumulated depreciation, increased 7.3% from \$180.7 million to \$193.9 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 7 of the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Capital Assets, Net of Depreciation
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2021	2020	2021	2020	2021	2020	2021	2020
Land	\$ 6.5	\$ 6.5	\$ 1.6	\$ 1.6	\$ 8.1	\$ 8.1	\$ 1.1	\$ 1.1
Construction in progress	1.9	2.5	11.8	7.6	13.7	10.1	21.2	6.3
Machinery and equipment	10.2	8.2	2.8	2.8	13.0	11.0	2.4	2.5
Buildings and improvements	20.4	21.3	14.6	15.3	35.0	36.6	35.5	36.9
Public domain infrastructure	58.9	49.2	-	-	58.9	49.2	-	-
Distribution and transmission	-	-	15.4	15.0	15.4	15.0	-	-
Utility plant	-	-	31.0	31.0	31.0	31.0	-	-
Sewage treatment contract	-	-	18.8	19.7	18.8	19.7	-	-
Total	<u>\$ 97.9</u>	<u>\$ 87.7</u>	<u>\$ 96.0</u>	<u>\$ 93.0</u>	<u>\$ 193.9</u>	<u>\$ 180.7</u>	<u>\$ 60.2</u>	<u>\$ 46.8</u>

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

- Virginia Department of Transportation completed improvements on a 0.5 mile section of East Main Street. Improvements included sidewalks, bike lanes, turn lanes and traffic signals resulting in a safer and more attractive thoroughfare. The amount of contributed capital from this project was \$6.9 million.
- Downtown streetscape improvements totaling \$2.6 million were completed in fiscal year 2021. Work was completed on two sections of downtown, College Avenue from Clay Street to Calhoun Street and East Main Street from Broad Street to White Oak Alley.
- Several large pieces of equipment were purchased with CARES Act funding including a knuckle boom truck, a garbage truck, three police vehicles, and an ambulance. Bond proceeds were used to purchase two garbage trucks and a dump truck.
- Kiwanis field lighting was replaced at cost of \$645,000. This project was funded with 2020 bond proceeds.
- Storm drain work on Kesler Mill Road was completed at a cost of \$539,000.

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

- Work continued on the automated meter reading project with costs of \$3.1 million in Water and Sewer Fund construction in progress and \$3 million in Electric Fund construction in progress.
- In the Electric Fund, the substation equipment replacement project proceeded, with \$4.1 million included in the construction in progress balance. This project is expected to cost \$11.6 million.
- Conduit, underground high voltage cable and transformers were replaced in the Ridgewood Farms neighborhood. A portion of underground secondary cable and transformers were moved to make them more readily accessible. The cost of the project was \$840,000.
- The sewer system rehabilitation project included pipe bursting, slip lining, manhole rehabilitation and lateral replacement and was primarily within the downtown sewershed. The project was substantially completed during fiscal year 2021 at a cost of almost \$5.9 million.

LONG-TERM DEBT

At June 30, 2021, the City's long-term liabilities, excluding capital lease obligations, compensated absences, net pension liabilities, net OPEB liabilities, bond premiums, and bond discounts, totaled \$84.4 million. This amount was comprised of \$52.3 million related to governmental activities (including \$35.2 million for debt held on behalf of the School Division and \$585,000 recorded as a receivable from Roanoke Valley Resource Authority) and \$32.1 million related to business-type activities. The City made \$6.8 million in principal payments and amortized \$726,000 in discounts and premiums. On May 27, 2021, the City

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

issued \$1,555,000 of series 2021 general obligation refunding bonds to refund \$1,470,000 of outstanding series 2010D general obligation public improvement bonds. Detailed information regarding these changes in long-term debt is disclosed in Note 9 to the financial statements. Total debt increased \$940,000 during the fiscal year.

With its most recent rating in May 2020, the City received a rating of Aa2 from Moody's Investor Service, an upgrade from the previous Aa3 rating. The City received a rating of AA+ from S&P Global Ratings.

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 \$585,000 of general obligation debt. The City's tax-supported debt of \$56.7 million is below the legal debt limit of \$179.4 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 9 of the financial statements and Table 9 of the statistical section.

Interest and other fiscal charges for fiscal year 2021 were \$1.6 million or 1.6% of total governmental activities expenses.

FACTORS INFLUENCING FUTURE BUDGETS

The City will continue to face economic challenges and unknowns due to the pandemic in fiscal year 2022 and beyond. Surges in infection rates could continue, impacting global, national, and local economies. To date, economic growth has outpaced expectations since businesses shut down in the late spring and early summer of 2020, aided by an influx of federal relief dollars. However, there continue to be questions about if and when growth will subside.

The City received several types of federal funding intended to lessen the effects of the pandemic. CARES Act funding of \$4.4 million was received in fiscal year 2020 and 2021 which provided resources to help with additional expenses incurred because of the pandemic. Restrictions on how it could be spent prevented using it to cover revenue shortfalls that occurred in fiscal year 2020 and 2021. Utility assistance of \$221,084 was received in fiscal year 2021 to cover utility bills for citizens negatively impacted by the pandemic. CARES Act election funding of \$56,874 was received to offset additional expenditures incurred to protect the health and safety of poll workers, staff, and voters during the election. Provider relief funds of \$41,567 were received to assist with emergency medical services costs during the pandemic.

On March 11, 2021, the American Rescue Plan Act (ARPA) was signed into law, providing Coronavirus Local Fiscal Recovery Funds (CLFRF) to localities. As of June 30, 2021, the City had received \$15.6 million of the total \$31.2 million allocated. United States Treasury has issued interim guidance on how localities may utilize funding, providing four general categorical uses. Funds must be obligated by December 31, 2024, and expended by December 31, 2026. Management is in the process of evaluating potential uses of funds within these guidelines. City Council will then determine how funds will be spent.

In July 2021, the Civic Center was awarded the Shuttered Venue Operators Grant (SVOG) in the amount of \$1,268,542. This grant is being administered through the U.S. Small Business Administration and offers emergency assistance for eligible venues affected by COVID-19. Grant funds can be used to cover specific operating expenses. The City has applied for additional SVOG funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The City received notification in the fall of 2021 that it was awarded \$276,525 in additional funds for utility assistance. The City will continue to pursue other federal grant opportunities as they become available.

General Fund revenues budgeted for fiscal year 2022 reflect an increase of \$2.8 million or 3.4% from the fiscal year 2021 budget. However, several local tax revenues are not expected to return to pre-pandemic levels. Business license, utility consumer, lodging, meals, and admissions taxes are all budgeted lower than the fiscal year 2020 adopted budget. In certain departments, the City has struggled to retain employees and fill vacancies despite salary increases in fiscal year 2021.

Electric and water consumption is expected to remain flat in fiscal year 2022. An increase in the power cost adjustment was necessary in fiscal year 2022 to offset rising electric transmission expenses. No increase in water rates was included in the fiscal year 2022 budget.

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 City Schools, 510 South College Avenue, Salem, Virginia 24153, or visit the School Division's website at www.salem.k12.va.us.

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BASIC FINANCIAL STATEMENTS



The Basic Financial Statements subsection of the City of Salem, Virginia's Annual Comprehensive Financial Report includes the government-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, 2021**

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		
ASSETS				
Cash and cash equivalents	\$ 66,076,048	\$ 53,567,601	\$ 119,643,649	\$ 21,323,226
Receivables, net	3,248,578	7,400,883	10,649,461	5,496,427
Due from component unit	-	5,461,344	5,461,344	-
Due from other governmental units	6,251,733	-	6,251,733	1,352,081
Net pension asset	-	-	-	365,440
Inventories	592,937	2,063,729	2,656,666	120,531
Prepaid items	237,250	124,060	361,310	220,392
<i>Restricted assets:</i>				
Cash and cash equivalents	12,362,405	-	12,362,405	-
<i>Capital assets:</i>				
Nondepreciable	8,406,904	13,410,106	21,817,010	22,340,152
Depreciable, net	89,459,488	82,611,615	172,071,103	37,894,586
Total assets	<u>186,635,343</u>	<u>164,639,338</u>	<u>351,274,681</u>	<u>89,112,835</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>9,926,284</u>	<u>3,029,969</u>	<u>12,956,253</u>	<u>10,837,798</u>
LIABILITIES				
Accounts payable and accrued liabilities	3,173,266	6,035,008	9,208,274	2,423,114
Accrued payroll and related liabilities	1,626,194	438,204	2,064,398	4,652,860
Accrued interest	372,289	231,548	603,837	-
Self-insurance claims liability	405,238	-	405,238	335,558
Due to primary government	-	-	-	5,461,344
Unearned revenues	15,697,238	351,080	16,048,318	321,208
Customer security deposits	-	1,007,507	1,007,507	-
<i>Long-term liabilities due in less than one year:</i>				
Bonds payable	3,527,352	4,030,098	7,557,450	-
Capital lease obligation	14,530	-	14,530	-
Compensated absences	1,482,635	562,573	2,045,208	366,810
<i>Long-term liabilities due in more than one year:</i>				
Bonds payable	53,723,019	31,529,384	85,252,403	-
Capital lease obligation	29,059	-	29,059	-
Compensated absences	863,253	126,712	989,965	486,649
Net pension liability	39,877,736	10,666,483	50,544,219	39,759,230
Net OPEB liability	11,569,789	3,484,734	15,054,523	5,688,039
Total liabilities	<u>132,361,598</u>	<u>58,463,331</u>	<u>190,824,929</u>	<u>59,494,812</u>
DEFERRED INFLOWS OF RESOURCES	<u>3,284,255</u>	<u>1,037,750</u>	<u>4,322,005</u>	<u>4,064,107</u>
NET POSITION				
Net investment in capital assets	83,813,635	60,959,490	144,773,125	60,234,738
Restricted for:				
Grant programs	318,734	-	318,734	-
Highway maintenance	1,710,065	-	1,710,065	-
Net pension asset	-	-	-	365,440
Other	235,360	-	235,360	-
Unrestricted (deficit)	(25,162,020)	47,208,736	22,046,716	(24,208,464)
Total net position	<u>\$ 60,915,774</u>	<u>\$ 108,168,226</u>	<u>\$ 169,084,000</u>	<u>\$ 36,391,714</u>

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

**CITY OF SALEM, VIRGINIA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions		Primary Government		Component Units
			Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government							
<i>Governmental activities:</i>							
General government	\$ 7,398,186	\$ 273,926	\$ 273,684	\$ -	\$ (6,850,576)	\$ (6,850,576)	
Judicial administration	2,685,074	149,565	1,267,127	-	(1,268,382)	(1,268,382)	
Public safety	19,746,567	1,406,150	1,314,983	133,086	(16,892,348)	(16,892,348)	
Public works	16,605,367	1,888,588	4,378,113	7,294,483	(3,044,183)	(3,044,183)	
Health and welfare	5,707,730	-	2,410,746	-	(3,296,984)	(3,296,984)	
Education	34,606,636	-	-	-	(34,606,636)	(34,606,636)	
Parks, recreation and cultural	6,871,297	301,306	201,925	107,487	(6,260,579)	(6,260,579)	
Community development	3,046,081	-	10,000	1,073,416	(1,962,665)	(1,962,665)	
Interest and other fiscal charges	1,598,185	-	-	-	(1,598,185)	(1,598,185)	
Total governmental activities	98,265,123	4,019,535	9,856,578	8,608,472	(75,780,538)	(75,780,538)	
<i>Business-type activities:</i>							
Electric	32,791,502	38,045,804	-	-		\$ 5,254,302	5,254,302
Water and sewage	10,491,167	14,200,570	-	541,915		4,251,318	4,251,318
Civic Center	2,693,683	522,276	-	-		(2,171,407)	(2,171,407)
Catering and concessions	457,944	206,559	-	-		(251,385)	(251,385)
Total business-type activities	46,434,296	52,975,209	-	541,915		7,082,828	7,082,828
Total primary government	\$ 144,699,419	\$ 56,994,744	\$ 9,856,578	\$ 9,150,387	\$ (75,780,538)	\$ 7,082,828	\$ (68,697,710)
Component Units	\$ 51,123,206	\$ 1,156,144	\$ 12,922,879	\$ -			\$ (37,044,183)
<i>General revenues:</i>							
Property taxes					40,367,128	-	40,367,128
Local sales and use taxes					7,837,554	-	7,837,554
Business license tax					5,546,287	-	5,546,287
Meals tax					4,973,630	-	4,973,630
Utility taxes					1,179,676	-	1,179,676
Other taxes					3,580,064	-	3,580,064
Intergovernmental revenue not restricted					7,160,161	-	7,160,161
Unrestricted investment earnings					248,514	85,199	333,713
Gain on sale of capital assets					93,131	-	93,131
Payments from City of Salem					-	-	-
State aid					-	-	-
Other					744,086	221,084	965,170
Transfers					1,689,156	(1,689,156)	-
Total general revenues and transfers					73,419,387	(1,382,873)	72,036,514
Change in net position					(2,361,151)	5,699,955	3,338,804
Net position, beginning*					63,276,925	102,468,271	165,745,196
Net position, ending					\$ 60,915,774	\$ 108,168,226	\$ 169,084,000

*As restated, Component Units (Note 24)

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

**CITY OF SALEM, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2021**

	General	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 46,800,425	\$ 15,582,316	\$ 751	\$ 1,490	\$ 62,384,982
Cash and cash equivalents, restricted	-	-	-	12,362,405	12,362,405
Receivables, net	3,201,425	-	-	-	3,201,425
Due from other governmental units	5,124,404	-	585,396	541,933	6,251,733
Inventories	592,937	-	-	-	592,937
Prepaid items	195,462	-	-	-	195,462
Total assets	<u>\$ 55,914,653</u>	<u>\$ 15,582,316</u>	<u>\$ 586,147</u>	<u>\$ 12,905,828</u>	<u>\$ 84,988,944</u>
LIABILITIES					
Accounts payable and accrued liabilities	\$ 2,837,266	\$ -	\$ -	\$ 169,299	\$ 3,006,565
Accrued payroll and related liabilities	1,618,104	-	-	-	1,618,104
Unearned revenues	61,911	15,582,316	-	-	15,644,227
Total liabilities	<u>4,517,281</u>	<u>15,582,316</u>	<u>-</u>	<u>169,299</u>	<u>20,268,896</u>
DEFERRED INFLOWS OF RESOURCES	<u>1,418,596</u>	<u>-</u>	<u>585,396</u>	<u>-</u>	<u>2,003,992</u>
FUND BALANCES					
Nonspendable	788,399	-	-	-	788,399
Restricted	2,264,159	-	-	10,729,118	12,993,277
Committed	97,692	-	-	-	97,692
Assigned	875,274	-	751	2,007,411	2,883,436
Unassigned	45,953,252	-	-	-	45,953,252
Total fund balances	<u>49,978,776</u>	<u>-</u>	<u>751</u>	<u>12,736,529</u>	<u>62,716,056</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 55,914,653</u>	<u>\$ 15,582,316</u>	<u>\$ 586,147</u>	<u>\$ 12,905,828</u>	<u>\$ 84,988,944</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, 2021

Total fund balance of governmental funds	\$ 62,716,056
Capital assets used in governmental activities are not considered current financial resources and, therefore, are not reported in the governmental funds.	97,866,392
Some long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	
Deferred inflows of resources for unavailable revenues	1,934,426
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	399,304
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	(52,338,627)
Bond premiums	(4,911,744)
Accrued interest	(372,289)
Capital lease obligation	(43,589)
Compensated absences	(2,338,030)
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	8,316,411
Net pension liability	(39,575,640)
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	1,161,033
Deferred inflows of resources related to OPEB	(3,208,685)
Net OPEB liability	(11,541,516)
The internal service fund is used by management to charge the costs of health and dental 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.	2,852,272
Net position of governmental activities	<u><u>\$ 60,915,774</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, 2021

	General	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
REVENUES					
Property taxes	\$ 40,826,351	\$ -	\$ -	\$ -	\$ 40,826,351
Other local taxes	23,117,214	-	-	-	23,117,214
Permits, fees and licenses	340,649	-	-	-	340,649
Fines and forfeitures	62,489	-	-	-	62,489
Revenue from use of money and property	525,401	-	-	43,206	568,607
Charges for services	3,217,818	-	-	-	3,217,818
Other	349,698	-	-	5,000	354,698
Intergovernmental	16,978,482	-	219,241	1,583,674	18,781,397
Total revenues	85,418,102	-	219,241	1,631,880	87,269,223
EXPENDITURES					
<i>Current:</i>					
General government	6,679,583	-	-	-	6,679,583
Judicial administration	2,368,502	-	-	-	2,368,502
Public safety	17,615,998	-	-	-	17,615,998
Public works	15,144,607	-	-	-	15,144,607
Health and welfare	5,523,827	-	-	-	5,523,827
Education	20,222,585	-	-	14,384,051	34,606,636
Parks, recreation and cultural	5,471,944	-	-	-	5,471,944
Community development	2,864,732	-	-	-	2,864,732
Non-departmental	2,187,212	-	-	-	2,187,212
Capital projects	-	-	-	4,256,021	4,256,021
<i>Debt service:</i>					
Principal retirement	-	-	3,285,371	-	3,285,371
Interest	-	-	1,649,830	-	1,649,830
Bond issuance costs	-	-	61,160	-	61,160
Total expenditures	78,078,990	-	4,996,361	18,640,072	101,715,423
Excess (deficiency) of revenues over (under) expenditures	7,339,112	-	(4,777,120)	(17,008,192)	(14,446,200)
OTHER FINANCING SOURCES (USES)					
Issuance of refunding bonds	-	-	1,555,000	-	1,555,000
Payment to refunded bond escrow agent	-	-	(1,493,089)	-	(1,493,089)
Proceeds from sale of capital assets	92,605	-	-	-	92,605
Insurance recoveries	21,835	-	-	-	21,835
Transfers in	3,338,985	-	4,715,960	1,174,628	9,229,573
Transfers out	(7,665,277)	-	-	(109,000)	(7,774,277)
Total other financing sources (uses), net	(4,211,852)	-	4,777,871	1,065,628	1,631,647
Net change in fund balances	3,127,260	-	751	(15,942,564)	(12,814,553)
Fund balances, beginning	46,851,516	-	-	28,679,093	75,530,609
Fund balances, ending	<u>\$ 49,978,776</u>	<u>\$ -</u>	<u>\$ 751</u>	<u>\$ 12,736,529</u>	<u>\$ 62,716,056</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, 2021

Net changes in fund balances of governmental funds	\$ (12,814,553)
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	8,483,953
Depreciation expense	(5,172,585)
The net effect of various transactions involving capital assets does not provide or use current financial resources and is not reported as revenues or expenditures in the governmental funds.	6,902,863
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in governmental funds.	(214,247)
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, but these amounts are deferred and amortized in the Statement of Activities.	
Bond proceeds, net of payment to refunded bond escrow agent	(61,911)
Principal payments	3,285,371
Amortization of current year bond premiums	337,691
Amortization of current year deferred amounts on refunding	(81,387)
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	(104,678)
Change in compensated absences	(196,530)
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	3,208,310
Pension expense	(6,909,407)
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	1,612,405
OPEB expense	(447,013)
The internal service fund is used by management to charge the costs of health and dental insurance to individual funds. The change in net position of the internal service fund is reported with governmental activities.	
	(189,433)
Change in net position of governmental activities	<u><u>\$ (2,361,151)</u></u>

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

CITY OF SALEM, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 38,989,443	\$ 38,989,443	\$ 40,826,351	\$ 1,836,908
Other local taxes	19,241,000	19,241,000	23,117,214	3,876,214
Permits, fees and licenses	324,450	324,450	340,649	16,199
Fines and forfeitures	70,000	70,000	62,489	(7,511)
Revenue from use of money and property	1,412,273	1,508,531	525,401	(983,130)
Charges for services	3,545,253	3,545,253	3,217,818	(327,435)
Other	240,000	252,500	349,698	97,198
Intergovernmental	13,762,939	17,748,944	16,978,482	(770,462)
Total revenues	<u>77,585,358</u>	<u>81,680,121</u>	<u>85,418,102</u>	<u>3,737,981</u>
EXPENDITURES				
General government	6,541,167	7,734,854	6,679,583	1,055,271
Judicial administration	2,261,077	2,430,896	2,368,502	62,394
Public safety	17,341,961	19,871,432	17,615,998	2,255,434
Public works	9,989,157	17,405,471	15,144,607	2,260,864
Health and welfare	5,439,177	5,741,055	5,523,827	217,228
Education	20,469,621	20,557,585	20,222,585	335,000
Parks, recreation and cultural	5,569,247	6,140,426	5,471,944	668,482
Community development	2,596,960	3,242,901	2,864,732	378,169
Non-departmental	4,466,139	2,568,184	2,187,212	380,972
Total expenditures	<u>74,674,506</u>	<u>85,692,804</u>	<u>78,078,990</u>	<u>7,613,814</u>
Excess of revenues over expenditures	<u>2,910,852</u>	<u>(4,012,683)</u>	<u>7,339,112</u>	<u>11,351,795</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	92,605	92,605
Insurance recoveries	-	21,837	21,835	(2)
Transfers in	3,327,000	3,327,000	3,338,985	11,985
Transfers out	(6,737,852)	(7,666,785)	(7,665,277)	1,508
Total other financing uses, net	<u>(3,410,852)</u>	<u>(4,317,948)</u>	<u>(4,211,852)</u>	<u>106,096</u>
Net change in fund balances	<u>\$ (500,000)</u>	<u>\$ (8,330,631)</u>	<u>\$ 3,127,260</u>	<u>\$ 11,457,891</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, 2021**

	Enterprise Funds				Internal Service Fund
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total	
ASSETS					
<i>Current assets:</i>					
Cash and cash equivalents	\$ 33,486,311	\$ 19,919,062	\$ 162,228	\$ 53,567,601	\$ 3,691,066
Receivables, net	5,196,637	1,960,161	74,321	7,231,119	47,153
Due from other funds	1,855,000	-	-	1,855,000	-
Due from component unit	5,461,344	-	-	5,461,344	-
Inventories	1,773,857	263,811	26,061	2,063,729	-
Prepaid items	-	23,606	100,454	124,060	41,788
Total current assets	<u>47,773,149</u>	<u>22,166,640</u>	<u>363,064</u>	<u>70,302,853</u>	<u>3,780,007</u>
<i>Noncurrent assets:</i>					
Receivables, net	169,764	-	-	169,764	-
<i>Capital assets:</i>					
Nondepreciable	8,310,251	4,839,923	259,932	13,410,106	-
Depreciable, net	27,846,704	51,740,271	3,024,640	82,611,615	-
Total capital assets	<u>36,156,955</u>	<u>56,580,194</u>	<u>3,284,572</u>	<u>96,021,721</u>	<u>-</u>
Total noncurrent assets	<u>36,326,719</u>	<u>56,580,194</u>	<u>3,284,572</u>	<u>96,191,485</u>	<u>-</u>
Total assets	<u>84,099,868</u>	<u>78,746,834</u>	<u>3,647,636</u>	<u>166,494,338</u>	<u>3,780,007</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>1,408,462</u>	<u>1,131,221</u>	<u>490,286</u>	<u>3,029,969</u>	<u>49,536</u>
LIABILITIES AND DEFERRED INFLOWS					
<i>Current liabilities:</i>					
Accounts payable and accrued liabilities	4,917,862	1,051,369	65,777	6,035,008	166,701
Accrued payroll and related liabilities	151,377	177,894	108,933	438,204	8,090
Accrued interest	86,715	144,833	-	231,548	-
Self-insurance claims liability	-	-	-	-	405,238
Due to other funds	-	-	1,855,000	1,855,000	-
Unearned revenues	39,033	-	312,047	351,080	53,011
Customer security deposits	1,007,507	-	-	1,007,507	-
Bonds payable	1,278,945	2,751,153	-	4,030,098	-
Compensated absences	270,263	190,650	101,660	562,573	7,858
Total current liabilities	<u>7,751,702</u>	<u>4,315,899</u>	<u>2,443,417</u>	<u>14,511,018</u>	<u>640,898</u>
<i>Noncurrent liabilities:</i>					
Bonds payable	11,977,317	19,552,067	-	31,529,384	-
Compensated absences	6,555	74,505	45,652	126,712	-
Net pension liability	4,049,898	4,477,145	2,139,440	10,666,483	302,096
Net OPEB liability	1,020,937	1,901,194	562,603	3,484,734	28,273
Total noncurrent liabilities	<u>17,054,707</u>	<u>26,004,911</u>	<u>2,747,695</u>	<u>45,807,313</u>	<u>330,369</u>
Total liabilities	<u>24,806,409</u>	<u>30,320,810</u>	<u>5,191,112</u>	<u>60,318,331</u>	<u>971,267</u>
DEFERRED INFLOWS OF RESOURCES	<u>255,655</u>	<u>622,528</u>	<u>159,567</u>	<u>1,037,750</u>	<u>6,004</u>
NET POSITION					
Net investment in capital assets	23,357,667	34,317,251	3,284,572	60,959,490	-
Unrestricted (deficit)	37,088,599	14,617,466	(4,497,329)	47,208,736	2,852,272
Total net position	<u>\$ 60,446,266</u>	<u>\$ 48,934,717</u>	<u>\$ (1,212,757)</u>	<u>\$ 108,168,226</u>	<u>\$ 2,852,272</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, 2021

	Enterprise Funds				Internal Service Fund
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total	
OPERATING REVENUES					
Charges for services	\$ 37,599,102	\$ 13,785,639	\$ 686,606	\$ 52,071,347	\$ 6,059,144
Connections and transfers	5,900	181,469	-	187,369	-
Penalties	51,089	46,247	-	97,336	-
Pole rentals	287,265	-	-	287,265	-
Commissions	-	-	3,230	3,230	-
Other	102,448	187,215	38,999	328,662	253,510
Total operating revenues	38,045,804	14,200,570	728,835	52,975,209	6,312,654
OPERATING EXPENSES					
Salaries	-	1,865,401	1,068,584	2,933,985	111,335
Fringe benefits	-	1,150,727	613,280	1,764,007	62,691
Show expenses	-	-	214,801	214,801	-
Maintenance	-	750,830	100,204	851,034	8,511
Billing and collection	610,293	591,486	-	1,201,779	-
Professional services	9,350	142,554	13,183	165,087	317,777
Insurance	21,080	63,343	25,219	109,642	-
Purchased water	-	55,422	-	55,422	-
Purchased power	26,134,577	-	-	26,134,577	-
Distribution - operations	861,508	-	-	861,508	-
Distribution - maintenance	1,924,116	-	-	1,924,116	-
Administration	1,140,578	387,295	98,122	1,625,995	5,169
Travel and training	6,305	5,770	199	12,274	220
Materials and supplies	-	99,956	96,350	196,306	6,605
Expendable equipment and small tools	156,163	112,493	-	268,656	3,658
Utilities	-	413,094	207,160	620,254	4,595
Miscellaneous	196,288	862	-	197,150	1,935
Depreciation	1,379,336	2,353,633	299,115	4,032,084	-
Treatment of sewage	-	2,096,676	-	2,096,676	-
Commissions	-	-	38,229	38,229	-
Claims	-	-	-	-	5,990,776
Total operating expenses	32,439,594	10,089,542	2,774,446	45,303,582	6,513,272
Operating income (loss)	5,606,210	4,111,028	(2,045,611)	7,671,627	(200,618)
NONOPERATING REVENUES (EXPENSES)					
Investment income	84,111	1,088	-	85,199	11,185
Interest expense	(357,246)	(385,014)	-	(742,260)	-
Loss on disposal of capital assets	(241,302)	(16,611)	(377,181)	(635,094)	-
Miscellaneous	156,064	65,020	-	221,084	-
Net nonoperating revenues (expenses)	(358,373)	(335,517)	(377,181)	(1,071,071)	11,185
Income (loss) before contributions and transfers	5,247,837	3,775,511	(2,422,792)	6,600,556	(189,433)
Capital contributions	-	554,695	-	554,695	-
Transfers in	-	-	1,883,689	1,883,689	-
Transfers out	(3,160,000)	(178,985)	-	(3,338,985)	-
Change in net position	2,087,837	4,151,221	(539,103)	5,699,955	(189,433)
Net position, beginning	58,358,429	44,783,496	(673,654)	102,468,271	3,041,705
Net position, ending	\$ 60,446,266	\$ 48,934,717	\$ (1,212,757)	\$ 108,168,226	\$ 2,852,272

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, 2021**

	Enterprise Funds				Internal Service Fund
	Electric	Water and Sewage	Nonmajor Proprietary Funds	Total	
OPERATING ACTIVITIES					
Receipts from customers	\$ 37,643,857	\$ 13,822,268	\$ 728,377	\$ 52,194,502	\$ 6,060,448
Payments to suppliers	(28,849,956)	(4,881,266)	(818,284)	(34,549,506)	(457,198)
Payments to employees	(2,071,182)	(2,655,532)	(1,479,723)	(6,206,437)	(150,505)
Payments for claims	-	-	-	-	(6,127,985)
Other receipts	102,448	187,215	38,999	328,662	253,510
Nonoperating revenue	156,064	65,020	-	221,084	-
Net cash provided by (used in) operating activities	6,981,231	6,537,705	(1,530,631)	11,988,305	(421,730)
NONCAPITAL FINANCING ACTIVITIES					
Interfund loan	50,000	-	(50,000)	-	-
Component unit loan	(2,137,962)	-	-	(2,137,962)	-
Transfers in	-	-	1,883,689	1,883,689	-
Transfers out	(3,160,000)	(178,985)	-	(3,338,985)	-
Net cash provided by (used in) noncapital financing activities	(5,247,962)	(178,985)	1,833,689	(3,593,258)	-
CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of capital assets	6,027	-	5,805	11,832	-
Purchases of capital assets	(4,234,102)	(2,142,409)	(159,942)	(6,536,453)	-
Proceeds from capital debt	-	290,283	-	290,283	-
Principal paid on capital debt	(1,076,654)	(2,516,142)	-	(3,592,796)	-
Interest paid on capital debt	(485,926)	(587,632)	-	(1,073,558)	-
Net cash used in capital and related financing activities	(5,790,655)	(4,955,900)	(154,137)	(10,900,692)	-
INVESTING ACTIVITIES					
Interest received	84,111	1,088	-	85,199	11,185
Net cash provided by investing activities	84,111	1,088	-	85,199	11,185
Net increase (decrease) in cash and cash equivalents	(3,973,275)	1,403,908	148,921	(2,420,446)	(410,545)
Cash and cash equivalents, beginning	37,459,586	18,515,154	13,307	55,988,047	4,101,611
Cash and cash equivalents, ending	<u>\$ 33,486,311</u>	<u>\$ 19,919,062</u>	<u>\$ 162,228</u>	<u>\$ 53,567,601</u>	<u>\$ 3,691,066</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Operating income (loss)	\$ 5,606,210	\$ 4,111,028	\$ (2,045,611)	\$ 7,671,627	\$ (200,618)
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i>					
Depreciation	1,379,336	2,353,633	299,115	4,032,084	-
Nonoperating revenue	156,064	65,020	-	221,084	-
Pension expense, net of employer contributions	384,267	448,221	199,555	1,032,043	24,189
OPEB expense, net of employer contributions	(88,902)	(156,812)	(53,601)	(299,315)	(2,217)
<i>Decrease (increase) in assets:</i>					
Receivables, net	(321,266)	(191,087)	(53,517)	(565,870)	(1,409)
Inventories	(159,706)	(12,532)	7,064	(165,174)	-
Prepaid items	-	(19,780)	(70,233)	(90,013)	(41,788)
<i>Increase (decrease) in liabilities:</i>					
Accounts payable and accrued liabilities	39,301	(129,173)	38,352	(51,520)	(108,728)
Accrued payroll and related liabilities	(5,949)	26,164	42,084	62,299	795
Self-insurance claims liability	-	-	-	-	(95,421)
Unearned revenues	11,654	-	92,058	103,712	2,713
Customer security deposits payable	10,113	-	-	10,113	-
Compensated absences	(29,891)	43,023	14,103	27,235	754
Net cash provided by (used in) operating activities	<u>\$ 6,981,231</u>	<u>\$ 6,537,705</u>	<u>\$ (1,530,631)</u>	<u>\$ 11,988,305</u>	<u>\$ (421,730)</u>
<i>Noncash investing, capital, and financing activities</i>					
Capital assets financed with accounts payable	\$ 1,856,378	\$ 500,172	\$ -	\$ 2,356,550	\$ -
Capital asset contributions received	\$ -	\$ 554,695	\$ -	\$ 554,695	\$ -

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, 2021

	Custodial Funds	OPEB Trust Fund
ASSETS		
Cash and cash equivalents	\$ 2,498,526	\$ -
Investments held by trustee, fair value of pooled funds	-	10,139,091
Receivables, net	240	-
Due from Commonwealth of Virginia	43,857	-
Prepaid items	6,629	-
Total assets	<u>2,549,252</u>	<u>10,139,091</u>
LIABILITIES		
Accounts payable and accrued liabilities	132,514	-
Accrued payroll and related liabilities	52,359	-
Due to City of Salem	9,939	-
Unearned revenues	132,112	-
Total liabilities	<u>326,924</u>	<u>-</u>
NET POSITION		
Restricted for:		
Individuals, organizations, and other governments	2,222,328	-
OPEB	-	10,139,091
Total net position	<u>\$ 2,222,328</u>	<u>\$ 10,139,091</u>

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

CITY OF SALEM, VIRGINIA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2021

	Custodial Funds	OPEB Trust Fund
ADDITIONS		
Charges for services	\$ 1,125,502	\$ -
Intergovernmental	1,121,842	-
Other	20,451	-
Employer contributions - City	-	1,912,020
Employer contributions - Custodial entities	-	94,138
<i>Investment income</i>		
Increase in fair value of investments	-	2,287,007
Interest and dividends	2,429	-
Total additions	<u>2,270,224</u>	<u>4,293,165</u>
DEDUCTIONS		
Payroll	1,494,136	-
Administrative	574,546	9,074
Capital outlay	7,950	-
Retirement benefits - City	-	1,677,090
Retirement benefits - Custodial entities	-	76,638
Total deductions	<u>2,076,632</u>	<u>1,762,802</u>
Change in fiduciary net position	<u>193,592</u>	<u>2,530,363</u>
Net position, beginning*	<u>2,028,736</u>	<u>7,608,728</u>
Net position, ending	<u><u>\$ 2,222,328</u></u>	<u><u>\$ 10,139,091</u></u>

*As restated, Custodial Funds (Note 24)

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, 2021

	School Division	Economic Development Authority	Total
ASSETS			
Cash and cash equivalents	\$ 21,009,020	\$ 314,206	\$ 21,323,226
Receivables, net	50,260	5,446,167	5,496,427
Due from other governmental units	1,352,081	-	1,352,081
Net pension asset	365,440	-	365,440
Inventories	120,531	-	120,531
Prepaid items	220,392	-	220,392
<i>Capital assets:</i>			
Nondepreciable	22,340,152	-	22,340,152
Depreciable, net	37,894,586	-	37,894,586
Total assets	<u>83,352,462</u>	<u>5,760,373</u>	<u>89,112,835</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>10,837,798</u>	<u>-</u>	<u>10,837,798</u>
LIABILITIES			
Accounts payable and accrued liabilities	2,422,799	315	2,423,114
Accrued payroll and related liabilities	4,652,860	-	4,652,860
Self-insurance claims liability	335,558	-	335,558
Due to primary government	-	5,461,344	5,461,344
Unearned revenues	321,208	-	321,208
<i>Long-term liabilities due in less than one year:</i>			
Compensated absences	366,810	-	366,810
<i>Long-term liabilities due in more than one year:</i>			
Compensated absences	486,649	-	486,649
Net pension liability	39,759,230	-	39,759,230
Net OPEB liability	5,688,039	-	5,688,039
Total liabilities	<u>54,033,153</u>	<u>5,461,659</u>	<u>59,494,812</u>
DEFERRED INFLOWS OF RESOURCES	<u>4,064,107</u>	<u>-</u>	<u>4,064,107</u>
NET POSITION			
Net investment in capital assets	60,234,738	-	60,234,738
Restricted for:			
Net pension asset	365,440	-	365,440
Unrestricted (deficit)	(24,507,178)	298,714	(24,208,464)
Total net position	<u>\$ 36,093,000</u>	<u>\$ 298,714</u>	<u>\$ 36,391,714</u>

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

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
YEAR ENDED JUNE 30, 2021

Functions/Programs	Program Revenues				Primary Government			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating		School Division	Economic		
			Grants and Contributions	Capital Grants and Contributions		Development Authority	Total Component Units	
School Division	\$ 49,994,442	\$ 1,063,869	\$ 12,922,879	\$ -	\$ (36,007,694)	\$ -	\$ (36,007,694)	
Economic Development Authority	1,128,764	92,275	-	-	-	(1,036,489)	(1,036,489)	
Total component units	\$ 51,123,206	\$ 1,156,144	\$ 12,922,879	\$ -	(36,007,694)	(1,036,489)	(37,044,183)	
<i>General revenues:</i>								
Unrestricted investment earnings								
Payments from City of Salem								
State aid								
Other								
Total general revenues								
Change in net position								
Net position, beginning*								
Net position, ending								

*As restated, School Division (Note 24)

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

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 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.

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 \$19,834,621 of operating support and \$27,964 of capital support to the School Division, transferred \$360,000 of Coronavirus Aid, Relief and Economic Security (CARES) Act funding to the School Division, and made debt service payments of \$2,598,912 on behalf of the School Division. Education expenses included amounts related to school buildings also.

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 \$125,108 in operating support to the Economic Development Authority and transferred \$500,000 of CARES Act funding to the Economic Development Authority. Separate financial statements are not issued for 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 units 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, 2021**

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 *Special Revenue Fund* accounts for resources received from revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.
- 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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

1. Summary of Significant Accounting Policies (Continued)

Fund Financial Statements (Continued)

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

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

Fiduciary Funds account for assets held by the City in a trustee or custodial capacity 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 *Custodial Funds* account for monies held in a custodial capacity on behalf of the Cardinal Criminal Justice Academy and the 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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

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

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

Fiduciary Fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. In Custodial Funds, a liability is recognized when an event occurs that compels the City to disburse fiduciary resources.

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, and the Special Revenue Fund utilizes a grant length budget. These budgets are not legally enacted on an annual basis; therefore, budgetary comparison statements are 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 \$11,947,231 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 in the Capital Projects Fund, which carries unexpended balances through a project's life.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

1. Summary of Significant Accounting Policies (Continued)

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 Projects 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, 2021, total \$2,121,383 in the General Fund and \$3,508,031 in the Capital Projects Fund.

Deposits and Investments

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

Allowance for Uncollectible Accounts

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

Property Taxes

The City levies real estate taxes on all real estate within its boundaries, except that exempted by statute, each year as of July 1 based on 100% of estimated fair market value of the property. The City reassesses all property annually. Real estate taxes are due in equal semiannual payments on December 5 and June 5 and are considered delinquent after each due date. Real estate taxes become a lien on real property the first day of the levy year. The tax rate for 2021 was \$1.20 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 2021 was \$3.40 per \$100 of assessed value. The tax rate for machinery and tools for 2021 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. Flows 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.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

1. Summary of Significant Accounting Policies (Continued)

Inventory (Continued)

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

Prepaid Items

Governmental fund prepaid items consist primarily of software maintenance and support for a subsequent period. The payments are recorded as expenditures in the fiscal year related to the agreement period.

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

Capital Assets

Capital assets, which include property, plant and equipment and infrastructure assets, are reported in the applicable governmental or business-type activities column 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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

1. Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statements that present net position report a separate section for deferred outflows of resources. These items represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statements that present net position report a separate section for deferred inflows of resources. These items represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

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. Grants and entitlements received before the eligibility requirements are met have been recorded as unearned revenue. Unearned revenues consist primarily of unspent Coronavirus Local Fiscal Recovery Funds received under the American Rescue Plan Act, retiree health insurance premiums billed in advance, event deposits and rentals.

Long-Term Obligations

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

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

Compensated Absences

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

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 fiduciary net 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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

1. Summary of Significant Accounting Policies (Continued)

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 benefit plans that provide a credit toward the cost of health insurance coverage for retired political subdivision employees of participating employers and retired 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.

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 \$38,305,433 of School Division debt, \$1,385,955 of Civic Center debt, and \$585,396 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 \$1,005,984, \$9,018 and \$198,238 is also excluded from the net investment in capital assets for governmental activities, the Electric Fund, and the Water and Sewage Fund, respectively.

The Nonmajor Proprietary Funds have a deficit of \$1,212,757 in total net position as of June 30, 2021, because sales revenue has not covered operating expenses in the Catering and Concessions Fund, and the coronavirus pandemic affected Civic Center Fund revenue.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

1. Summary of Significant Accounting Policies (Continued)

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.

Minimum Fund Balance

The City’s fund balance policy establishes a minimum acceptable level of unassigned fund balance in the General Fund equal to ten percent of the sum of the General Fund, Debt Service Fund, and School Division operating expenditures net of the General Fund transfer to the School Division. For the purposes of this calculation, the operating expenditures are the budget as originally adopted for the current fiscal year.

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.

Reclassifications

Certain amounts in the prior-year comparison information have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

1. Summary of Significant Accounting Policies (Continued)

Estimates

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and 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.

Restricted cash and cash equivalents consist of unspent bond proceeds in the City Capital Projects 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, the Asian Development Bank, the African Development Bank, prime quality commercial paper and certain corporate notes, bankers' acceptances, repurchase agreements, the State Non-Arbitrage Program (SNAP), and the Local Government Investment Pool (LGIP).

Pursuant to Sec. 2.1-234.7 of the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings and the carrying value of the position in LGIP is the same as the value of the pool shares (i.e., the LGIP maintains a stable net asset value of \$1 per share) in accordance with GASB Statement No. 79.

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

	Primary Government	Component Units	Total
Cash and cash equivalents	\$ 119,643,649	\$ 21,323,226	\$ 140,966,875
Cash and cash equivalents, restricted	12,362,405	-	12,362,405
	<u>\$ 132,006,054</u>	<u>\$ 21,323,226</u>	<u>\$ 153,329,280</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

2. Deposits and Investments (Continued)

Investments (Continued)

As of June 30, 2021, the City's deposits and investments consisted of the following:

Investment Type	Fair Value	S&P Credit Rating
Primary Government		
Demand & time deposits	\$ 94,734,944	unrated
Cash on hand	7,985	unrated
Local Government Investment Pool (LGIP)	16,878	AAAm
Local Government Investment Pool (LGIP) EM	24,883,842	AAAf/S1
VA State Non-Arbitrage Program (SNAP)	12,362,405	AAAm
Total primary government	132,006,054	
Component Units		
Demand & time deposits	21,322,711	unrated
Cash on hand	515	unrated
Total component units	21,323,226	
Grand Total	<u>\$ 153,329,280</u>	

The City's investments are subject to credit risk, concentration of credit risk, interest rate risk, and custodial risk as described below.

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The City's investment policy states that the City shall invest only in securities allowed under the *Code of Virginia*, Virginia Security of Public Deposits Act, Section 2.2-4400 through 2.2-4411 and the *Code of Virginia*, Investment of Public Funds Act, Section 2.2-4500 through 2.2-4518.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investment in a single issuer. The City endeavors to diversify its investment portfolio to avoid incurring unreasonable risks regarding an individual financial institution or issuing entity. Target asset allocation strategies are developed by the Director of Finance to provide guidance as to appropriate levels of diversification. The City's investment policy states that, with the exception of U.S. Treasury securities and authorized pools/funds, no more than 50% of the City's total investment may be the obligations of a single financial institution.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City endeavors to diversify its investment portfolio to avoid incurring unreasonable risks regarding maturity. To the extent possible, the City attempts to match its investments with anticipated cash flow requirements. The City's investment policy states that unless matched to a specific cash flow, the City will not directly invest in securities maturing more than one year from the date of purchase.

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

2. Deposits and Investments (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that all securities purchased for the City be secured through third-party custody and safekeeping procedures. Ownership shall be protected through third-party custodial safekeeping. The securities must be in the City's name or in the custodian's nominee name and identifiable on the custodian's books as belonging to the City. Further, the custodian must be a third party, not a counterparty (buyer, issuer, or seller) to the transaction. This requirement does not apply to excess checking account funds invested overnight in a bank "sweep" agreement or similar vehicle authorized under the City's investment policy.

3. Receivables

Receivables are as follows:

	Governmental Activities	Business-type Activities			Component Units
		Electric	Water and Sewage	Nonmajor Proprietary	
Tax receivables	\$ 1,856,655	\$ -	\$ -	\$ -	\$ -
Account receivables	47,153	5,460,192	1,989,232	81,094	-
Other receivables	1,789,869	-	-	-	5,496,427
Gross receivables	3,693,677	5,460,192	1,989,232	81,094	5,496,427
Allowance for uncollectibles	(445,099)	(93,791)	(29,071)	(6,773)	-
Receivables, net	<u>\$ 3,248,578</u>	<u>\$ 5,366,401</u>	<u>\$ 1,960,161</u>	<u>\$ 74,321</u>	<u>\$ 5,496,427</u>

4. Interfund Balances and Transfers

The composition of the interfund balances is as follows:

		Due from (fund)
		Nonmajor Enterprise
Due to (fund)	Electric	\$ 1,855,000

The amount due to the Electric Fund from the Nonmajor Enterprise Funds is a short-term loan to fund operations.

The composition of the interfund transfers is as follows:

	Transfer out (fund)			
	General	Capital Projects	Electric	Water and Sewage
General	\$ -	\$ -	\$ 3,160,000	\$ 178,985
Debt Service	4,715,960	-	-	-
Capital Projects	1,174,628	-	-	-
Nonmajor Enterprise	1,774,689	109,000	-	-
Total	<u>\$ 7,665,277</u>	<u>\$ 109,000</u>	<u>\$ 3,160,000</u>	<u>\$ 178,985</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

4. Interfund Balances and Transfers (Continued)

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 and building improvements.

5. Due from/to Primary Government and Component Unit

The amount due from a component unit to business-type activities is a loan from the Electric Fund to the Economic Development Authority. The Economic Development Authority used these funds to provide loans to four developers for rehabilitation projects within the City. In addition, a portion of the balance was set aside to provide economic assistance during the COVID-19 outbreak through an agreement with Total Action for Progress (TAP).

The balance outstanding as of June 30, 2021, was \$5,461,344. The loan is being repaid as follows:

- \$870,577 at end of four years maturing January 31, 2021, with interest accrued at 4% annually. On December 10, 2020, the Economic Development Authority approved an extension of the loan to January 31, 2022, with an additional year of accrued interest.
- \$2,297,342 over twenty years maturing February 1, 2039, with an interest rate of 3.79%.
- \$1,743,425 over twenty years maturing July 22, 2040, with an interest rate of 3.72%.
- \$500,000 over five years maturing September 24, 2025, with an interest rate of 4.25%.
- \$50,000 as economic assistance during the COVID-19 outbreak to be repaid through an agreement with TAP. Due to low utilization of a similar program of a neighboring locality, the agreement with TAP did not proceed and the loan was repaid on July 29, 2021.

6. Due from Other Governmental Units

Amounts due from other governmental units are as follows:

	Governmental Activities	Component Units
Commonwealth of Virginia		
Personal property tax	\$ 2,588,706	\$ -
Local sales tax	1,362,405	-
Capital projects funding	541,933	-
Sales tax	-	596,894
Children's Services Act	617,600	-
Communications tax	122,716	-
Other	413,614	6,820
Federal government		
School funds	-	748,367
Lease payment from General Services Administration	10,824	-
Other	8,539	-
Roanoke Valley Resource Authority	585,396	-
	<u>\$ 6,251,733</u>	<u>\$ 1,352,081</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

7. Capital Assets

Capital asset activity for the year is as follows:

	Beginning Balance	Transfers and Additions	Transfers and Retirements	Ending Balance
Governmental Activities				
Capital assets, nondepreciable				
Land	\$ 6,532,626	\$ -	\$ -	\$ 6,532,626
Construction in progress	2,534,242	4,204,224	(4,864,188)	1,874,278
Capital assets, nondepreciable	9,066,868	4,204,224	(4,864,188)	8,406,904
Capital assets, depreciable				
Machinery and equipment	25,750,131	3,654,443	(1,139,045)	28,265,529
Buildings and improvements	41,141,497	340,682	(142,229)	41,339,950
Leasehold improvements	42,806	-	-	42,806
Public domain infrastructure	103,994,652	12,579,043	(788,575)	115,785,120
Capital assets, depreciable	170,929,086	16,574,168	(2,069,849)	185,433,405
Accumulated depreciation				
Machinery and equipment	(17,553,653)	(1,592,305)	1,112,178	(18,033,780)
Buildings and improvements	(19,904,345)	(1,056,969)	68,744	(20,892,570)
Leasehold improvements	(11,891)	(2,853)	-	(14,744)
Public domain infrastructure	(54,873,904)	(2,684,271)	525,352	(57,032,823)
Accumulated depreciation	(92,343,793)	(5,336,398)	1,706,274	(95,973,917)
Capital assets, depreciable, net	78,585,293	11,237,770	(363,575)	89,459,488
Capital assets, net	\$ 87,652,161	\$ 15,441,994	\$ (5,227,763)	\$ 97,866,392
	Beginning Balance	Transfers and Additions	Transfers and Retirements	Ending Balance
Business-type Activities				
Capital assets, nondepreciable				
Land	\$ 1,585,417	\$ -	\$ -	\$ 1,585,417
Construction in progress	7,570,396	6,089,254	(1,834,961)	11,824,689
Capital assets, nondepreciable	9,155,813	6,089,254	(1,834,961)	13,410,106
Capital assets, depreciable				
Machinery and equipment	9,360,155	867,234	(573,859)	9,653,530
Buildings and improvements	27,770,635	415,857	(688,791)	27,497,701
Distribution and transmission	38,272,760	970,952	(359,618)	38,884,094
Utility plant	85,216,818	1,273,652	(43,334)	86,447,136
Sewage treatment contract	31,955,606	-	-	31,955,606
Capital assets, depreciable	192,575,974	3,527,695	(1,665,602)	194,438,067
Accumulated depreciation				
Machinery and equipment	(6,544,383)	(655,071)	327,219	(6,872,235)
Buildings and improvements	(12,491,672)	(727,421)	305,805	(12,913,288)
Distribution and transmission	(23,214,409)	(633,754)	358,930	(23,489,233)
Utility plant	(54,209,657)	(1,259,731)	26,722	(55,442,666)
Sewage treatment contract	(12,264,371)	(844,659)	-	(13,109,030)
Accumulated depreciation	(108,724,492)	(4,120,636)	1,018,676	(111,826,452)
Capital assets, depreciable, net	83,851,482	(592,941)	(646,926)	82,611,615
Capital assets, net	\$ 93,007,295	\$ 5,496,313	\$ (2,481,887)	\$ 96,021,721

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

7. Capital Assets (Continued)

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

Governmental Activities		Business-type Activities	
General government	\$ 334,386	Electric	\$ 1,379,336
Judicial administration	45,102	Water and sewage	2,353,633
Public safety	1,025,087	Civic Center	294,732
Public works	2,797,906	Catering and concessions	4,383
Parks, recreation and cultural	955,972	Total depreciation expense	<u>\$ 4,032,084</u>
Community development	14,132		
Total depreciation expense	<u>\$ 5,172,585</u>		

Current year increases to accumulated depreciation shown in the capital asset table for governmental activities exceed depreciation expense by \$163,813 because the table includes accumulated depreciation for machinery and equipment transferred to the Street Department from the Electric Department and Civic Center.

Current year increases to accumulated depreciation shown in the capital asset table for business-type activities exceed depreciation expense by \$88,552 because the table includes accumulated depreciation for machinery and equipment transferred to the Electric Department and Civic Center from the Street Department.

	Beginning Balance	Transfers and Additions	Transfers and Retirements	Ending Balance
Component Unit - School Division				
Capital assets, nondepreciable				
Land	\$ 1,123,637	\$ -	\$ -	\$ 1,123,637
Construction in progress	6,279,698	15,259,129	(322,312)	21,216,515
Capital assets, nondepreciable	<u>7,403,335</u>	<u>15,259,129</u>	<u>(322,312)</u>	<u>22,340,152</u>
Capital assets, depreciable				
Furniture and equipment	9,227,075	486,168	(340,018)	9,373,225
Buildings and improvements	70,734,672	422,188	-	71,156,860
Capital assets, depreciable	<u>79,961,747</u>	<u>908,356</u>	<u>(340,018)</u>	<u>80,530,085</u>
Accumulated depreciation				
Furniture and equipment	(6,758,839)	(533,756)	335,969	(6,956,626)
Buildings and improvements	(33,757,951)	(1,920,922)	-	(35,678,873)
Accumulated depreciation	<u>(40,516,790)</u>	<u>(2,454,678)</u>	<u>335,969</u>	<u>(42,635,499)</u>
Capital assets, depreciable, net	<u>39,444,957</u>	<u>(1,546,322)</u>	<u>(4,049)</u>	<u>37,894,586</u>
Capital assets, net	<u>\$ 46,848,292</u>	<u>\$ 13,712,807</u>	<u>\$ (326,361)</u>	<u>\$ 60,234,738</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

8. 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	\$ 399,304	\$ 447,956	\$ -
Pension	8,362,546	2,263,622	9,931,574
OPEB	1,164,434	318,391	906,224
Total deferred outflows of resources	<u>\$ 9,926,284</u>	<u>\$ 3,029,969</u>	<u>\$ 10,837,798</u>
Deferred inflows of resources			
Deferred gain on refunding of debt	\$ -	\$ 157,961	\$ -
Property taxes collected in advance	69,566	-	-
Pension	-	-	3,277,429
OPEB	3,214,689	879,789	786,678
Total deferred inflows of resources	<u>\$ 3,284,255</u>	<u>\$ 1,037,750</u>	<u>\$ 4,064,107</u>

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

	General Fund
Deferred inflows of resources	
Unavailable revenue - property taxes	\$ 1,058,067
Property taxes collected in advance	69,566
Unavailable revenue - charges for services and fees	290,963
Total deferred inflows of resources	<u>\$ 1,418,596</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	\$ 447,956	\$ -	\$ -	\$ -
Pension	860,798	971,056	431,768	46,135
OPEB	99,708	160,165	58,518	3,401
Total deferred outflows of resources	<u>\$ 1,408,462</u>	<u>\$ 1,131,221</u>	<u>\$ 490,286</u>	<u>\$ 49,536</u>
Deferred inflows of resources				
Deferred gain on refunding of debt	\$ -	\$ 157,961	\$ -	\$ -
OPEB	255,655	464,567	159,567	6,004
Total deferred inflows of resources	<u>\$ 255,655</u>	<u>\$ 622,528</u>	<u>\$ 159,567</u>	<u>\$ 6,004</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

9. 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	\$ 55,483,066	\$ 1,555,000	\$ (4,699,439)	\$ 52,338,627	\$ 3,189,661
Bond premiums	5,249,435	-	(337,691)	4,911,744	337,691
Bond discounts	(45,881)	-	45,881	-	-
Bonds payable	60,686,620	1,555,000	(4,991,249)	57,250,371	3,527,352
Capital lease obligation	99,520	-	(55,931)	43,589	14,530
Compensated absences	2,148,604	1,681,859	(1,484,575)	2,345,888	1,482,635
Net pension liability	32,639,977	13,106,022	(5,868,263)	39,877,736	-
Net OPEB liability	12,513,043	4,281,111	(5,224,365)	11,569,789	-
	<u>\$ 108,087,764</u>	<u>\$ 20,623,992</u>	<u>\$ (17,624,383)</u>	<u>\$ 111,087,373</u>	<u>\$ 5,024,517</u>

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	\$ 35,399,439	\$ 290,283	\$ (3,592,796)	\$ 32,096,926	\$ 3,595,580
Bond premiums	3,897,074	-	(434,518)	3,462,556	434,518
Bonds payable	39,296,513	290,283	(4,027,314)	35,559,482	4,030,098
Compensated absences	662,050	589,807	(562,572)	689,285	562,573
Net pension liability	8,769,514	3,588,894	(1,691,925)	10,666,483	-
Net OPEB liability	3,730,947	1,167,738	(1,413,951)	3,484,734	-
	<u>\$ 52,459,024</u>	<u>\$ 5,636,722</u>	<u>\$ (7,695,762)</u>	<u>\$ 50,399,984</u>	<u>\$ 4,592,671</u>

Component Unit - School Division

Capital lease obligation	\$ 99,919	\$ -	\$ (99,919)	\$ -	\$ -
Compensated absences	813,173	407,096	(366,810)	853,459	366,810
Net pension liability (asset)	(435,809)	276,474	(206,105)	(365,440)	-
Net pension liability	36,340,277	14,048,947	(10,629,994)	39,759,230	-
Net OPEB liability	6,216,445	1,356,509	(1,884,915)	5,688,039	-
	<u>\$ 43,034,005</u>	<u>\$ 16,089,026</u>	<u>\$ (13,187,743)</u>	<u>\$ 45,935,288</u>	<u>\$ 366,810</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

9. 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	\$ -	\$ 3,790,561
2010 Public Improvement	3.15%	09/10	03/30	3,648,124	-	2,005,630
2011 Refunding	2.14%	12/11	10/23	9,485,000	2,634,604	-
2012 Public Improvement	2.35%	12/12	08/32	9,545,000	5,727,000	-
2013 Public Improvement	1.25%	03/13	04/35	3,058,522	-	2,226,045
2013 Public Improvement	3.03%	12/13	08/33	7,275,000	4,720,000	-
2016B Public Improvement	2.50%	06/16	04/26	6,393,385	717,601	2,657,783
2018 Public Improvement	0.00%	05/18	07/38	5,452,854	-	5,010,933
2019 Public Improvement	3.24%	02/19	04/39	5,025,000	4,670,000	-
2020 Public Improvement	2.00-5.00%	06/20	05/40	26,555,000	26,210,000	-
2020 Refunding	2.00-5.00%	06/20	05/36	24,035,000	5,519,026	16,405,974
2021 Refunding	1.24%	05/21	02/28	1,555,000	1,555,000	-
General Obligation Bonds - RVRA						
2011 Refunding	2.14%	12/11	10/23		585,396	-
					52,338,627	32,096,926
				Bond premiums	4,911,744	3,462,556
					<u>\$ 57,250,371</u>	<u>\$ 35,559,482</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
2022	\$ 2,989,681	\$ 1,667,120	\$ 199,980	\$ 10,388	\$ 3,595,580	\$ 1,059,079
2023	3,062,234	1,577,613	195,435	6,156	3,706,714	930,364
2024	3,113,294	1,490,318	189,981	2,033	3,833,413	797,015
2025	3,122,455	1,408,922	-	-	3,961,736	658,277
2026	3,223,752	1,280,325	-	-	4,105,173	514,094
2027-2031	16,375,315	4,455,713	-	-	10,283,316	955,214
2032-2036	11,945,500	1,704,823	-	-	2,019,269	11,913
2037-2041	7,921,000	432,355	-	-	591,725	-
	<u>\$51,753,231</u>	<u>\$14,017,189</u>	<u>\$ 585,396</u>	<u>\$ 18,577</u>	<u>\$32,096,926</u>	<u>\$ 4,925,956</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, 2021, the City has \$585,396 in outstanding general obligation debt, which will be repaid contractually by RVRA over the remaining three-year amortization of the bonds. Further details are presented in note 21.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

9. Long-Term Liabilities (Continued)

Current Year Debt Issuance

On May 27, 2021, the City issued \$1,555,000 of series 2021 general obligation refunding bonds with an average interest rate of 1.24% to currently refund \$1,470,000 of outstanding series 2010D general obligation public improvement bonds with an average interest rate of 3.99%. The net proceeds of \$1,493,089 (after payment of \$61,160 in issuance costs) were used to extinguish the series 2010D bonds. Additional proceeds of \$751 will be used for future interest payments.

The current refunding of the series 2010D bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$68,971. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being amortized over the remaining life of the old bonds as a component of interest expense through the year 2028. The City completed the current refunding of the series 2010D bonds to reduce its total debt service payments by \$122,636 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$117,916.

Legal Debt Limit

The *Constitution of Virginia*, Article VII, Section 10(a), sets forth the City's legal debt limit as ten percent of the assessed valuation of the real estate in the City subject to taxation. As of June 30, 2021, ten percent of the assessed value of real property in the City is \$236,093,989. The City's net debt applicable to the legal debt limit is \$56,664,975, and the legal debt margin is \$179,429,014. Additional information about the City's legal debt margin is available in Table 10.

10. Operating Leases

Rental Costs

The City and School Division lease office equipment and infrastructure under several non-cancellable operating lease agreements expiring at various dates through fiscal year 2027. Rent expenditures for the current year were \$59,362 and \$11,567 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
2022	\$ 46,438	\$ 3,425
2023	19,498	-
2024	6,972	-
2025	1,885	-
2026	1,393	-
Thereafter	232	-
	\$ 76,418	\$ 3,425

Rental Revenues

The City leases various City-owned properties and buildings under non-cancelable lease agreements through fiscal year 2027. The net book value of leased assets of \$8.2 million (cost of \$14.8 million less accumulated depreciation of \$6.6 million) is included in capital assets in the government-wide financial statements. Rent revenues for the current year were \$180,450. Certain leases contain provisions for future increased revenues based upon changes in the Cost of Living Index.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

10. Operating Leases (Continued)

Rental Revenues (Continued)

Scheduled minimum rent revenues for succeeding fiscal years are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2022	\$ 179,335
2023	176,424
2024	161,649
2025	151,121
2026	130,323
Thereafter	5,956
	<u>\$ 804,808</u>

11. Capital Leases

On July 24, 2019, the City entered into a 60 month lease agreement with De Lage Landen Public Finance LLC to lease two Cisco Firepower 2120 NGFW Appliances. Under the lease agreement, the City pays \$14,529.60 annually to the lessor, representing principal payments only. Capital lease accounting is required due to transfer of ownership at the end of the lease, bargain purchase price, lease term greater than 75% of the useful life and the net present value of payments through the term of the lease. The lease assets and obligation are accounted for in the Statement of Net Position. At June 30, 2021, the original cost of the equipment was \$72,648 and accumulated depreciation was \$27,848.

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

<u>Fiscal Year Ending</u>	<u>Amount</u>
June 30, 2022	\$ 14,530
June 30, 2023	14,530
June 30, 2024	14,529
Total minimum lease payments	43,589
Less: Amount representing interest	-
Present value of minimum lease payments	<u>\$ 43,589</u>

12. 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 and on the following page:

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Fund Balances:				
Nonspendable:				
Inventories	\$ 592,937	\$ -	\$ -	\$ 592,937
Prepays	195,462	-	-	195,462
	<u>788,399</u>	<u>-</u>	<u>-</u>	<u>788,399</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

12. Fund Balance (Continued)

	General	Debt Service	Capital Projects	Total Governmental Funds
Fund Balances:				
Restricted for:				
Law enforcement	399,299	-	-	399,299
Fire and rescue	148,453	-	687,674	836,127
Street equipment	-	-	300,184	300,184
Building maintenance and improvements	-	-	36,800	36,800
Highway maintenance	1,710,065	-	-	1,710,065
Education	-	-	9,169,987	9,169,987
Parks and recreation	6,342	-	534,473	540,815
	<u>2,264,159</u>	<u>-</u>	<u>10,729,118</u>	<u>12,993,277</u>
Committed to:				
Law enforcement	84,658	-	-	84,658
Stormwater management	13,034	-	-	13,034
	<u>97,692</u>	<u>-</u>	<u>-</u>	<u>97,692</u>
Assigned to:				
Technology systems	188,128	-	-	188,128
Law enforcement	190,043	-	-	190,043
Fire and rescue	12,726	-	-	12,726
Street equipment	258,188	-	-	258,188
Engineering	9,729	-	-	9,729
Public works	-	-	194,383	194,383
Parks and recreation	118,546	-	1,004,673	1,123,219
Economic development	80,623	-	792,445	873,068
Other purposes	17,291	751	15,910	33,952
	<u>875,274</u>	<u>751</u>	<u>2,007,411</u>	<u>2,883,436</u>
Unassigned:	<u>45,953,252</u>	<u>-</u>	<u>-</u>	<u>45,953,252</u>
Total fund balances	<u>\$ 49,978,776</u>	<u>\$ 751</u>	<u>\$ 12,736,529</u>	<u>\$ 62,716,056</u>

13. 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 Risk Sharing Association (VRSA) for the City and through VACORP 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 \$522,939 and \$105,645 for the City and School Division, respectively.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

13. Risk Management (Continued)

General Liability and Other

The City provides general liability and other insurance through VRSA. 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 \$379,348.

The School Division provides general liability and other insurance through VACORP. General liability, automobile liability, and property damage have a \$2,000,000 limit per occurrence. The School Division also has a separate student accident insurance policy through VACORP. Total premiums for the current fiscal year were \$131,876.

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 VRSA. In exchange for annual premiums paid while employees are in active service, VRSA 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 VRSA's insolvency. The Commonwealth of Virginia has the authority to establish and amend LODA. Total premiums for the current year to VRSA for Line of Duty coverage were \$119,302.

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 \$200,000 per covered individual and approximately \$9,796,102 in the aggregate.

During the current fiscal year, total claim expenses of \$8,932,896, 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, 2021. The estimated liability for the City and School Division was \$394,238 and \$322,558, respectively for a total of \$716,796 at year-end.

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

Year Ended June 30	Beginning Balance	Claim Expenses	Claim Payments	Ending Balance
2021	\$ 581,259	\$ 8,932,896	\$ 8,797,359	\$ 716,796
2020	936,640	8,952,998	9,308,379	581,259
2019	1,234,976	7,482,834	7,781,170	936,640

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

13. Risk Management (Continued)

Dental

The City's professionally administered self-insurance program provides dental coverage for employees of the City and School Division on a cost-reimbursement basis. The City began offering dental coverage through the self-insurance program on January 1, 2020. All active employees, retired City employees and retired School Division employees pay a premium equivalent for participation. The premium equivalent represents a minimum of 0% active or retired employee participation. The City is obligated for claims payments under the program.

During the current fiscal year, total claim expenses of \$535,775 were incurred. This represents claims processed and an estimate for claims incurred but not reported (IBNR) as of June 30, 2021. The estimated liability for the City and School Division was \$11,000 and \$13,000, respectively for a total of \$24,000 at year-end.

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

Year Ended June 30	Beginning Balance	Claim Expenses	Claim Payments	Ending Balance
2021	\$ 19,400	\$ 535,775	\$ 531,175	\$ 24,000
2020	-	220,597	201,197	19,400

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.

14. 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 pay 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 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, service credit and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, they were vested as of January 1, 2013, and they have not taken a refund.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

14. Pension Plan (Continued)

Plan Description (Continued)

VRS PLAN 1 (Continued)

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

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.

Service Credit – Service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit 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 service credit. 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 determined using the average final compensation, service credit and plan multiplier. An early retirement reduction is applied to this amount if the member is retiring with a reduced benefit. In cases where the member has elected an optional form of retirement payment, an option factor specific to the option chosen is then applied.

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 for 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 – The normal retirement age is age 65 for non-hazardous duty employees and age 60 for 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 service credit or at age 50 with at least 30 years of service credit. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of service credit or age 50 with at least 25 years of service credit.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

14. Pension Plan (Continued)

Plan Description (Continued)

VRS PLAN 1 (Continued)

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 service credit or age 50 with at least 10 years of service credit. Hazardous duty members may retire with a reduced benefit at age 50 with at least five years of service credit.

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

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

The COLA is effective July 1st following one full calendar year (January 1st to December 31st) 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.
- 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 1st following one full calendar year (January 1st to December 31st) 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 service credit in their plan. Prior service credit 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:

Under the VRS Retirement Plan, employees are in 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 July 1, 2013.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

14. Pension Plan (Continued)

Plan Description (Continued)

VRS PLAN 2 (Continued)

Under the VRS Teacher Retirement Plan, members are in VRS Plan 2 if their membership date is from July 1, 2010, to December 31, 2013, and they have not taken a refund. Members are covered under VRS Plan 2 if they have a membership date prior to 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 the 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 service credit earned, purchased or granted on or after January 1, 2013.

Normal Retirement Age – The normal retirement age is 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 with at least five years (60 months) of service credit or when their age plus service credit equals 90.

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

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

14. Pension Plan (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

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

- 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.

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.

Service Credit

Defined Benefit Component: Under the defined benefit component of the plan, service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit 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, service credit 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 (60 months) of service credit. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of service credit who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

14. Pension Plan (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

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.

Distributions are not required, except as governed by law.

Calculating the Benefit

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

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

Service Retirement Multiplier

Defined Benefit Component: The retirement multiplier for the defined benefit component 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 (60 months) of service credit or when their age plus service credit equals 90.

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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

14. Pension Plan (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

Earliest Reduced Retirement Eligibility

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

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

Employees Covered by Benefit Terms

As of the June 30, 2019, 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	671	75
Inactive members:		
Vested inactive members	158	16
Non-vested inactive members	180	36
Inactive members active elsewhere in VRS	255	20
Total inactive members	593	72
Active members	497	65
Total covered employees	1,761	212

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

14. Pension Plan (Continued)

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.

The City's contractually required contribution rate for the year ended June 30, 2021, was 18.23% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. 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 \$4,095,082 and \$3,730,748 for the years ended June 30, 2021, and June 30, 2020, respectively.

The School Division's non-professional employees' contractually required contribution rate for the year ended June 30, 2021, was 2.30% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. 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 \$19,987 and \$39,178 for the years ended June 30, 2021, and June 30, 2020, 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, 2021, was 16.62% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. 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 \$3,841,661 and \$3,627,605 for the years ended June 30, 2021, and June 30, 2020, respectively.

Net Pension Liability

Under the VRS Retirement Plan, the net pension liability is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. The City's and School Division's net pension liabilities under the VRS Retirement Plan were measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2019, rolled forward to the measurement date of June 30, 2020.

Under the VRS Teacher Retirement Plan, the School Division reported a liability of \$39,759,230 for its proportionate share of the net pension liability at June 30, 2021. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. 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, 2020, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2020, the School Division's proportion was 0.27321% as compared to 0.27613% at June 30, 2019.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

14. Pension Plan (Continued)

Net Pension Liability (Continued)

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, 2020, net pension liability amounts for the VRS Teacher Retirement Plan are as follows (amounts expressed in thousands):

	Teacher Employee Retirement Plan
Total Pension Liability	\$ 51,001,855
Plan Fiduciary Net Position	36,449,229
Employers' Net Pension Liability	<u>\$ 14,552,626</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.47%

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, 2019, 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, 2020.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.35%
Investment rate of return	6.75%, net of pension plan investment expenses, 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of pension liabilities.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

14. Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

Mortality rates:

Largest Ten – Non-Hazardous Duty: 20% 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 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-Ten 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 at 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, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest Ten – Non-Hazardous Duty:

- 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 – Lowered rates
- Salary Scale – No change
- Line of Duty Disability – Increased rate from 14% to 20%
- Discount Rate – Decreased rate from 7.00% to 6.75%

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

14. Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

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

- 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 – Lowered rates
- Salary Scale – No change
- Line of Duty Disability – Increased rate from 14% to 15%
- Discount Rate – Decreased rate from 7.00% to 6.75%

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, 2019, 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, 2020:

Inflation	2.50%
Salary increases, including inflation	3.50% - 4.75%
Investment rate of return	6.75%, net of pension plan investment expenses, 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of pension liabilities.

Mortality rates:

Largest Ten – 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, 2021**

14. Pension Plan (Continued)

Actuarial Assumptions – Public Safety Employees with Hazardous Duty Benefits (Continued)

All Others (Non-Ten 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 year, 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, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest Ten – Hazardous Duty:

- 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
- Disability Rates – Increased rates
- Salary Scale – No change
- Line of Duty Disability – Increased rate from 60% to 70%
- Discount Rate – Decreased rate from 7.00% to 6.75%

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

- 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 year age and service through 9 years of service
- Disability Rates – Adjusted rates to better fit experience
- Salary Scale – No change
- Line of Duty Disability – Decreased rate from 60% to 45%
- Discount Rate – Decreased rate from 7.00% to 6.75%

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

14. Pension Plan (Continued)

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, 2019, 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, 2020.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.95%
Investment rate of return	6.75%, net of pension plan investment expenses, 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% 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, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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
- Discount Rate – Decreased rate from 7.00% to 6.75%

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

14. Pension Plan (Continued)

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	34.00%	4.65%	1.58%
Fixed Income	15.00%	0.46%	0.07%
Credit Strategies	14.00%	5.38%	0.75%
Real Assets	14.00%	5.01%	0.70%
Private Equity	14.00%	8.34%	1.17%
MAPS - Multi-Asset Public Strategies	6.00%	3.04%	0.18%
PIP - Private Investment Partnership	3.00%	6.49%	0.19%
Total	<u>100.00%</u>		<u>4.64%</u>
		Inflation	<u>2.50%</u>
		Expected arithmetic nominal return*	<u>7.14%</u>

* The above allocation provides a one-year return of 7.14%. 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 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75%, which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations provide a median return of 6.81%.

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. 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.

Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions, political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2020, the alternate rate was the employer contribution rate used in fiscal year 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017, actuarial valuations, whichever was greater.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

14. Pension Plan (Continued)

Discount Rate (Continued)

Through the fiscal year ending June 30, 2020, the rate contributed by the School Division for the VRS Teacher Retirement Plan was subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rates.

From July 1, 2020, on, participating employers and school divisions are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
City of Salem			
Balances at June 30, 2019	\$ 201,122,342	\$ 159,712,851	\$ 41,409,491
Changes for the year:			
Service cost	2,591,870	-	2,591,870
Interest	13,245,037	-	13,245,037
Difference between expected and actual experience	1,086,023	-	1,086,023
Contributions - employer	-	3,730,748	(3,730,748)
Contributions - employee	-	1,144,061	(1,144,061)
Net investment income	-	3,024,486	(3,024,486)
Benefit payments, including refunds of employee contributions	(12,314,513)	(12,314,513)	-
Administrative expenses	-	(107,374)	107,374
Other changes	-	(3,719)	3,719
Net changes	4,608,417	(4,526,311)	9,134,728
Balances at June 30, 2020	\$ 205,730,759	\$ 155,186,540	\$ 50,544,219

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

14. Pension Plan (Continued)

Changes in Net Pension Liability (Asset) (Continued)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
School Division (Non-Professional Staff)			
Balances at June 30, 2019	\$ 5,358,865	\$ 5,794,674	\$ (435,809)
Changes for the year:			
Service cost	119,513	-	119,513
Interest	350,152	-	350,152
Difference between expected and actual experience	(195,286)	-	(195,286)
Contributions - employer	-	39,178	(39,178)
Contributions - employee	-	58,791	(58,791)
Net investment income	-	110,040	(110,040)
Benefit payments, including refunds of employee contributions	(342,849)	(342,849)	-
Administrative expenses	-	(3,871)	3,871
Other changes	-	(128)	128
Net changes	<u>(68,470)</u>	<u>(138,839)</u>	<u>70,369</u>
Balances at June 30, 2020	<u>\$ 5,290,395</u>	<u>\$ 5,655,835</u>	<u>\$ (365,440)</u>

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

The following presents the City's and School Division's net pension liabilities (assets) under the VRS Retirement Plan and the School Division's proportionate share of the net pension liability under the VRS Teacher Retirement Plan using the discount rate of 6.75%, as well as what the net pension liabilities (assets) would be if they were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	Net Pension Liability (Asset)		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
City of Salem			
Retirement Plan	\$ 74,849,212	\$ 50,544,219	\$ 30,196,297
School Division			
Retirement Plan (Non-Professional Staff)	203,808	(365,440)	(845,021)
Teacher Retirement Plan	58,335,720	39,759,230	24,394,124

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

14. Pension Plan (Continued)

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

For the year ended June 30, 2021, the City and School Division recognized pension expense of \$8,844,666 and \$3,898 respectively, under the VRS Retirement Plan.

For the year ended June 30, 2021, the School Division recognized pension expense of \$4,116,112 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, 2021, the City and School Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
City of Salem		
Differences between expected and actual experience	\$ 820,094	\$ -
Changes in assumptions	1,033,322	-
Net difference between projected and actual earnings on pension plan investments	4,677,670	-
Employer contributions subsequent to the measurement date	4,095,082	-
Total	<u>\$ 10,626,168</u>	<u>\$ -</u>
School Division (Non-Professional Staff)		
Differences between expected and actual experience	\$ -	\$ 98,143
Changes in assumptions	3,275	-
Net difference between projected and actual earnings on pension plan investments	167,327	-
Employer contributions subsequent to the measurement date	19,987	-
Total	<u>\$ 190,589</u>	<u>\$ 98,143</u>
School Division - Teacher Retirement Plan		
Differences between expected and actual experience	\$ -	\$ 2,330,504
Changes in assumptions	2,714,066	-
Net difference between projected and actual earnings on pension plan investments	3,024,130	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	161,128	848,782
Employer contributions subsequent to the measurement date	3,841,661	-
Total	<u>\$ 9,740,985</u>	<u>\$ 3,179,286</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

14. Pension Plan (Continued)

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

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of (increase to) the net pension liability in the fiscal year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	City of Salem	School Division (Non-Professional)	School Division - Teacher Retirement Plan
2022	\$ 1,686,461	\$ (93,564)	\$ (189,343)
2023	1,705,339	53,283	892,873
2024	1,626,151	58,200	1,175,306
2025	1,513,135	54,540	903,820
2026	-	-	(62,618)
	<u>\$ 6,531,086</u>	<u>\$ 72,459</u>	<u>\$ 2,720,038</u>

Payable to the Pension Plan

At June 30, 2021, \$439,603 and \$7,215 were payable to the System under the VRS Retirement Plan for the legally required contributions of the City and School Division, respectively, related to the June 2021 payroll.

At June 30, 2021, \$494,171 was payable to the System under the VRS Teacher Retirement Plan for the legally required contributions related to the June 2021 payroll.

Pension Plan Data

Information about the VRS Retirement Plan and the VRS Teacher Retirement Plan is available in the separately issued VRS 2020 Comprehensive Annual Financial Report (Annual Report), now called an annual comprehensive financial report. A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2020-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

15. Summary of Pension Elements

A summary of the pension-related financial statement elements is as follows:

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units
Pension Expense				
VRS Retirement Plan	\$ 6,949,840	\$ 1,894,826	\$ 8,844,666	\$ 3,898
VRS Teacher Retirement Plan	-	-	-	4,116,112
Total Pension Expense	<u>\$ 6,949,840</u>	<u>\$ 1,894,826</u>	<u>\$ 8,844,666</u>	<u>\$ 4,120,010</u>
Net Pension Asset				
VRS Retirement Plan	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 365,440</u>
Net Pension Liability				
VRS Retirement Plan	\$ 39,877,736	\$ 10,666,483	\$ 50,544,219	\$ -
VRS Teacher Retirement Plan	-	-	-	39,759,230
Total Pension Liability	<u>\$ 39,877,736</u>	<u>\$ 10,666,483</u>	<u>\$ 50,544,219</u>	<u>\$ 39,759,230</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

15. Summary of Pension Elements (Continued)

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units
Deferred Outflows of Resources				
Differences between expected and actual experience				
VRS Retirement Plan	\$ 644,401	\$ 175,693	\$ 820,094	\$ -
Changes in assumptions				
VRS Retirement Plan	811,950	221,372	1,033,322	3,275
VRS Teacher Retirement Plan	-	-	-	2,714,066
Net difference between projected and actual earnings on pension plan investments				
VRS Retirement Plan	3,675,556	1,002,114	4,677,670	167,327
VRS Teacher Retirement Plan	-	-	-	3,024,130
Changes in proportion and differences between employer contributions and proportionate share of contributions				
VRS Teacher Retirement Plan	-	-	-	161,128
Employer contributions subsequent to the measurement date				
VRS Retirement Plan	3,230,639	864,443	4,095,082	19,987
VRS Teacher Retirement Plan	-	-	-	3,841,661
Total Deferred Outflows of Resources	<u>\$ 8,362,546</u>	<u>\$ 2,263,622</u>	<u>\$ 10,626,168</u>	<u>\$ 9,931,574</u>
Deferred Inflows of Resources				
Differences between expected and actual experience				
VRS Retirement Plan	\$ -	\$ -	\$ -	\$ 98,143
VRS Teacher Retirement Plan	-	-	-	2,330,504
Changes in proportion and differences between employer contributions and proportionate share of contributions				
VRS Teacher Retirement Plan	-	-	-	848,782
Total Deferred Inflows of Resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,277,429</u>

16. 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 73% and 96% of the subscriber-only premium. If the retiree elects retiree/spouse, retiree/children, or family coverage, the City contributes between 40% and 57% of the retiree/spouse, retiree/children, or family premium. If the retiree elects retiree/child coverage, the City contributes between 64% and 82% of the retiree/child premium. The actual City contribution within each range depends on the health plan selected by the retiree.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

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

Plan Description (Continued)

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 and/or 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 and/or 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.

Employees Covered by Benefit Terms

As of June 30, 2021, 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:

	<u>City of Salem</u>	<u>School Division</u>
Active employees	478	532
Retired participants	304	29
Total participants	<u>782</u>	<u>561</u>

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 27%, 18% to 36%, 43% to 60%, 43% to 60%, and 43% to 60% 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 \$545,217 and \$250,816, respectively, of the total premiums through their required contributions of between \$16.40 and \$1,707, depending on the type of coverage and years of service.

The City and School Division contributed \$1,677,090 and \$139,150, respectively, in pay-as-you-go contributions to the Retiree Health Plan for the year ended June 30, 2021. 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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

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

Net OPEB Liability

Under the Retiree Health Plan, the City's and School Division's net OPEB liabilities were measured as of June 30, 2021. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation performed as of June 30, 2021. The components of the net OPEB liability as of June 30, 2021, were as follows:

	<u>City of Salem</u>	<u>School Division</u>
Total OPEB liability	\$ 22,796,606	\$ 2,239,811
Plan fiduciary net position	9,644,999	2,173,845
Net OPEB liability	<u>\$ 13,151,607</u>	<u>\$ 65,966</u>
Plan fiduciary net position as a percentage of total OPEB liability	42.31%	97.05%

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, 2021
Measurement date	June 30, 2021
Inflation	2.50%
Investment rate of return	6.5%, net of investment expense
Pre-65 healthcare cost trend rates	City: 5.70% for 2021 graded to 4.00% by 2073 School Division: 5.70% for 2021 graded to 4.00% by 2073
Post-65 healthcare cost trend rates	City: 4.80% for 2021 graded to 4.00% by 2073 School Division: N/A
Pre-retirement mortality	RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020 set back 1 year for males at 85% of rates and set back 1 year for females
Post-retirement mortality	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020 set forward 1 year for males and set back 1 year for females with 1.5% increase compounded from ages 70 to 85

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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

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

Plan Investments (Continued)

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:

Asset Class	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Geometric Long-Term Expected Rate of Return
Core Fixed Income	21.00%	0.83%	0.76%
Large Cap US Equities	26.00%	3.93%	2.74%
Small Cap US Equities	10.00%	5.09%	3.08%
Foreign Developed Equities	13.00%	5.73%	4.16%
Emerging Market Equities	5.00%	7.51%	4.70%
Private Real Estate Property	7.00%	3.89%	3.18%
Private Equity	5.00%	8.99%	5.19%
Commodities	3.00%	2.29%	0.68%
Hedge FOF Strategic	10.00%	2.71%	2.20%
Assumed Inflation		2.40%	2.40%
Portfolio Real Mean Return		3.93%	3.27%
Portfolio Nominal Mean Return		6.33%	5.74%
Portfolio Standard Deviation			11.60%
Long-Term Expected Rate of Return			6.50%

At June 30, 2021, 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, 2021, the annual money-weighted rate of return on the plan investments, net of OPEB plan investment expense, was 30.04% for the City and 30.01% 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 6.50%. 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 6.50% 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, 2021

16. 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, 2020	\$ 21,593,246	\$ 7,232,328	\$ 14,360,918
Changes for the year:			
Service cost	270,595	-	270,595
Interest	1,375,786	-	1,375,786
Effect of plan changes	114,679	-	114,679
Effect of economic/demographic gains or losses	(113,226)	-	(113,226)
Effect of assumption changes	1,232,616	-	1,232,616
Contributions - employer	-	1,912,020	(1,912,020)
Net investment income	-	2,186,418	(2,186,418)
Benefit payments	(1,677,090)	(1,677,090)	-
Administrative expenses	-	(8,677)	8,677
Net changes	1,203,360	2,412,671	(1,209,311)
Balances at June 30, 2021	\$ 22,796,606	\$ 9,644,999	\$ 13,151,607
School Division			
Balances at June 30, 2020	\$ 2,148,109	\$ 1,598,570	\$ 549,539
Changes for the year:			
Service cost	72,888	-	72,888
Interest	139,914	-	139,914
Effect of economic/demographic gains or losses	(51,503)	-	(51,503)
Effect of assumption changes	69,553	-	69,553
Contributions - employer	-	236,285	(236,285)
Net investment income	-	480,434	(480,434)
Benefit payments	(139,150)	(139,150)	-
Administrative expenses	-	(2,294)	2,294
Net changes	91,702	575,275	(483,573)
Balances at June 30, 2021	\$ 2,239,811	\$ 2,173,845	\$ 65,966

(The table above presents amounts associated with the primary government. The OPEB Trust Fund financial statements present amounts associated with the primary government and custodial entities.)

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

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

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 6.50%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate:

	Net OPEB Liability		
	1% Decrease (5.50%)	Current Discount (6.50%)	1% Increase (7.50%)
City of Salem	\$ 15,393,965	\$ 13,151,607	\$ 11,214,676
School Division	240,857	65,966	(95,612)

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	\$ 11,896,730	\$ 13,151,607	\$ 14,608,644
School Division	(144,684)	65,966	309,139

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

For the year ended June 30, 2021, the City and School Division recognized OPEB expense of \$513,257 and \$20,337, respectively. At June 30, 2021, 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		
Differences between expected and actual experience	\$ -	\$ 1,342,980
Changes in assumptions	1,059,009	1,426,417
Net difference between projected and actual earnings on plan investments	-	1,188,472
Total	<u>\$ 1,059,009</u>	<u>\$ 3,957,869</u>
School Division		
Differences between expected and actual experience	\$ 11,428	\$ 45,372
Changes in assumptions	61,273	177,123
Net difference between projected and actual earnings on plan investments	-	260,303
Total	<u>\$ 72,701</u>	<u>\$ 482,798</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

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

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

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

<u>Year ended June 30,</u>	<u>City of Salem</u>	<u>School Division</u>
2022	\$ (783,262)	\$ (90,696)
2023	(756,377)	(85,672)
2024	(788,293)	(92,596)
2025	(836,845)	(103,251)
2026	92,489	(27,978)
Thereafter	173,428	(9,904)
	<u>\$ (2,898,860)</u>	<u>\$ (410,097)</u>

17. 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 upon employment. 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 about 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

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

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

Plan Description (Continued)

GROUP LIFE INSURANCE PROGRAM (Continued)

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 accumulated 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.
- 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 1st following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1st 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 service credit, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$8,616 as of June 30, 2021.

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 are enrolled automatically upon employment. They include:

- Full-time permanent salaried employees of the participating political subdivision 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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

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

Plan Description (Continued)

POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM

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.

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, 2019, 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	29
Active members	65
Total covered employees	<u>94</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

17. 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 1.34% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.80% (1.34% x 60%) and the employer component was 0.54% (1.34% 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, 2021, was 0.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. 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 \$125,161 and \$123,008 for the years ended June 30, 2021, and June 30, 2020, respectively. Employer contributions from the School Division for non-professional employees were \$6,844 and \$6,682 for the years ended June 30, 2021, and June 30, 2020, respectively. Employer contributions from the School Division for professional employees were \$128,493 and \$123,607 for years ended June 30, 2021, and June 30, 2020, 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 options provided to political subdivisions by the Virginia General Assembly. The School Division's contractually required employer contribution rate for the year ended June 30, 2021, was 0.68% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. 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 \$8,587 and \$7,533 for years ended June 30, 2021, and June 30, 2020, 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, 2021, was 1.21% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. 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 \$287,218 and \$284,600 for years ended June 30, 2021, and June 30, 2020, respectively.

Net OPEB Liability

Under the Political Subdivision Health Insurance Credit Program, the School Division's net OPEB liability was measured as of June 30, 2020. The total OPEB liability was determined by an actuarial valuation performed as of June 30, 2019, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2020.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

17. 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 \$1,902,916, \$103,968, and \$1,923,334, respectively, for their proportionate shares of the Group Life Insurance Program net OPEB liability. Under the Teacher Employee Health Insurance Credit Program, the School Division reported a liability of \$3,528,848 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, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation performed as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. 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, 2020, relative to the total of the actuarially determined employer contributions for all participating employers.

At June 30, 2020, the proportions of the Group Life Insurance Program for the City, School Division non-professional employees, and School Division professional employees were 0.11949%, 0.00623%, and 0.11525%, respectively, as compared to 0.12131%, 0.00634%, and 0.11726%, respectively, at June 30, 2019. At June 30, 2020, the proportion of the Teacher Employee Health Insurance Credit Program for the School Division was 0.27051%, as compared to 0.27380% at June 30, 2019.

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, 2020, net OPEB liability amounts are as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program	Teacher Employee HIC OPEB Program
Total OPEB liability	\$ 3,523,937	\$ 1,448,676
Plan fiduciary net position	1,855,102	144,160
Net OPEB liability	<u>\$ 1,668,835</u>	<u>\$ 1,304,516</u>
Plan fiduciary net position as a percentage of total OPEB liability	52.64%	9.95%

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, 2019, 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, 2020.

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	6.75%, net of pension plan investment expenses, including inflation*

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

17. 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of the OPEB liabilities.

Mortality rates - Teachers:

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, 2019, valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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
- Discount Rate – Decrease rate from 7.00% to 6.75%

Mortality rates – General Employees:

Largest Ten Locality Employers:

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to age 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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

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

Actuarial Assumptions (Continued)

Mortality rates – General Employees (Continued):

Largest Ten Locality Employers (Continued):

Post-Disablement:

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

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 Life Mortality Table 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, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest Ten Locality Employers:

- Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) – Updated to a more current mortality table – RP-2014 projected to 2020
- Retirement Rates – Lowered retirement rates at older ages and extended final retirement age from 70 to 75
- Withdrawal Rates – Adjusted termination rates to better fit experience at each age and service year
- Disability Rates – Lowered disability rates
- Salary Scale – No change
- Line of Duty Disability – Increased rate from 14% to 20%
- Discount Rate – Decreased rate from 7.00% to 6.75%

Non-Largest Ten Locality Employers:

- Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) – Updated to a more current mortality table – RP-2014 projected to 2020
- Retirement Rates – Lowered retirement rates at older ages and extended final retirement age from 70 to 75
- Withdrawal Rates – Adjusted termination rates to better fit experience at each age and service year
- Disability Rates – Lowered disability rates
- Salary Scale – No change
- Line of Duty Disability – Increased rate from 14% to 15%
- Discount Rate – Decreased rate from 7.00% to 6.75%

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

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

Actuarial Assumptions (Continued)

Mortality rates – Hazardous Duty Employees:

Largest Ten Locality Employers:

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to age 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 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table 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 to age 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 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. 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) – Updated to a more current mortality table – RP-2014 projected to 2020
- Retirement Rates – Lowered retirement rates at older ages
- Withdrawal Rates – Adjusted termination rates to better fit experience at each age and service year
- Disability Rates – Increased disability rates
- Salary Scale – No change
- Line of Duty Disability – Increased rate from 60% to 70%
- Discount Rate – Decreased rate from 7.00% to 6.75%

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

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

Actuarial Assumptions (Continued)

Mortality rates – Hazardous Duty Employees (Continued):

Non-Largest Ten Locality Employers:

- 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 termination rates to better fit experience at each age and service year
- Disability Rates – Adjusted rates to better match experience
- Salary Scale – No change
- Line of Duty Disability – Decreased rate from 60% to 45%
- Discount Rate – Decreased rate from 7.00% to 6.75%

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 following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return*
Public Equity	34.00%	4.65%	1.58%
Fixed Income	15.00%	0.46%	0.07%
Credit Strategies	14.00%	5.38%	0.75%
Real Assets	14.00%	5.01%	0.70%
Private Equity	14.00%	8.34%	1.17%
MAPS - Multi-Asset Public Strategies	6.00%	3.04%	0.18%
PIP - Private Investment Partnership	3.00%	6.49%	0.19%
Total	<u>100.00%</u>		<u>4.64%</u>
		Inflation	2.50%
		* Expected arithmetic nominal return	<u>7.14%</u>

* The above allocation provides a one-year return of 7.14%. 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 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75%, which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations provide a median return of 6.81%.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

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

Discount Rate

The discount rate used to measure the total OPEB liability was 6.75%. 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, 2020, the rate contributed by the entity for OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2020, on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB plans' fiduciary net positions were projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total OPEB liabilities.

Changes in Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
School Division - Political Subdivision			
Health Insurance Credit			
Balances at June 30, 2019	\$ 140,086	\$ 68,790	\$ 71,296
Changes for the year:			
Service cost	4,133	-	4,133
Interest	8,927	-	8,927
Changes in benefit terms	955	-	955
Differences between expected and actual experience	(10,631)	-	(10,631)
Contributions - employer	-	7,533	(7,533)
Net investment income	-	1,341	(1,341)
Benefit payments	(15,662)	(15,662)	-
Administrative expenses	-	(116)	116
Other changes	-	(1)	1
Net changes	<u>(12,278)</u>	<u>(6,905)</u>	<u>(5,373)</u>
Balances at June 30, 2020	<u>\$ 127,808</u>	<u>\$ 61,885</u>	<u>\$ 65,923</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

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

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

The following presents the City's and School Division's proportionate shares 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 6.75%, as well as what the net OPEB liabilities would be if they were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	Net OPEB Liability		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
City of Salem			
Group Life Insurance	\$ 2,501,529	\$ 1,902,916	\$ 1,416,786
School Division			
Group Life Insurance (Non-Professional)	136,674	103,968	77,408
Group Life Insurance (Professional)	2,528,370	1,923,334	1,431,988
Political Subdivision Health Insurance Credit	78,136	65,923	55,366
Teacher Employee Health Insurance Credit	3,950,177	3,528,848	3,170,748

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

For the year ended June 30, 2021, the City, School Division non-professional employees, and School Division professional employees recognized Group Life Insurance OPEB expense of \$57,289, \$3,203, and \$65,830, respectively. For the year ended June 30, 2021, the School Division recognized Political Subdivision Health Insurance Credit Program OPEB expense of \$905 and Teacher Employee Health Insurance Credit Program OPEB expense of \$274,262. 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, 2021, the City and School Division reported deferred outflows of resources and deferred inflows of resources related to Group Life Insurance (GLI) Program and Health Insurance Credit (HIC) Program OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
City of Salem - GLI		
Differences between expected and actual experience	\$ 123,105	\$ 17,239
Net difference between projected and actual earnings on program investments	57,655	-
Changes in assumptions	95,989	40,077
Changes in proportion	21,906	79,293
Employer contributions subsequent to the measurement date	125,161	-
Total	<u>\$ 423,816</u>	<u>\$ 136,609</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

17. 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	Deferred Inflows of Resources
School Division - Non-Professional GLI		
Differences between expected and actual experience	\$ 6,669	\$ 935
Net difference between projected and actual earnings on program investments	3,123	-
Changes in assumptions	5,200	2,171
Changes in proportion	1,102	5,957
Employer contributions subsequent to the measurement date	6,844	-
Total	<u>\$ 22,938</u>	<u>\$ 9,063</u>
School Division - Professional GLI		
Differences between expected and actual experience	\$ 123,364	\$ 17,275
Net difference between projected and actual earnings on program investments	57,775	-
Changes in assumptions	96,189	40,160
Changes in proportion	1,884	44,682
Employer contributions subsequent to the measurement date	128,493	-
Total	<u>\$ 407,705</u>	<u>\$ 102,117</u>
School Division - Political Subdivision HIC		
Differences between expected and actual experience	\$ -	\$ 18,568
Changes in assumptions	1,490	-
Net difference between projected and actual earnings on program investments	2,113	-
Employer contributions subsequent to the measurement date	8,587	-
Total	<u>\$ 12,190</u>	<u>\$ 18,568</u>
School Division - Teacher Employee HIC		
Differences between expected and actual experience	\$ -	\$ 47,125
Net difference between projected and actual earnings on program investments	15,638	-
Changes in assumptions	69,760	19,281
Changes in proportion	18,074	107,726
Employer contributions subsequent to the measurement date	287,218	-
Total	<u>\$ 390,690</u>	<u>\$ 174,132</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

17. 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 employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in future reporting periods as follows:

		City of Salem		
Year ended		GLI		
June 30,				
2022		\$ 13,005		
2023		29,289		
2024		47,835		
2025		58,948		
2026		12,861		
Thereafter		108		
		<u>\$ 162,046</u>		

School Division				
Year ended	GLI	GLI	Political	Teacher
June 30,	Non-Professional	Professional	Subdivision HIC	Employee HIC
2022	\$ 805	\$ 21,455	\$ (8,931)	\$ (14,728)
2023	1,687	37,771	(3,783)	(13,178)
2024	2,246	53,652	(2,092)	(13,698)
2025	2,078	54,774	(159)	(9,611)
2026	221	9,476	-	(6,534)
Thereafter	(6)	(33)	-	(12,911)
	<u>\$ 7,031</u>	<u>\$ 177,095</u>	<u>\$ (14,965)</u>	<u>\$ (70,660)</u>

Payables to the OPEB Plans

At June 30, 2021, \$26,317, \$1,604, and \$31,704 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 the June 2021 payroll.

At June 30, 2021, \$814 and \$28,576 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 the June 2021 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 2020 Annual Report. A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2020-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, 2021

18. Summary of Other Postemployment Benefit Elements

A summary of the other postemployment benefit financial statement elements is as follows:

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units
OPEB Expense				
Retiree Health Plan	\$ 402,963	\$ 110,294	\$ 513,257	\$ 20,337
VRS Retirement Plan - GLI	45,010	12,279	57,289	3,203
VRS Retirement Plan - HIC	-	-	-	905
VRS Teacher Retirement Plan - GLI	-	-	-	65,830
VRS Teacher Retirement Plan - HIC	-	-	-	274,262
Total OPEB Expense	<u>\$ 447,973</u>	<u>\$ 122,573</u>	<u>\$ 570,546</u>	<u>\$ 364,537</u>
Net OPEB Liability				
Retiree Health Plan	\$ 10,081,750	\$ 3,069,857	\$ 13,151,607	\$ 65,966
VRS Retirement Plan - GLI	1,488,039	414,877	1,902,916	103,968
VRS Retirement Plan - HIC	-	-	-	65,923
VRS Teacher Retirement Plan - GLI	-	-	-	1,923,334
VRS Teacher Retirement Plan - HIC	-	-	-	3,528,848
Total OPEB Liability	<u>\$ 11,569,789</u>	<u>\$ 3,484,734</u>	<u>\$ 15,054,523</u>	<u>\$ 5,688,039</u>
Deferred Outflows of Resources				
Differences between expected and actual experience				
Retiree Health Plan	\$ -	\$ -	\$ -	\$ 11,428
VRS Retirement Plan - GLI	96,718	26,387	123,105	6,669
VRS Teacher Retirement Plan - GLI	-	-	-	123,364
Net difference between projected and actual earnings on program investments				
VRS Retirement Plan - GLI	45,297	12,358	57,655	3,123
VRS Retirement Plan - HIC	-	-	-	2,113
VRS Teacher Retirement Plan - GLI	-	-	-	57,775
VRS Teacher Retirement Plan - HIC	-	-	-	15,638
Changes in assumptions				
Retiree Health Plan	831,439	227,570	1,059,009	61,273
VRS Retirement Plan - GLI	75,415	20,574	95,989	5,200
VRS Retirement Plan - HIC	-	-	-	1,490
VRS Teacher Retirement Plan - GLI	-	-	-	96,189
VRS Teacher Retirement Plan - HIC	-	-	-	69,760
Changes in proportion				
VRS Retirement Plan - GLI	17,211	4,695	21,906	1,102
VRS Teacher Retirement Plan - GLI	-	-	-	1,884
VRS Teacher Retirement Plan - HIC	-	-	-	18,074
Employer contributions subsequent to the measurement date				
VRS Retirement Plan - GLI	98,354	26,807	125,161	6,844
VRS Retirement Plan - HIC	-	-	-	8,587
VRS Teacher Retirement Plan - GLI	-	-	-	128,493
VRS Teacher Retirement Plan - HIC	-	-	-	287,218
Total Deferred Outflows of Resources	<u>\$ 1,164,434</u>	<u>\$ 318,391</u>	<u>\$ 1,482,825</u>	<u>\$ 906,224</u>

CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

18. Summary of Other Postemployment Benefit Elements (Continued)

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units
Deferred Inflows of Resources				
Differences between expected and actual experience				
Retiree Health Plan	\$ 1,054,386	\$ 288,594	\$ 1,342,980	\$ 45,372
VRS Retirement Plan - GLI	13,544	3,695	17,239	935
VRS Retirement Plan - HIC	-	-	-	18,568
VRS Teacher Retirement Plan - GLI	-	-	-	17,275
VRS Teacher Retirement Plan - HIC	-	-	-	47,125
Net difference between projected and actual earnings on program investments				
Retiree Health Plan	933,081	255,391	1,188,472	260,303
Changes in assumptions				
Retiree Health Plan	1,119,893	306,524	1,426,417	177,123
VRS Retirement Plan - GLI	31,488	8,589	40,077	2,171
VRS Teacher Retirement Plan - GLI	-	-	-	40,160
VRS Teacher Retirement Plan - HIC	-	-	-	19,281
Changes in proportion				
VRS Retirement Plan - GLI	62,297	16,996	79,293	5,957
VRS Teacher Retirement Plan - GLI	-	-	-	44,682
VRS Teacher Retirement Plan - HIC	-	-	-	107,726
Total Deferred Inflows of Resources	<u>\$ 3,214,689</u>	<u>\$ 879,789</u>	<u>\$ 4,094,478</u>	<u>\$ 786,678</u>

19. Commitments and Contingencies

Construction Commitments

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

	Spent To Date	Remaining Contract
Downtown Sanitary Sewer Rehabilitation	\$ 4,580,148	\$ 72,386
Electric Substation Upgrades	3,473,720	8,124,971
Salem High School Renovation	17,860,137	9,014,209
Andrew Lewis Middle School Roof Replacement	305,415	209,185
	<u>\$ 26,219,420</u>	<u>\$ 17,420,751</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 or receivable when it is billed. The true-up for December 31, 2020 resulted in an expense of \$346,885 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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

19. Commitments and Contingencies (Continued)

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 expired 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.

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.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

20. 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, meals 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 2021, tax abatements for economic development incentives totaled \$76,386.

21. 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, 2021, the City remitted \$934,699 to RVRA for services. Financial statements may be obtained from RVRA at 1020 Hollins Road NE, Roanoke, Virginia 24012.

Blue Ridge Behavioral Healthcare

The Counties of Botetourt, Craig and Roanoke and the Cities of Roanoke and Salem formed Blue Ridge Behavioral Healthcare (BRBH) to provide a system of comprehensive community mental health, 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, 2021, the City remitted \$160,799 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 calculated as its percentage of utilization or average daily population, for the previous three fiscal years. The Commission has the authority to issue debt and such debt is the responsibility of the Commission. For the year ended June 30, 2021, the City remitted \$123,759 to the Commission for per diem charges. Financial statements may be obtained from the Commission at 498 Coyner Springs Road, Roanoke, Virginia 24012.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

21. Jointly Governed Organizations (Continued)

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, 2021, the City remitted \$7,090 for operating costs of the facility. Financial statements may be obtained from the Center at 1220 Kessler Mill Road, Salem, Virginia 24153.

Western Virginia Regional Jail Authority

The Counties of Franklin, Montgomery and Roanoke and the City of Salem formed the Western Virginia Regional Jail Authority (Jail Authority) to develop and operate a regional jail. The Jail Authority is governed by a 12-member board; three from each participating locality. Each locality's financial obligation, which includes operating expenses and debt, 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, 2021, the City remitted \$937,655 for per diem charges and \$368,160 for debt service to the Jail Authority. Financial statements may be obtained from the Jail Authority at 5885 West River Road, Salem, Virginia 24153.

Roanoke Valley Broadband Authority

The Counties of Botetourt and Roanoke and the Cities of Salem and Roanoke formed the Roanoke Valley Broadband Authority (RVBA) in order to acquire, finance, construct, operate, manage, and maintain a broadband system and related facilities pursuant to the Virginia Wireless Services Authorities Act. RVBA is governed by a five-member board, of which one member is appointed by the City. 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, 2021, the City remitted \$296,992 for operating costs and \$331,196 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, 2021, the City remitted \$4,682 for operating budget member dues and \$17,797 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, 2021, the School Division remitted \$51,865 for services. Financial statements may be obtained from RVGS at 2104 Grandin Road, Roanoke, Virginia 24015.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

21. Jointly Governed Organizations (Continued)

Roanoke Regional Airport Commission

The County of Roanoke and the Cities of Roanoke and Salem jointly participate in the Roanoke Regional Airport Commission (Commission), owner and operator of the Roanoke-Blacksburg Regional Airport. The Commission is governed by a seven-member board, of which one member is appointed by the City. Financial obligations of participating localities include any year end operating deficit and the current payment with respect to approved capital expenditures. Each locality's pro rata financial obligation is based on their population. For the year ended June 30, 2021, the City did not have a financial obligation to the Commission. Financial statements may be obtained from the Commission at 5202 Aviation Drive NW, Roanoke, VA 24012.

22. COVID-19 Impact

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency due to a new strain of coronavirus (the COVID-19 outbreak) and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic based on the rapid increase in exposure globally.

The City's operations are heavily dependent on the ability to raise taxes, assess fees, and access the capital markets. Additionally, access to grants and contracts from federal and state governments may decrease or may not be available depending on appropriations. The outbreak has had a material adverse impact on economic and market conditions, triggering a period of global economic slowdown. This situation has depressed the tax bases and other areas in which the City received revenue during fiscal year 2021. As such, the City's financial condition and liquidity was negatively impacted for fiscal year 2021.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude the pandemic will have on the City's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the City is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2022.

23. Subsequent Event

Effective September 1, 2021, the Virginia Department of Environmental Quality authorized a reduction in the cost of funds of the City's taxable general obligation public improvement bond, series 2004A, from 3.00% to 1.00% annually. The rate reduction will be reflected in semi-annual payments beginning January 1, 2022.

24. Accounting Change and Restatement

The Special Revenue Fund was established in fiscal year 2021 to segregate Coronavirus Local Fiscal Recovery Funds (CLRFR) funds received under the American Rescue Plan Act that was signed into law on March 11, 2021. The City received the first of two installments of funding in June 2021. Funds must be obligated by December 31, 2024, and expended by December 31, 2026. The establishment of this fund had no effect on beginning fund balance or beginning net position.

In fiscal year 2021, the City and School Division adopted GASB Statement No. 84, *Fiduciary Activities*. This statement established criteria for identifying fiduciary activities of all state and local governments. The criteria focused generally on whether a government controlled the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship existed. The statement described the following four fiduciary funds, which should be reported if applicable: pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds, and custodial funds.

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

24. Accounting Change and Restatement (Continued)

Adoption of GASB Statement No. 84 resulted in the City reporting resources held in a custodial capacity on behalf of the Cardinal Criminal Justice Academy and the Court-Community Corrections Program in custodial funds. Under previous guidance, the City reported these amounts in agency funds. This change required a restatement of the custodial funds' beginning net position.

The following is a summary of the restatement of the custodial funds' beginning net position resulting from the adoption of GASB Statement No. 84:

	Custodial Funds
Net position, beginning, not reported previously	\$ -
Recognition of Custodial Funds in accordance with GASB Statement No. 84	2,028,736
Net position, beginning, as restated	<u>\$ 2,028,736</u>

Additional detail about the restatement of the custodial funds' beginning net position resulting from the adoption of GASB Statement No. 84 follows:

	Cardinal Criminal Justice Academy	Court- Community Corrections Program	Total Custodial Funds
Net position, beginning, not reported previously	\$ -	\$ -	\$ -
Recognition of Custodial Funds in accordance with GASB Statement No. 84	441,253	1,587,483	2,028,736
Net position, beginning, as restated	<u>\$ 441,253</u>	<u>\$ 1,587,483</u>	<u>\$ 2,028,736</u>

Adoption of GASB Statement No. 84 resulted in the School Division reporting a special revenue fund in its governmental funds' statements for the School Activity Fund (Activity Fund) and including the Activity Fund in its governmental activities. The Activity Fund accounts for all funds received from extracurricular school activities, such as entertainment, athletic contests, club dues, etc., and from school-sponsored activities of the School Division that involve school personnel, students, or property. This change required a restatement of the component units' beginning net position. Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

The following is a summary of the restatement of the component units' beginning net position resulting from the adoption of GASB Statement No. 84:

	Component Units
Net position, beginning, as reported previously	\$ 21,192,326
Recognition of Activity Fund in accordance with GASB Statement No. 84	607,835
Net position, beginning, as restated	<u>\$ 21,800,161</u>

**CITY OF SALEM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

24. Accounting Change and Restatement (Continued)

Additional detail about the restatement of the component units' beginning net position resulting from the adoption of GASB Statement No. 84 follows:

	School Division	Economic Development Authority	Total Component Units
Net position, beginning, as reported previously	\$ 20,599,735	\$ 592,591	\$ 21,192,326
Recognition of Activity Fund in accordance with GASB Statement No. 84	607,835	-	607,835
Net position, beginning, as restated	<u>\$ 21,207,570</u>	<u>\$ 592,591</u>	<u>\$ 21,800,161</u>

25. New Accounting Standards

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 June 15, 2021. 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. 91, *Conduit Debt Obligations*, to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. The provisions of this statement are effective for fiscal years beginning after December 15, 2021. 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. 92, *Omnibus 2020*, to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Some provisions of this statement are effective upon issuance, and other provisions of this statement are effective for fiscal years beginning after June 15, 2021. Management has not completed the process of evaluating the full 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. 93, *Replacement of Interbank Offered Rates*, to address accounting and financial reporting implications that result from the replacement of an interbank offered rate. The provisions of this statement related to the removal of the London Interbank Offered Rate are effective for reporting periods ending after December 31, 2021. All other provisions of this statement are effective for reporting periods beginning after June 15, 2021. 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. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This statement also provides guidance for accounting and financial reporting for availability payment arrangements. The provisions of this statement are effective for fiscal years beginning after June 15, 2022. 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, 2021

25. New Accounting Standards (Continued)

The GASB has issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. This statement defines a subscription-based information technology arrangement, establishes that a subscription-based information technology arrangement results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a subscription-based information technology arrangement, and requires note disclosures regarding a subscription-based information technology arrangement. The provisions of this statement are effective for fiscal years beginning after June 15, 2022. 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. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. The first objective of this statement is to increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform. The second objective of this statement is to mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit plans, and employee benefit plans other than pension plans or other postemployment plans as fiduciary component units in fiduciary financial statements. The third objective of this statement is to enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through these plans. Some provisions of this statement are effective immediately, and some provisions of this statement are effective for reporting periods beginning after June 15, 2021. Management has not completed the process of evaluating the full impact that will result from adoption of the standard and is, therefore, unable to disclose the impact of adoption.

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REQUIRED SUPPLEMENTARY INFORMATION



The Required Supplementary Information subsection of the City of Salem, Virginia's Annual Comprehensive Financial Report includes changes in the net pension liability (asset) and related ratios, the 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, and employer other postemployment benefits contributions.

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
YEAR ENDED JUNE 30, 2021

	2020	2019	2018	2017	2016	2015	2014
Total pension liability							
Service cost	\$ 2,591,870	\$ 2,379,695	\$ 2,306,014	\$ 2,482,886	\$ 2,507,103	\$ 2,505,415	\$ 2,527,218
Interest	13,245,037	13,021,673	12,687,766	12,477,728	12,159,380	12,004,363	11,654,127
Difference between expected and actual experience	1,086,023	901,477	351,330	(1,567,004)	906,524	(2,262,692)	-
Changes in assumptions	-	5,416,334	-	279,953	-	-	-
Benefit payments, including refunds of employee contributions	(12,314,513)	(11,777,457)	(11,091,760)	(10,997,027)	(10,244,175)	(9,521,624)	(8,944,860)
Net change in total pension liability	4,608,417	9,941,722	4,253,350	2,676,536	5,328,832	2,725,462	5,236,485
Total pension liability - beginning	201,122,342	191,180,620	186,927,270	184,250,734	178,921,902	176,196,440	170,959,955
Total pension liability - ending	\$ 205,730,759	\$ 201,122,342	\$ 191,180,620	\$ 186,927,270	\$ 184,250,734	\$ 178,921,902	\$ 176,196,440
Plan fiduciary net position							
Contributions - employer	\$ 3,730,748	\$ 3,615,284	\$ 3,449,144	\$ 3,496,819	\$ 3,915,838	\$ 3,942,152	\$ 3,507,946
Contributions - employee	1,144,061	1,102,819	1,061,292	1,106,906	1,149,948	1,094,070	1,098,206
Net investment income	3,024,486	10,202,403	11,076,102	16,881,766	2,383,779	6,436,800	19,787,728
Benefit payments, including refunds of employee contributions	(12,314,513)	(11,777,457)	(11,091,760)	(10,997,027)	(10,244,175)	(9,521,624)	(8,944,860)
Administrative expense	(107,374)	(106,073)	(99,013)	(101,645)	(91,609)	(91,265)	(109,414)
Other	(3,719)	(6,401)	(9,719)	(14,845)	(1,041)	(1,350)	1,043
Net change in plan fiduciary net position	(4,526,311)	3,030,575	4,386,046	10,371,974	(2,887,260)	1,858,783	15,340,649
Plan fiduciary net position - beginning	159,712,851	156,682,276	152,296,230	141,924,256	144,811,516	142,952,733	127,612,084
Plan fiduciary net position - ending	\$ 155,186,540	\$ 159,712,851	\$ 156,682,276	\$ 152,296,230	\$ 141,924,256	\$ 144,811,516	\$ 142,952,733
Net pension liability - ending	\$ 50,544,219	\$ 41,409,491	\$ 34,498,344	\$ 34,631,040	\$ 42,326,478	\$ 34,110,386	\$ 33,243,707
Plan fiduciary net position as a percentage of the total pension liability	75.43%	79.41%	81.96%	81.47%	77.03%	80.94%	81.13%
Covered payroll	\$ 22,944,330	\$ 22,234,219	\$ 21,264,760	\$ 21,558,687	\$ 21,598,665	\$ 21,743,806	\$ 21,655,628
Net pension liability as a percentage of covered payroll	220.29%	186.24%	162.23%	160.64%	195.97%	156.87%	153.51%

Schedule is intended to show information for 10 years. Since fiscal year 2021 (plan year 2020) is the seventh year for this presentation, only six additional years of data are available. However, additional years will be included as they become available.

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

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS
YEAR ENDED JUNE 30, 2021

	School Division Plan Year					
	2020	2019	2018	2017	2016	2015
Total pension liability						
Service cost	\$ 119,513	\$ 130,680	\$ 130,240	\$ 120,806	\$ 124,227	\$ 132,051
Interest	350,152	348,873	350,464	345,744	347,691	337,943
Changes of assumptions	-	134,293	-	-	-	-
Difference between expected and actual experience	(195,286)	(81,471)	(177,270)	(39,860)	(182,245)	(45,142)
Changes in assumptions	-	-	-	(23,501)	-	-
Benefit payments, including refunds of employee contributions	(342,849)	(314,833)	(337,479)	(334,040)	(300,945)	(270,236)
Net change in total pension liability	(68,470)	217,542	(34,045)	69,149	(11,272)	154,616
Total pension liability - beginning	5,358,865	5,141,323	5,175,368	5,106,219	5,117,491	4,962,875
Total pension liability - ending	\$ 5,290,395	\$ 5,358,865	\$ 5,141,323	\$ 5,175,368	\$ 5,106,219	\$ 5,117,491
Plan fiduciary net position						
Contributions - employer	\$ 39,178	\$ 40,178	\$ 51,406	\$ 51,554	\$ 92,100	\$ 93,028
Contributions - employee	58,791	57,762	61,121	61,318	58,188	59,073
Net investment income	110,040	369,207	399,866	608,458	86,505	228,863
Benefit payments, including refunds of employee contributions	(342,849)	(314,833)	(337,479)	(334,040)	(300,945)	(270,236)
Administrative expense	(3,871)	(3,796)	(3,562)	(3,661)	(3,256)	(3,202)
Other	(128)	(231)	(350)	(535)	(37)	(47)
Net change in plan fiduciary net position	(138,839)	148,287	171,002	383,034	(67,445)	107,479
Plan fiduciary net position - beginning	5,794,674	5,646,387	5,475,385	5,092,291	5,159,736	5,052,257
Plan fiduciary net position - ending	\$ 5,655,835	\$ 5,794,674	\$ 5,646,387	\$ 5,475,385	\$ 5,092,291	\$ 5,159,736
Net pension liability (asset) - ending	\$ (365,440)	\$ (435,809)	\$ (505,064)	\$ (300,017)	\$ 13,928	\$ (42,245)
Plan fiduciary net position as a percentage of the total pension liability	106.91%	108.13%	109.82%	105.80%	99.73%	100.83%
Covered payroll	\$ 1,061,734	\$ 1,088,835	\$ 1,187,206	\$ 1,190,624	\$ 1,173,248	\$ 1,185,071
Net pension liability (asset) as a percentage of covered payroll	(34.42%)	(40.03%)	(42.54%)	(25.20%)	1.19%	(3.56%)

Schedule is intended to show information for 10 years. Since fiscal year 2021 (plan year 2020) is the seventh year for this presentation, only six additional years of data are available. However, additional years will be included as they become available.

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

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
YEAR ENDED JUNE 30, 2021**

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					
2021	\$ 4,095,082	\$ 4,095,082	\$ -	\$ 22,463,423	18.23%
2020*	3,730,748	3,730,748	-	22,944,330	16.26%
2019	3,615,284	3,615,284	-	22,234,219	16.26%
2018	3,449,144	3,449,144	-	21,264,760	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)					
2021	\$ 19,987	\$ 19,987	\$ -	\$ 869,000	2.30%
2020*	39,178	39,178	-	1,061,734	3.69%
2019**	40,178	40,178	-	1,088,835	3.69%
2018	51,406	51,406	-	1,187,206	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 2021 is the seventh year for this presentation, only six additional years of data are available. However, additional years will be included as they become available.

* Revised to reflect actual 2020 amounts as shown in the VRS actuarial report rather than estimated amounts used in the prior year ACFR.

** Prior to 2019, VRS contributions were made over twelve months for all employees, regardless of contract term. In fiscal year 2019, the School Division began contributing to VRS over each employee's contract term. For employees with contract terms less than twelve months, contributions and covered payroll recognized in fiscal year 2019 include amounts accrued for July and August of 2018, in addition to the full annual amount for fiscal year 2019.

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
VRS TEACHER RETIREMENT PLAN
YEAR ENDED JUNE 30, 2021**

Plan 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)	
2020	0.27321%	\$ 39,759,230	\$ 23,135,236	171.86%	71.47%
2019	0.27613%	36,340,277	22,568,718	161.02%	73.51%
2018	0.28140%	33,092,000	22,299,761	148.40%	74.81%
2017	0.27878%	34,284,000	21,639,120	158.44%	72.92%
2016	0.28026%	39,276,000	21,368,521	183.80%	68.28%
2015	0.28555%	35,941,000	21,230,718	169.29%	70.68%
2014	0.29170%	35,251,000	19,575,450	180.08%	70.88%

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

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
VRS TEACHER RETIREMENT PLAN
YEAR ENDED JUNE 30, 2021**

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)
2021	\$ 3,841,661	\$ 3,841,661	\$ -	\$ 23,114,687	16.62%
2020*	3,627,605	3,627,605	-	23,135,236	15.68%
2019**	3,538,775	3,538,775	-	22,568,718	15.68%
2018	3,639,321	3,639,321	-	22,299,761	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 2021 is the seventh year for this presentation, only six additional years of data are available. However, additional years will be included as they become available.

* Revised to reflect actual 2020 amounts as shown in the VRS actuarial report rather than estimated amounts used in the prior year ACFR.

** Prior to 2019, VRS contributions were made over twelve months for all employees, regardless of contract term. In fiscal year 2019, the School Division began contributing to VRS over each employee's contract term. For employees with contract terms less than twelve months, contributions and covered payroll recognized in fiscal year 2019 include amounts accrued for July and August of 2018, in addition to the full annual amount for fiscal year 2019.

CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
RETIREE HEALTH PLAN
YEAR ENDED JUNE 30, 2021

	City of Salem				
	2021	2020	2019	2018	2017
Total OPEB liability					
Service cost	\$ 270,595	\$ 298,111	\$ 319,409	\$ 376,793	\$ 352,143
Interest	1,375,786	1,377,095	1,612,928	1,723,845	1,688,424
Effect of plan changes	114,679	-	-	-	-
Effect of economic/demographic gains or losses	(113,226)	-	(2,149,293)	-	-
Effect of assumption changes	1,232,616	(77,972)	(2,370,696)	-	-
Benefit payments	(1,677,090)	(1,496,341)	(1,461,997)	(1,589,537)	(1,533,462)
Net change in total OPEB liability	1,203,360	100,893	(4,049,649)	511,101	507,105
Total OPEB liability - beginning	21,593,246	21,492,353	25,542,002	25,030,901	24,523,796
Total OPEB liability - ending	\$ 22,796,606	\$ 21,593,246	\$ 21,492,353	\$ 25,542,002	\$ 25,030,901
Plan fiduciary net position					
Contributions - employer	\$ 1,912,020	\$ 1,731,271	\$ 1,698,429	\$ 1,824,467	\$ 1,772,562
Net investment income	2,186,418	223,747	289,012	527,316	601,076
Benefit payments	(1,677,090)	(1,496,341)	(1,461,997)	(1,589,537)	(1,533,462)
Administrative expense	(8,677)	(8,014)	(7,245)	(6,596)	(5,982)
Net change in plan fiduciary net position	2,412,671	450,663	518,199	755,650	834,194
Plan fiduciary net position - beginning	7,232,328	6,781,665	6,263,466	5,507,816	4,673,622
Plan fiduciary net position - ending	\$ 9,644,999	\$ 7,232,328	\$ 6,781,665	\$ 6,263,466	\$ 5,507,816
Net OPEB liability - ending	\$ 13,151,607	\$ 14,360,918	\$ 14,710,688	\$ 19,278,536	\$ 19,523,085
Plan fiduciary net position as a percentage of the total OPEB liability	42.31%	33.49%	31.55%	24.52%	22.00%
Covered-employee payroll	\$ 23,727,114	\$ 23,606,599	\$ 23,606,599	\$ 22,779,070	\$ 22,779,070
Net OPEB liability as a percentage of covered-employee payroll	55.43%	60.83%	62.32%	84.63%	85.71%
Annual money-weighted rate of return, net of investment expense	30.04%	3.05%	4.59%	9.55%	12.83%

Schedule is intended to show information for 10 years. Since 2021 is the fifth year for this presentation, only four additional years of data are available. However, additional years will be included as they become available.

2021 data reflects totals for the City and excludes \$94,138 and \$76,638 of contributions and benefit payments, respectively, of custodial 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 CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
RETIREE HEALTH PLAN
YEAR ENDED JUNE 30, 2021

	School Division				
	2021	2020	2019	2018	2017
Total OPEB liability					
Service cost	\$ 72,888	\$ 74,370	\$ 73,179	\$ 71,941	\$ 67,235
Interest	139,914	136,316	158,451	151,536	145,477
Effect of economic/demographic gains or losses	(51,503)	-	17,662	-	-
Effect of assumption changes	69,553	(16,279)	(255,288)	-	-
Benefit payments	(139,150)	(136,057)	(151,400)	(136,054)	(125,858)
Net change in total OPEB liability	91,702	58,350	(157,396)	87,423	86,854
Total OPEB liability - beginning	2,148,109	2,089,759	2,247,155	2,159,732	2,072,878
Total OPEB liability - ending	<u>\$ 2,239,811</u>	<u>\$ 2,148,109</u>	<u>\$ 2,089,759</u>	<u>\$ 2,247,155</u>	<u>\$ 2,159,732</u>
Plan fiduciary net position					
Contributions - employer	\$ 236,285	\$ 233,192	\$ 248,535	\$ 233,189	\$ 211,531
Net investment income	480,434	44,595	59,924	105,580	116,176
Benefit payments	(139,150)	(136,057)	(151,400)	(136,054)	(125,858)
Administrative expense	(2,294)	(2,100)	(1,894)	(1,717)	(1,579)
Net change in plan fiduciary net position	575,275	139,630	155,165	200,998	200,270
Plan fiduciary net position - beginning	1,598,570	1,458,940	1,303,775	1,102,777	902,507
Plan fiduciary net position - ending	<u>\$ 2,173,845</u>	<u>\$ 1,598,570</u>	<u>\$ 1,458,940</u>	<u>\$ 1,303,775</u>	<u>\$ 1,102,777</u>
Net OPEB liability - ending	<u>\$ 65,966</u>	<u>\$ 549,539</u>	<u>\$ 630,819</u>	<u>\$ 943,380</u>	<u>\$ 1,056,955</u>
Plan fiduciary net position as a percentage of the total OPEB liability	97.05%	74.42%	69.81%	58.02%	51.06%
Covered-employee payroll	\$ 24,787,563	\$ 23,962,730	\$ 23,962,730	\$ 23,076,891	\$ 23,076,891
Net OPEB liability as a percentage of covered-employee payroll	0.27%	2.29%	2.63%	4.09%	4.58%
Annual money-weighted rate of return, net of investment expense	30.01%	3.05%	4.59%	9.52%	12.79%

Schedule is intended to show information for 10 years. Since 2021 is the fifth year for this presentation, only four additional years of data are available. However, additional years will be included as they become available.

Notes to Schedule:

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

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS
RETIREE HEALTH PLAN
YEAR ENDED JUNE 30, 2021**

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					
2021	\$ 1,081,831	\$ 1,912,020	\$ (830,189)	\$ 23,727,114	8.06%
2020	1,159,709	1,731,271	(571,562)	23,606,599	7.33%
2019	1,111,485	1,698,429	(586,944)	23,606,599	7.19%
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					
2021	\$ 92,108	\$ 236,285	\$ (144,177)	\$ 24,787,563	0.95%
2020	120,718	233,192	(112,474)	23,962,730	0.97%
2019	114,675	248,535	(133,860)	23,962,730	1.04%
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 2021 is the fifth year for this presentation, only four additional years of data are available. However, additional years will be included as they become available.

* Contribution amounts for the City of Salem do not include contributions for custodial 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, 2021
Measurement date	June 30, 2021
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll
Amortization period	Closed over 28 years
Asset valuation method	Market value
Investment rate of return	6.50%
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, 2021

	School Division			
	Plan Year			
	2020	2019	2018	2017
Total HIC OPEB liability				
Service cost	\$ 4,133	\$ 3,643	\$ 2,543	\$ 2,412
Interest	8,927	9,771	11,059	10,832
Changes of benefit terms	955	-	-	-
Changes in assumptions	-	2,818	-	370
Differences between expected and actual experience	(10,631)	(9,720)	(20,255)	-
Benefit payments	(15,662)	(12,020)	(11,482)	(9,254)
Net change in total HIC OPEB liability	(12,278)	(5,508)	(18,135)	4,360
Total HIC OPEB liability - beginning	140,086	145,594	163,729	159,369
Total HIC OPEB liability - ending	<u>\$ 127,808</u>	<u>\$ 140,086</u>	<u>\$ 145,594</u>	<u>\$ 163,729</u>
Plan fiduciary net position				
Contributions - employer	\$ 7,533	\$ 7,318	\$ 8,875	\$ 8,704
Net investment income	1,341	4,257	4,693	6,952
Benefit payments	(15,662)	(12,020)	(11,482)	(9,254)
Administrative expense	(116)	(90)	(108)	(109)
Other	(1)	(5)	(359)	359
Net change in plan fiduciary net position	(6,905)	(540)	1,619	6,652
Plan fiduciary net position - beginning	68,790	69,330	67,711	61,059
Plan fiduciary net position - ending	<u>\$ 61,885</u>	<u>\$ 68,790</u>	<u>\$ 69,330</u>	<u>\$ 67,711</u>
Net OPEB liability - ending	<u>\$ 65,923</u>	<u>\$ 71,296</u>	<u>\$ 76,264</u>	<u>\$ 96,018</u>
Plan fiduciary net position as a percentage of the total OPEB liability	48.42%	49.11%	47.62%	41.36%
Covered payroll	\$ 1,276,780	\$ 1,240,339	\$ 1,286,232	\$ 1,261,449
Net OPEB liability as a percentage of covered payroll	5.16%	5.75%	5.93%	7.61%

Schedule is intended to show information for 10 years. Since fiscal year 2021 (plan year 2020) 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 (plan year) of the previous fiscal year end.

**CITY OF SALEM, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS
POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM
YEAR ENDED JUNE 30, 2021**

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)
2021	\$ 8,587	\$ 8,587	\$ -	\$ 1,262,794	0.68%
2020*	7,533	7,533	-	1,276,780	0.59%
2019**	7,318	7,318	-	1,240,339	0.59%
2018	8,875	8,875	-	1,286,232	0.69%

Schedule is intended to show information for 10 years. Since 2021 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 2020 amounts as shown in the VRS actuarial report rather than estimated amounts used in the prior year ACFR.

** Prior to 2019, VRS contributions were made over twelve months for all employees, regardless of contract term. In fiscal year 2019, the School Division began contributing to VRS over each employee's contract term. For employees with contract terms less than twelve months, contributions and covered payroll recognized in fiscal year 2019 include amounts accrued for July and August of 2018, in addition to the full annual amount for fiscal year 2019.

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, 2021

Plan 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					
2020	0.11949%	\$ 1,902,916	\$ 23,655,385	8.04%	52.64%
2019	0.12131%	1,883,072	22,818,462	8.25%	52.00%
2018	0.11921%	1,726,760	21,687,115	7.96%	51.22%
2017	0.12390%	1,778,837	22,853,532	7.78%	48.86%
School Division - Group Life Insurance Program (Non-Professional Staff)					
2020	0.00623%	\$ 103,968	\$ 1,285,000	8.09%	52.64%
2019	0.00634%	103,169	1,243,077	8.30%	52.00%
2018	0.00676%	102,000	1,286,154	7.93%	51.22%
2017	0.00687%	103,000	1,268,277	8.12%	48.86%
School Division - Group Life Insurance Program (Professional Staff)					
2020	0.11525%	\$ 1,923,334	\$ 23,770,577	8.09%	52.64%
2019	0.11726%	1,908,133	22,986,731	8.30%	52.00%
2018	0.11861%	1,801,000	22,553,654	7.99%	51.22%
2017	0.11835%	1,781,000	21,829,358	8.16%	48.86%
School Division - Teacher Employee Health Insurance Credit Program					
2020	0.27051%	\$ 3,528,848	\$ 23,716,667	14.88%	9.95%
2019	0.27380%	3,584,308	22,965,750	15.61%	8.97%
2018	0.27878%	3,540,000	22,545,854	15.70%	8.08%
2017	0.27639%	3,506,000	21,812,560	16.07%	7.04%

Schedule is intended to show information for 10 years. Since fiscal year 2021 (plan year 2020) 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 (plan year) 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, 2021**

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 - Group Life Insurance Program					
2021	\$ 125,161	\$ 125,161	\$ -	\$ 23,177,963	0.54%
2020*	123,008	123,008	-	23,655,385	0.52%
2019	118,656	118,656	-	22,818,462	0.52%
2018	112,773	112,773	-	21,687,115	0.52%
School Division - Group Life Insurance Program (Non-Professional Staff)					
2021	\$ 6,844	\$ 6,844	\$ -	\$ 1,267,407	0.54%
2020*	6,682	6,682	-	1,285,000	0.52%
2019**	6,464	6,464	-	1,243,077	0.52%
2018	6,688	6,688	-	1,286,154	0.52%
School Division - Group Life Insurance Program (Professional Staff)					
2021	\$ 128,493	\$ 128,493	\$ -	\$ 23,795,000	0.54%
2020*	123,607	123,607	-	23,770,577	0.52%
2019**	119,531	119,531	-	22,986,731	0.52%
2018	117,279	117,279	-	22,553,654	0.52%
School Division - Teacher Employee Health Insurance Credit Program					
2021	\$ 287,218	\$ 287,218	\$ -	\$ 23,737,025	1.21%
2020*	284,600	284,600	-	23,716,667	1.20%
2019**	275,589	275,589	-	22,965,750	1.20%
2018	277,314	277,314	-	22,545,854	1.23%

Schedule is intended to show information for 10 years. Since 2021 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 2020 amounts as shown in the VRS actuarial report rather than estimated amounts used in the prior year ACFR.

** Prior to 2019, VRS contributions were made over twelve months for all employees, regardless of contract term. In fiscal year 2019, the School Division began contributing to VRS over each employee's contract term. For employees with contract terms less than twelve months, contributions and covered payroll recognized in fiscal year 2019 include amounts accrued for July and August of 2018, in addition to the full annual amount for fiscal year 2019.

**CITY OF SALEM, VIRGINIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2021**

1. Changes of Benefit Terms

Pension

There have been no actuarially material changes to the Virginia Retirement System (VRS) benefit provisions since the prior actuarial valuation.

Other Postemployment Benefits (OPEB)

There have been no actuarially material changes to the VRS benefit provisions since the prior actuarial valuation.

2. Changes of Assumptions

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest Ten – Non-Hazardous Duty:

- Updated mortality table to RP-2014 projected to 2020
- Lowered retirement rates at older ages and extended final retirement age from 70 to 75
- Updated withdrawal rates to better fit experience at each age and service year
- Lowered rates of disability retirement
- No changes to salary rates
- Increased Line of Duty Disability rates from 14% to 20%
- Decreased discount rate from 7.00% to 6.75%
- Applicable to: Pension, GLI OPEB, and HIC OPEB

Largest Ten – Hazardous Duty/Public Safety Employees:

- Updated mortality table to RP-2014 projected to 2020
- Lowered rates of retirement at older ages
- Updated withdrawal rates to better fit experience at each age and service year
- Increased disability rates
- No changes to salary rates
- Increased Line of Duty disability rates from 60% to 70%
- Decreased discount rate from 7.00% to 6.75%
- Applicable to: Pension and HIC OPEB

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

- Updated mortality table to RP-2014 projected to 2020
- Lowered rates of retirement at older ages and changed final retirement from 70 to 75
- Updated withdrawal rates to better fit experience at each age and service year
- Lowered disability rates
- No changes to salary rates
- Increased Line of Duty disability rate from 14% to 15%
- Decreased discount rate from 7.00% to 6.75%
- Applicable to: Pension, GLI OPEB, and HIC OPEB

**CITY OF SALEM, VIRGINIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2021**

2. Changes of Assumptions (Continued)

All Others (Non-Ten Largest) – Hazardous Duty/Public Safety Employees:

- Updated mortality table to RP-2014 projected to 2020
- Increased retirement rate at age 50 and lowered rates at older ages
- Updated withdrawal rates to better fit experience at each age and service year
- Updated disability rates to better fit experience
- No changes to salary rates
- Lowered Line of Duty rate from 60% to 45%
- Decreased discount rate from 7.00% to 6.75%
- Applicable to: Pension and HIC OPEB

Teacher cost-sharing pool

- Updated mortality table to RP-2014 projected to 2020
- Lowered retirement rates at older ages and changed final retirement from 70 to 75
- Updated withdrawal rates to better fit experience at each year age and service through 9 years of service
- Updated disability rates to better fit experience
- No changes to salary rates
- Decreased discount rate from 7.00% to 6.75%
- Applicable to: Pension, GLI OPEB, and HIC OPEB

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OTHER SUPPLEMENTARY INFORMATION



The Other Supplementary Information subsection of the City of Salem, Virginia's Annual Comprehensive 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 Custodial 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, 2021

	Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
ASSETS			
<i>Current assets:</i>			
Cash and cash equivalents	\$ 4,175	\$ 158,053	\$ 162,228
Receivables, net	53,379	20,942	74,321
Inventories	-	26,061	26,061
Prepaid items	100,454	-	100,454
Total current assets	158,008	205,056	363,064
<i>Capital assets:</i>			
Nondepreciable	259,932	-	259,932
Depreciable, net	2,991,614	33,026	3,024,640
Total capital assets	3,251,546	33,026	3,284,572
Total assets	3,409,554	238,082	3,647,636
DEFERRED OUTFLOWS OF RESOURCES	407,082	83,204	490,286
LIABILITIES			
<i>Current liabilities:</i>			
Accounts payable and accrued liabilities	59,733	6,044	65,777
Accrued payroll and related liabilities	86,621	22,312	108,933
Due to other funds	1,355,000	500,000	1,855,000
Unearned revenues	312,047	-	312,047
Compensated absences	74,889	26,771	101,660
Total current liabilities	1,888,290	555,127	2,443,417
<i>Noncurrent liabilities:</i>			
Compensated absences	45,652	-	45,652
Net pension liability	1,695,951	443,489	2,139,440
Net OPEB liability	468,582	94,021	562,603
Total noncurrent liabilities	2,210,185	537,510	2,747,695
Total liabilities	4,098,475	1,092,637	5,191,112
DEFERRED INFLOWS OF RESOURCES	137,494	22,073	159,567
NET POSITION			
Net investment in capital assets	3,251,546	33,026	3,284,572
Unrestricted (deficit)	(3,670,879)	(826,450)	(4,497,329)
Total net position	\$ (419,333)	\$ (793,424)	\$ (1,212,757)

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2021

	Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
OPERATING REVENUES			
Charges for services	\$ 483,728	\$ 202,878	\$ 686,606
Commissions	3,230	-	3,230
Other	35,318	3,681	38,999
Total operating revenues	<u>522,276</u>	<u>206,559</u>	<u>728,835</u>
OPERATING EXPENSES			
Salaries	872,282	196,302	1,068,584
Fringe benefits	499,561	113,719	613,280
Show expenses	214,801	-	214,801
Maintenance	98,878	1,326	100,204
Professional services	5,683	7,500	13,183
Insurance	23,577	1,642	25,219
Administration	87,434	10,688	98,122
Travel and training	199	-	199
Materials and supplies	12,339	84,011	96,350
Utilities	207,016	144	207,160
Depreciation	294,732	4,383	299,115
Commissions	-	38,229	38,229
Total operating expenses	<u>2,316,502</u>	<u>457,944</u>	<u>2,774,446</u>
Operating loss	<u>(1,794,226)</u>	<u>(251,385)</u>	<u>(2,045,611)</u>
NONOPERATING REVENUES (EXPENSES)			
Loss on disposal of capital assets	(377,181)	-	(377,181)
Net nonoperating revenues (expenses)	<u>(377,181)</u>	<u>-</u>	<u>(377,181)</u>
Loss before transfers	<u>(2,171,407)</u>	<u>(251,385)</u>	<u>(2,422,792)</u>
Transfers in	1,730,485	153,204	1,883,689
Change in net position	<u>(440,922)</u>	<u>(98,181)</u>	<u>(539,103)</u>
Net position, beginning	21,589	(695,243)	(673,654)
Net position, ending	<u>\$ (419,333)</u>	<u>\$ (793,424)</u>	<u>\$ (1,212,757)</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2021

	Enterprise Funds		
	Civic Center	Catering and Concessions	Total Nonmajor Proprietary Funds
OPERATING ACTIVITIES			
Receipts from customers	\$ 540,213	\$ 188,164	\$ 728,377
Payments to suppliers	(687,243)	(131,041)	(818,284)
Payments to employees	(1,223,644)	(256,079)	(1,479,723)
Other receipts	35,318	3,681	38,999
Net cash used in operating activities	<u>(1,335,356)</u>	<u>(195,275)</u>	<u>(1,530,631)</u>
NONCAPITAL FINANCING ACTIVITIES			
Interfund Loan	(245,000)	195,000	(50,000)
Transfers in	1,730,485	153,204	1,883,689
Net cash provided by noncapital financing activities	<u>1,485,485</u>	<u>348,204</u>	<u>1,833,689</u>
CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from sale of capital assets	5,805	-	5,805
Purchases of capital assets	(159,942)	-	(159,942)
Net cash used in capital and related financing activities	<u>(154,137)</u>	<u>-</u>	<u>(154,137)</u>
Net increase (decrease) in cash and cash equivalents	(4,008)	152,929	148,921
Cash and cash equivalents, beginning	<u>8,183</u>	<u>5,124</u>	<u>13,307</u>
Cash and cash equivalents, ending	<u>\$ 4,175</u>	<u>\$ 158,053</u>	<u>\$ 162,228</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR IS COMPRISED OF THE FOLLOWING:			
Cash and investments	\$ 4,175	\$ 158,053	\$ 162,228
Total	<u>\$ 4,175</u>	<u>\$ 158,053</u>	<u>\$ 162,228</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES			
Operating loss	\$ (1,794,226)	\$ (251,385)	\$ (2,045,611)
<i>Adjustments to reconcile operating loss to net cash used in operating activities</i>			
Depreciation	294,732	4,383	299,115
Pension expense, net of employer contributions	165,455	34,100	199,555
OPEB expense, net of employer contributions	(46,335)	(7,266)	(53,601)
<i>Decrease (increase) in assets:</i>			
Receivables, net	(38,803)	(14,714)	(53,517)
Inventories	-	7,064	7,064
Prepaid items	(70,233)	-	(70,233)
<i>Increase (decrease) in liabilities:</i>			
Accounts payable and accrued liabilities	32,917	5,435	38,352
Accrued payroll and related liabilities	26,866	15,218	42,084
Unearned revenues	92,058	-	92,058
Compensated absences	2,213	11,890	14,103
Net cash used in operating activities	<u>\$ (1,335,356)</u>	<u>\$ (195,275)</u>	<u>\$ (1,530,631)</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF FIDUCIARY NET POSITION
CUSTODIAL FUNDS
JUNE 30, 2021

	Cardinal Criminal Justice Academy	Court- Community Corrections Program	Total Custodial Funds
ASSETS			
Cash and cash equivalents	\$ 650,373	\$ 1,848,153	\$ 2,498,526
Receivables, net	79	161	240
Due from Commonwealth of Virginia	-	43,857	43,857
Prepaid items	-	6,629	6,629
Total assets	<u>650,452</u>	<u>1,898,800</u>	<u>2,549,252</u>
LIABILITIES			
Accounts payable and accrued liabilities	3,644	128,870	132,514
Accrued payroll and related liabilities	21,490	30,869	52,359
Due to City of Salem	3,431	6,508	9,939
Unearned revenues	132,112	-	132,112
Total liabilities	<u>160,677</u>	<u>166,247</u>	<u>326,924</u>
NET POSITION			
Restricted for:			
Individuals, organizations, and other governments	489,775	1,732,553	2,222,328
Total net position	<u>\$ 489,775</u>	<u>\$ 1,732,553</u>	<u>\$ 2,222,328</u>

CITY OF SALEM, VIRGINIA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
CUSTODIAL FUNDS
YEAR ENDED JUNE 30, 2021

	Cardinal Criminal Justice Academy	Court- Community Corrections Program	Total Custodial Funds
ADDITIONS			
Charges for services	\$ 538,500	\$ 587,002	\$ 1,125,502
Intergovernmental	138,543	983,299	1,121,842
Other	20,451	-	20,451
<i>Investment income</i>			
Interest and dividends	821	1,608	2,429
Total additions	<u>698,315</u>	<u>1,571,909</u>	<u>2,270,224</u>
DEDUCTIONS			
Payroll	548,619	945,517	1,494,136
Administrative	93,224	481,322	574,546
Capital outlay	7,950	-	7,950
Total deductions	<u>649,793</u>	<u>1,426,839</u>	<u>2,076,632</u>
Change in fiduciary net position	<u>48,522</u>	<u>145,070</u>	<u>193,592</u>
Net position, beginning, as restated (Note 24)	<u>441,253</u>	<u>1,587,483</u>	<u>2,028,736</u>
Net position, ending	<u><u>\$ 489,775</u></u>	<u><u>\$ 1,732,553</u></u>	<u><u>\$ 2,222,328</u></u>

CITY OF SALEM, VIRGINIA
 BALANCE SHEET
 ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF SALEM
 GOVERNMENTAL FUND
 JUNE 30, 2021

ASSETS

Cash and cash equivalents	\$ 314,206
Receivables, net	<u>5,446,167</u>
Total assets	<u><u>\$ 5,760,373</u></u>

LIABILITIES

Accounts payable and accrued liabilities	\$ 315
Due to primary government	<u>5,461,344</u>
Total liabilities	<u><u>5,461,659</u></u>

FUND BALANCE

Committed	55,000
Assigned	<u>243,714</u>
Total fund balance	<u><u>298,714</u></u>
 Total liabilities and fund balance	 <u><u>\$ 5,760,373</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, 2021

REVENUES

Revenue from use of money and property	\$ 117,504
Charges for services	92,275
Intergovernmental	625,108
Total revenues	<u>834,887</u>

EXPENDITURES

Community development	<u>1,128,764</u>
Total expenditures	<u>1,128,764</u>

Net change in fund balance	<u>(293,877)</u>
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Fund balance, beginning	<u>592,591</u>
Fund balance, ending	<u><u>\$ 298,714</u></u>



The Statistical Section of the City of Salem, Virginia's Annual Comprehensive 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.....	142
<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.....	147
<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.....	150
<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.....	152
<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.....	154
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the government provides and the activities it performs.</i>	

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TABLE 1
UNAUDITEDCITY OF SALEM, VIRGINIA
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
		(1)		(2)		(3), (4)	(3), (4), (5)	(4), (6)	(4)	(4)
Governmental Activities										
Net investment in capital assets	\$ 83,813,635	\$ 74,013,712	\$ 75,906,865	\$ 75,637,028	\$ 76,704,584	\$ 80,613,041	\$ 82,468,633	\$ 84,803,933	\$ 87,305,352	\$ 87,296,728
Restricted	2,264,159	7,407,955	5,868,862	4,211,042	4,247,628	1,962,017	4,246,340	2,987,926	1,896,959	1,260,230
Unrestricted	(25,162,020)	(18,144,742)	(21,585,631)	(30,860,648)	(24,252,734)	(33,750,410)	(44,779,654)	(22,664,736)	(20,157,809)	(10,590,213)
Total governmental activities net position	\$ 60,915,774	\$ 63,276,925	\$ 60,190,096	\$ 48,987,422	\$ 56,699,478	\$ 48,824,648	\$ 41,935,319	\$ 65,127,123	\$ 69,044,502	\$ 77,966,745
Business-type activities										
Net investment in capital assets	\$ 60,959,490	\$ 55,215,300	\$ 52,850,038	\$ 49,386,338	\$ 46,775,751	\$ 44,477,804	\$ 42,195,035	\$ 42,936,315	\$ 43,413,519	\$ 44,265,414
Unrestricted	47,208,736	47,252,971	42,561,767	37,549,539	34,837,935	29,574,731	24,406,951	27,531,700	24,273,387	18,453,692
Total business-type activities net position	\$ 108,168,226	\$ 102,468,271	\$ 95,411,805	\$ 86,935,877	\$ 81,613,686	\$ 74,052,535	\$ 66,601,986	\$ 70,468,015	\$ 67,686,906	\$ 62,719,106
Primary Government										
Net investment in capital assets	\$ 144,773,125	\$ 129,229,012	\$ 128,756,903	\$ 125,023,367	\$ 123,480,335	\$ 125,090,845	\$ 124,663,668	\$ 127,740,248	\$ 130,718,871	\$ 131,562,142
Restricted	2,264,159	7,407,955	5,868,862	4,211,042	4,247,628	1,962,017	4,246,340	2,987,926	1,896,959	1,260,230
Unrestricted	22,046,716	29,108,229	20,976,136	6,688,890	10,585,201	(4,175,679)	(20,372,703)	4,866,964	4,115,578	7,863,479
Total primary government net position	\$ 169,084,000	\$ 165,745,196	\$ 155,601,901	\$ 135,923,299	\$ 138,313,164	\$ 122,877,183	\$ 108,537,305	\$ 135,595,138	\$ 136,731,408	\$ 140,685,851

Notes:

Source: City of Salem Finance Department

(1) There were reclassifications within the net position of governmental activities and the net position of the primary government for comparative purposes to conform with the presentation in other fiscal years.

(2) In 2018, the City implemented GASB Statement No. 75 requiring recognition of the net OPEB liability.

(3) 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.

(4) Net investment in capital assets of governmental activities was restated to record deferred loss on refunding of debt from the 2011 refunding bonds.

(5) In 2015, the City implemented GASB Statement No. 68 requiring recognition of the net pension liability.

(6) In 2014, the City implemented GASB Statement No. 65 requiring debt issuance costs to be expensed as incurred and also segregated health insurance into internal service funds.

TABLE 2
UNAUDITED

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

	2021 (1)	2020 (2)	2019	2018	2017	2016 (3), (4)	2015 (3), (4)	2014 (4), (5), (6)	2013 (4), (7)	2012 (4)
Expenses										
<i>Governmental activities:</i>										
General government	\$ 7,398,186	\$ 7,732,057	\$ 5,999,310	\$ 6,388,884	\$ 6,864,181	\$ 5,943,899	\$ 6,335,563	\$ 6,248,574	\$ 6,450,069	\$ 6,583,782
Judicial administration	2,685,074	2,427,038	2,019,802	2,009,007	2,072,538	1,934,263	1,921,789	2,026,034	1,952,657	1,866,052
Public safety	19,746,567	19,710,088	15,953,011	15,776,102	17,011,463	15,753,795	16,192,190	17,532,682	17,279,490	16,492,831
Public works	16,605,367	10,268,769	9,434,930	11,617,750	12,228,329	16,652,913	12,758,967	13,399,134	13,809,579	14,421,981
Health and welfare	5,707,730	4,969,943	4,014,354	3,318,498	3,026,330	2,974,663	3,050,634	2,578,984	2,709,561	2,430,955
Education	34,606,636	25,341,148	21,032,249	20,170,298	19,760,242	19,739,512	19,151,270	25,103,243	30,295,228	18,471,653
Parks, recreation and cultural	6,871,297	6,286,470	6,300,706	6,129,809	5,937,858	5,335,902	5,127,367	5,279,886	5,436,335	5,284,647
Community development	3,046,081	3,392,520	3,173,232	3,429,290	3,296,760	2,107,808	2,006,736	2,388,701	2,327,751	2,076,325
Interest and other fiscal changes	1,598,185	1,312,981	1,008,095	950,247	988,059	1,011,115	1,093,989	1,118,286	1,060,727	988,094
Total governmental activities	98,265,123	81,441,014	68,935,689	69,789,885	71,185,760	71,453,870	67,638,505	75,675,524	81,321,397	68,616,320
<i>Business-type activities:</i>										
Electric	32,791,502	32,282,516	33,022,574	31,361,242	31,628,232	30,200,956	33,901,497	34,182,987	33,171,403	36,047,453
Water and sewage	10,491,167	10,141,238	9,538,640	9,776,719	9,776,628	10,000,056	10,568,840	10,999,420	10,671,798	10,952,702
Civic Center	2,693,683	4,382,316	4,291,121	4,708,634	4,046,125	4,103,577	2,888,263	2,600,249	2,838,499	2,472,731
Catering and concessions	457,944	875,293	937,758	981,396	933,894	980,147	851,760	856,866	849,306	903,039
Total business-type activities	46,434,296	47,681,363	47,790,093	46,257,991	46,384,879	45,284,736	48,210,360	48,639,522	47,531,006	50,375,925
Total Primary Government	\$ 144,699,419	\$ 129,122,377	\$ 116,725,782	\$ 116,047,876	\$ 117,570,639	\$ 116,738,606	\$ 115,848,865	\$ 124,315,046	\$ 128,852,403	\$ 118,992,245
Program revenues										
<i>Governmental activities:</i>										
Charges for services										
Public safety	\$ 1,406,150	\$ 1,378,117	\$ 1,487,180	\$ 1,358,612	\$ 1,237,985	\$ 1,281,509	\$ 1,237,901	\$ 1,103,765	\$ 1,069,969	\$ 991,473
Public works	1,888,588	1,859,310	1,488,934	1,528,945	2,563,620	4,706,219	4,351,157	3,695,667	3,523,970	3,560,239
Other activities	724,797	777,397	981,634	1,162,193	1,254,639	779,384	849,596	1,009,342	1,034,129	1,005,691
Operating grants and contributions	9,856,578	9,458,112	8,466,964	8,207,848	8,318,690	7,623,373	7,567,973	6,975,699	7,436,195	7,124,704
Capital grants and contributions	8,608,472	1,344,324	566,366	1,403,327	202,451	80,406	192,430	391,399	2,003,251	595,986
Total governmental activities	22,484,585	14,817,260	12,991,078	13,660,925	13,577,385	14,470,891	14,199,057	13,175,872	15,067,514	13,278,093
<i>Business-type activities:</i>										
Charges for services										
Electric	38,045,804	38,441,256	39,719,859	40,153,923	39,437,330	38,080,149	39,715,705	39,861,201	40,280,161	36,824,320
Water and sewage	14,200,570	14,222,844	14,165,379	14,009,576	13,530,659	13,537,310	13,658,281	12,645,216	11,729,755	11,114,241
Civic Center	522,276	2,282,153	2,745,582	3,106,144	2,475,661	2,313,348	799,948	934,047	775,437	880,306
Catering and concessions	206,559	674,404	778,605	922,287	819,571	935,973	791,311	779,220	781,469	856,919
Capital grants and contributions	-	78,034	-	124,385	-	-	47,196	27,380	-	-
Electric	-	-	-	51,133	-	-	-	-	-	-
Civic Center	541,915	-	-	-	-	-	-	21,671	-	13,222
Water and sewage	-	-	-	-	-	-	-	-	-	-
Total business-type activities	53,517,124	55,698,691	57,409,425	58,367,448	56,263,221	54,866,780	55,012,441	54,268,735	53,566,822	49,689,008
Total Primary Government	\$ 76,001,709	\$ 70,515,951	\$ 70,400,503	\$ 72,028,373	\$ 69,840,606	\$ 69,337,671	\$ 69,211,498	\$ 67,444,607	\$ 68,634,336	\$ 62,967,101

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Net (expense) revenue										
Total governmental activities	\$ (75,780,538)	\$ (66,623,754)	\$ (55,944,611)	\$ (56,128,960)	\$ (57,608,375)	\$ (56,982,979)	\$ (53,439,448)	\$ (62,499,652)	\$ (66,253,883)	\$ (55,338,227)
Total business-type activities	7,082,828	8,017,328	9,619,332	12,109,457	9,878,342	9,582,044	6,802,081	5,629,213	6,035,816	(686,917)
Total primary government	<u>\$ (68,697,710)</u>	<u>\$ (58,606,426)</u>	<u>\$ (46,325,279)</u>	<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>

General Revenues and Other Changes in Net Position

<i>Governmental activities:</i>										
Taxes										
Property taxes	\$ 40,367,128	\$ 38,374,597	\$ 36,825,133	\$ 35,688,231	\$ 35,631,665	\$ 34,610,154	\$ 33,371,609	\$ 32,666,172	\$ 32,272,995	\$ 32,480,280
Local sales and use taxes	7,837,554	7,661,772	7,296,272	7,015,296	7,174,034	6,638,448	6,688,509	6,432,110	6,083,030	5,891,941
Business license tax	5,546,287	5,572,638	5,615,337	5,333,382	5,320,865	5,391,215	5,088,724	5,078,755	5,107,983	4,751,638
Meals tax	4,973,630	4,747,513	5,085,168	4,802,780	4,718,631	4,715,137	4,484,873	4,277,741	4,118,041	3,242,532
Utility taxes	1,179,676	1,190,153	1,203,020	1,208,943	1,182,963	1,169,894	1,217,299	1,150,691	1,153,190	1,124,383
Other taxes	3,580,064	3,459,728	4,042,474	3,997,697	3,908,064	3,869,411	3,497,219	3,184,568	2,924,694	2,604,603
Intergovernmental revenue not restricted	7,160,161	5,003,579	3,951,338	3,952,121	3,941,937	3,989,413	3,942,960	3,961,782	3,859,380	3,747,854
Unrestricted investment earnings	248,514	1,707,740	994,037	752,672	554,437	269,350	164,585	143,186	134,650	127,210
Gain on sale of property	93,131	40,778	44,471	35,647	20,985	100,081	389,290	554,303	606,657	411,355
Other	744,086	641,479	757,329	626,372	676,502	986,182	586,008	1,694,330	1,069,822	1,656,490
Transfers	1,689,156	1,310,606	1,332,706	2,008,304	2,353,122	2,133,023	2,266,120	1,694,330	1,069,822	1,656,490
Total governmental activities	<u>73,419,387</u>	<u>69,710,583</u>	<u>67,147,285</u>	<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>
<i>Business-type activities:</i>										
Unrestricted investment earnings	85,199	166,317	189,302	78,511	35,931	93	158	172	168	4,121
Gain on sale of property	-	-	-	8,483	-	1,435	8,225	5,013	1,638	-
Other	221,084	183,427	-	-	-	-	-	-	-	-
Transfers	(1,689,156)	(1,310,606)	(1,332,706)	(2,008,304)	(2,353,122)	(2,133,023)	(2,266,120)	(1,694,330)	(1,069,822)	(1,656,490)
Total business-type activities	<u>(1,382,873)</u>	<u>(960,862)</u>	<u>(1,143,404)</u>	<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>
Total Primary Government	<u>\$ 72,036,514</u>	<u>\$ 68,749,721</u>	<u>\$ 66,003,881</u>	<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>

Changes in Net Position

Total governmental activities	\$ (2,361,151)	\$ 3,086,829	\$ 11,202,674	\$ 9,292,485	\$ 7,874,830	\$ 6,889,329	\$ 8,237,748	\$ (3,322,963)	\$ (8,922,243)	\$ 700,059
Total business-type activities	5,699,955	7,056,466	8,475,928	10,188,147	7,561,151	7,450,549	4,544,344	3,940,068	4,967,800	(2,339,286)
Total Primary Government	<u>\$ 3,338,804</u>	<u>\$ 10,143,295</u>	<u>\$ 19,678,602</u>	<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>

Notes:

- (1) Education expenses of governmental activities include \$14,384,051 of bond funds transferred to the School Division to fund capital projects.
- (2) Education expenses of governmental activities include \$3,445,962 of bond funds transferred to the School Division to fund capital projects.
- (3) 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.
- (4) Interest and other fiscal charges of governmental activities was restated to record amortization of the deferred loss on refunding of debt from the 2011 refunding bonds.
- (5) Education expenses of governmental activities include \$5,481,200 of bond funds transferred to the School Division to fund capital projects.
- (6) In 2014, the City implemented GASB Statement No. 65 requiring debt issuance costs to be expensed as incurred and also segregated health insurance into internal service funds.
- (7) Education expenses of governmental activities include \$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

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
General Fund								(1)		
Nonspendable	\$ 788,399	\$ 1,009,261	\$ 862,437	\$ 694,658	\$ 588,204	\$ 567,605	\$ 514,556	\$ 421,117	\$ 447,097	\$ 497,206
Restricted	2,264,159	7,407,955	5,868,862	4,071,765	4,245,248	1,959,638	4,180,415	2,661,958	1,896,731	1,244,986
Committed	97,692	120,291	110,092	94,789	89,261	76,219	-	-	-	519,817
Assigned	875,274	857,041	697,043	741,677	672,251	743,727	505,633	465,178	941,626	1,256,103
Unassigned	45,953,252	37,456,968	32,652,599	28,803,322	22,212,433	15,701,124	9,797,393	5,271,609	3,517,718	3,469,721
Total General Fund	\$ 49,978,776	\$ 46,851,516	\$ 40,191,033	\$ 34,406,211	\$ 27,807,397	\$ 19,048,313	\$ 14,997,997	\$ 8,819,862	\$ 6,803,172	\$ 6,987,833
All Other Governmental Funds										
Restricted	\$ 10,729,118	\$ 27,358,827	\$ 1,983,825	\$ 935,933	\$ 2,894,061	\$ 4,193,169	\$ 65,925	\$ 325,968	\$ 228	\$ 15,244
Committed	-	-	-	-	54,458	81,754	96,503	125,651	115,000	39,436
Assigned	2,008,162	1,320,266	736,959	551,356	342,149	63,848	-	8,291	-	-
Unassigned	-	-	-	-	-	-	-	-	(432,316)	-
Total all other governmental funds	\$ 12,737,280	\$ 28,679,093	\$ 2,720,784	\$ 1,487,289	\$ 3,290,668	\$ 4,338,771	\$ 162,428	\$ 459,910	\$ (317,088)	\$ 54,680

Notes:

Source: City of Salem Finance Department

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

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

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Revenues								(1)	(2)	
Taxes	\$ 63,943,565	\$ 61,066,795	\$ 60,404,459	\$ 58,583,459	\$ 58,668,891	\$ 57,116,158	\$ 54,697,901	\$ 53,203,553	\$ 52,276,472	\$ 50,284,343
Permits, fees and licenses	340,649	349,081	343,811	313,860	277,582	394,968	394,827	218,804	198,742	202,342
Fines and forfeitures	62,489	64,480	109,705	137,911	175,827	116,417	127,002	126,761	153,584	160,816
Revenue from use of money and property	568,607	1,992,301	1,293,449	1,049,368	842,624	531,379	511,980	697,565	697,140	642,067
Charges for services	3,217,818	3,576,056	3,212,585	3,118,065	4,192,436	6,075,639	5,632,172	4,956,368	4,925,221	4,700,364
Other	354,698	277,828	250,381	496,510	409,131	357,115	153,748	160,095	247,149	104,701
Intergovernmental	18,781,397	15,762,773	13,165,857	13,360,836	12,652,827	11,603,416	11,638,740	11,289,569	13,129,214	11,462,504
Total revenues	87,269,223	83,089,294	78,780,247	77,060,009	77,189,311	76,195,092	73,156,370	70,652,715	71,627,522	67,557,137
Expenditures										
General government	6,679,583	6,703,274	6,152,838	5,679,004	6,410,086	5,918,110	6,062,763	5,689,510	5,881,344	5,792,852
Judicial administration	2,368,502	2,180,401	2,092,625	2,033,068	2,018,898	2,026,255	1,913,666	1,919,961	1,866,050	1,801,429
Public safety	17,615,998	17,368,101	16,112,960	15,741,300	16,403,627	15,824,899	15,779,717	16,358,165	16,371,685	15,353,250
Public works	15,144,607	8,507,779	8,289,463	9,796,765	8,452,569	14,672,498	10,709,120	11,087,740	11,502,485	11,988,380
Health and welfare	5,523,827	4,779,853	3,877,830	3,202,498	2,909,343	2,827,459	2,900,389	2,465,194	2,672,631	2,391,628
Education	34,606,636	25,341,148	21,026,377	20,170,298	19,760,242	19,739,512	19,151,270	25,103,243	30,295,228	18,471,653
Parks, recreation and cultural	5,471,944	5,134,939	5,225,517	5,106,766	5,071,566	4,482,414	4,401,263	4,323,040	4,508,319	4,403,170
Community development	2,864,732	3,255,301	4,582,992	3,340,911	3,178,844	1,087,606	1,062,184	857,219	829,081	981,483
Non-departmental	2,187,212	2,210,715	2,018,406	1,978,778	2,085,343	3,240,075	3,248,409	2,759,940	2,867,807	2,658,955
Capital projects	4,256,021	2,768,847	4,886,835	3,302,614	1,674,861	2,187,595	697,503	1,788,469	2,377,884	1,571,118
<i>Debt service:</i>										
Principal retirement	3,285,371	3,017,446	3,056,511	3,055,319	3,082,999	2,988,314	3,018,738	2,647,514	7,765,685	2,623,661
Interest	1,649,830	928,405	831,282	908,720	960,419	941,386	1,101,829	980,558	824,824	970,434
Bond issuance cost	61,160	350,394	73,849	-	-	32,987	10,377	15,500	45,750	31,900
Total expenditures	101,715,423	82,546,603	78,227,485	74,316,041	72,008,797	75,969,110	70,057,228	75,996,053	87,808,773	69,039,913
Excess (deficiency) of revenues over (under) expenditures	(14,446,200)	542,691	552,762	2,743,968	5,180,514	225,982	3,099,142	(5,343,338)	(16,181,251)	(1,482,776)
Other Financing Sources (Uses)										
Issuance of long-term debt	-	26,555,000	5,025,000	-	-	5,281,400	-	7,275,000	9,518,800	-
Issuance of refunding bonds	1,555,000	5,799,023	-	-	-	-	1,932,097	-	5,036,200	9,485,000
Payment to refunded bond escrow agent	(1,493,089)	(7,074,089)	-	-	-	-	(1,921,720)	-	-	(9,513,728)
Premium on sale of bonds	-	5,262,352	-	-	-	-	-	-	-	-
Proceeds from sale of capital assets	92,605	40,778	41,167	34,084	177,345	211,254	505,014	-	-	-
Issuance of capital leases	-	72,648	-	-	-	375,000	-	-	-	-
Insurance recoveries	21,835	72,653	66,682	9,079	-	-	-	-	-	-
Transfers in	9,229,573	7,880,961	7,552,251	7,383,186	7,676,999	7,930,241	7,766,233	6,832,903	5,626,851	6,458,723
Transfers out	(7,774,277)	(6,532,855)	(6,219,545)	(5,374,882)	(5,323,877)	(5,797,218)	(5,500,113)	(5,131,569)	(4,557,029)	(4,817,065)
Total other financing sources, net	1,631,647	32,076,101	6,465,555	2,051,467	2,530,467	8,000,677	2,781,511	8,976,334	15,624,822	1,612,930
Net change in fund balances	\$ (12,814,553)	\$ 32,618,792	\$ 7,018,317	\$ 4,795,435	\$ 7,710,981	\$ 8,226,659	\$ 5,880,653	\$ 3,632,996	\$ (556,429)	\$ 130,154
Debt service as a percentage of noncapital expenditures	5.29%	5.09%	5.53%	5.62%	5.87%	5.44%	6.06%	4.93%	10.16%	5.37%

Notes:

Source: City of Salem Finance Department

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

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

TABLE 5
UNAUDITED

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

Fiscal Year	Real Estate		Personal Property		Machinery and Tools		Public Service Corporation		Mobile Homes		Total Taxable Assessed Value		Total Direct Tax Rate	
	Assessed Value	Direct Tax Rate	Assessed Value	Direct Tax Rate	Assessed Value	Direct Tax Rate	Assessed Value	Direct Tax Rate	Assessed Value	Direct Tax Rate	Value		Rate	
2021	\$ 2,296,615,563	\$ 1.20	\$ 346,874,881	\$ 3.40	\$ 99,551,587	\$ 3.20	\$ 64,324,330	\$ 1.20	\$ 827,954	\$ 1.20	\$ 2,808,194,315	\$ 1.54		
2020	2,223,003,261	1.20	319,099,250	3.40	98,084,487	3.20	60,840,085	1.20	758,822	1.20	2,701,785,905	1.54		
2019	2,144,567,539	1.18	310,426,127	3.25	91,646,255	3.20	53,418,469	1.18	749,392	1.18	2,600,807,782	1.51		
2018	2,092,863,676	1.18	306,890,700	3.25	97,999,444	3.20	51,247,569	1.18	816,174	1.18	2,549,817,563	1.50		
2017	2,054,446,049	1.18	312,495,313	3.25	89,186,639	3.20	44,507,648	1.18	984,368	1.18	2,501,620,017	1.51		
2016	2,022,951,024	1.18	295,173,346	3.25	91,322,128	3.20	41,308,358	1.18	1,059,063	1.18	2,451,813,919	1.50		
2015	2,012,050,247	1.18	282,311,121	3.25	91,977,805	3.20	40,513,445	1.18	1,195,515	1.18	2,428,048,133	1.50		
2014	2,003,007,334	1.18	276,846,201	3.20	91,226,535	3.20	41,408,575	1.18	1,249,050	1.18	2,413,737,695	1.49		
2013	1,997,447,800	1.18	267,755,307	3.20	84,169,172	3.20	42,281,759	1.18	1,431,949	1.18	2,393,085,987	1.47		
2012	1,977,986,400	1.18	267,877,285	3.20	90,287,324	3.20	37,468,284	1.18	1,668,743	1.18	2,375,288,036	1.48		

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
2021	\$ 40,322,441	\$ 38,719,642	96.03%	\$ -	-	\$ 38,719,642	96.03%
2020	38,547,607	35,634,651	92.44%	51,777	2,499,401	38,134,052	98.79%
2019	36,274,839	35,191,478	97.01%	172,045	1,148,336	36,339,814	99.71%
2018	35,837,963	34,375,408	95.92%	(347,531)	1,060,430	35,435,838	99.85%
2017	35,253,119	34,012,836	96.48%	(71,996)	1,131,776	35,144,612	99.90%
2016	33,896,364	32,608,317	96.20%	(19,524)	1,217,875	33,826,192	99.85%
2015	33,407,499	31,903,905	95.50%	(62,546)	1,330,715	33,234,620	99.67%
2014	32,905,743	31,229,276	94.91%	(83,736)	1,552,138	32,781,414	99.88%
2013	32,537,416	30,854,728	94.83%	64,769	1,686,852	32,541,580	99.81%
2012	32,672,916	31,351,991	95.96%	32,561	1,324,898	32,676,889	99.91%

Notes:

Source: City of Salem Finance Department

In 2020, the due date for the second half of Real Estate and Personal Property was extended to June 30th due to the COVID-19 pandemic.

TABLE 7
UNAUDITED

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

	2021			2012		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Taxpayer						
Lewis-Gale Medical Center LLC (1)	\$ 65,076,200	1	2.76%	\$ 36,118,600	1	1.82%
Yokohama Industries	14,410,100	2	0.61%	16,142,400	3	0.81%
Lowes/VALO LLC	14,056,900	3	0.60%	12,462,800	4	0.63%
Spartan Square	12,017,800	4	0.51%	8,737,700	8	0.44%
Carter Machinery/Carthy Corp/Mount Sinai	11,770,100	5	0.50%	7,586,000	10	0.38%
U.S. Food Service, Inc.	10,903,500	6	0.46%	10,524,500	6	0.53%
General Electric	9,344,200	7	0.40%	10,665,400	5	0.54%
TKC CCXXIX LLC	9,308,200	8	0.39%			
Chateau Riviera Apartments	9,104,800	9	0.39%	9,190,500	7	0.46%
Salem Terrace	8,700,900	10	0.37%	8,690,500	9	0.44%
Lewis-Gale Clinic/HRT				22,095,300	2	1.11%

Notes:

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

	2021			2012		
	Services Billed	Rank	Percentage of Total Services Billed	Services Billed	Rank	Percentage of Total Services Billed
Customer						
Lewis Gale Hospital HCA	\$ 2,321,334	1	6.07%	\$ 1,804,836	1	4.94%
Roanoke College	1,488,543	2	3.89%	1,299,560	2	3.56%
Lake Regiona Medical	1,013,615	3	2.65%			
Graham White	855,392	4	2.24%	721,132	3	1.97%
U.S. Food Service, Inc.	719,782	5	1.88%	713,443	4	1.95%
Rowe Furniture/Salem Frame	581,563	6	1.52%	679,869	5	1.86%
Kroger	560,149	7	1.46%	548,894	7	1.50%
Sewell Products	516,854	8	1.35%	486,153	8	1.33%
Carter Machinery	503,258	9	1.32%	439,619	9	1.20%
Novozymes	407,001	10	1.06%			
Wal-Mart, Inc.				571,570	6	1.56%
Old VA Brick Co.				338,066	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	General Obligation Bonds		
	(1)			
2021	\$ 57,250,371	\$ 35,559,482	\$ 92,809,853	\$ 43,589
2020	60,686,620	39,296,513	99,983,133	99,520
2019	32,910,038	40,780,877	73,690,915	121,467
2018	30,897,265	41,669,640	72,566,905	198,016
2017	33,916,905	45,723,894	79,640,799	271,203
2016	36,971,375	49,665,950	86,637,325	341,175
2015	34,681,163	47,663,394	82,344,557	-
2014	37,640,582	49,258,943	86,899,525	-
2013	32,625,067	50,697,384	83,322,451	-
2012	25,470,726	53,677,900	79,148,626	-

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)	
2021	\$ 2,808,194,315	3.30%	25,346	\$ 3,662	\$ 53,489	7.00%
2020	2,701,785,905	3.70%	25,301	3,952	52,248	8.00%
2019	2,600,807,782	2.83%	25,643	2,874	49,860	6.00%
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%

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 the 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						Net Debt Applicable to Limit as a Percent of Debt Limit
			Total General Obligation Bonds	Enterprise Bonds	RVRA Supported Debt	Net Debt Applicable to Limit	Legal Debt Margin		
2021	\$ 2,360,939,893	\$ 236,093,989	\$ 92,809,853	\$ (35,559,482)	\$ (585,396)	\$ 56,664,975	\$ 179,429,014	24.00%	
2020	2,283,843,346	228,384,335	99,983,133	(39,296,513)	(789,921)	59,896,699	168,487,636	26.23%	
2019	2,197,986,008	219,798,601	73,690,915	(40,780,877)	(998,082)	31,911,956	187,886,645	14.52%	
2018	2,144,111,245	214,411,125	72,566,905	(41,669,640)	(1,209,879)	29,687,386	184,723,739	13.85%	
2017	2,098,953,697	209,895,370	79,640,799	(45,723,894)	(1,425,312)	32,491,593	177,403,777	15.48%	
2016	2,064,259,382	206,425,938	86,637,325	(49,665,950)	-	36,971,375	169,454,563	17.91%	
2015	2,052,563,692	205,256,369	82,344,557	(47,663,394)	-	34,681,163	170,575,206	16.90%	
2014	2,044,415,909	204,441,591	86,899,525	(49,258,943)	-	37,640,582	166,801,009	18.41%	
2013	2,039,729,559	203,972,956	83,322,451	(50,697,384)	-	32,625,067	171,347,889	15.99%	
2012	2,015,454,684	201,545,468	79,148,626	(53,677,900)	-	25,470,726	176,074,742	12.64%	

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)
2021	25,346	\$ 6,391,212	\$ 53,489	3,756	4.0%
2020	25,301	6,254,966	52,248	3,882	7.7%
2019	25,643	5,962,802	49,860	3,872	2.9%
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%

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 November 2020.
- (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 2012 through 2021 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	2021			2012		
	Employees	Rank	Percentage of Total City Employment (1)	Employees	Rank	Percentage of Total City Employment (1)
Veterans Administration Medical Center	1,734	1	9.39%	1,950	1	8.71%
Lewis-Gale Hospital HCA	1,248	2	6.76%	1,445	2	6.46%
Yokohama Industries	660	3	3.57%	940	3	4.20%
City of Salem Schools	576	4	3.12%	587	6	2.62%
City of Salem	482	5	2.61%	508	7	2.27%
Roanoke College	441	6	2.39%	476	8	2.13%
Integer	420	7	2.27%			
Carter Machinery	407	8	2.20%	368	10	1.64%
Kroger	388	9	2.10%			
U.S. Foodservice, Inc.	354	10	1.92%	443	9	1.98%
General Electric				804	4	3.59%
Virginia Department of Transportation				782	5	3.49%

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	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
General government	71	77	71	76	70	69	69	67	66	66
Judicial administration	22	22	21	19	20	18	19	19	19	21
Public safety	163	166	167	153	152	157	157	159	162	160
Public works	80	84	84	82	79	89	88	94	94	100
Parks, recreation and cultural	33	34	33	32	30	32	32	31	32	32
Community development	2	3	3	3	3	2	3	3	3	3
Electric	23	28	29	28	27	27	29	27	26	26
Water and sewage	49	48	49	48	47	48	52	49	49	51
Civic Center	17	19	18	15	15	16	17	17	17	18
Catering and concessions	3	3	4	4	4	4	4	4	4	4
Total	463	484	479	460	447	462	470	470	472	481

Note:

Source: City of Salem Finance Department

TABLE 14
UNAUDITED

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

Function	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
General government										
<i>Finance</i>										
Accounts payable checks issued	11,518	10,983	10,817	9,926	10,942	9,238	8,601	9,280	8,937	11,002
<i>Human resources</i>										
Positions filled (full-time and temporary)	126	138	156	164	158	154	140	184	142	146
<i>Registrar</i>										
Number of registered voters	17,542	17,158	16,785	16,887	16,704	16,584	16,282	16,695	16,625	16,678
<i>Fleet</i>										
Pieces of equipment maintained	593	573	576	568	575	567	583	576	572	573
Judicial administration										
<i>Sheriff</i>										
Inmates housed	1,987	2,373	2,790	2,961	3,132	2,681	2,730	2,885	2,776	2,668
Inmate transports	354	1,039	1,479	1,489	1,333	1,222	1,137	1,240	1,062	1,069
Courts worked	589	500	462	525	680	595	614	699	686	648
Public safety										
<i>Police</i>										
Calls for service	40,504	35,830	30,790	32,905	31,651	27,017	27,018	27,990	39,519	36,549
Accidents	830	917	1,079	1,026	1,015	1,108	983	1,053	905	919
DUI Arrests	60	66	109	137	91	92	63	68	107	62
<i>Fire</i>										
Emergency responses - fire	4,865	4,638	4,095	3,811	3,467	3,019	3,203	3,181	3,337	3,241
Emergency responses - medic units	6,520	6,321	5,851	5,261	4,885	4,292	3,809	3,446	3,569	3,358
Hazardous conditions responses	102	136	101	125	113	127	80	77	125	105
<i>Building inspections</i>										
Residential construction permits	183	177	181	188	175	158	150	198	106	122
Commercial construction permits	104	98	126	133	120	133	139	148	110	116
Public works										
<i>Refuse collection</i>										
Refuse collected (tons per year)*	16,040	17,424	16,409	16,261	18,208	88,565	80,827	82,905	80,609	81,427
Tons recycled	3,195	4,350	7,419	9,139	9,152	5,060	1,404	1,386	2,315	2,844
<i>Other public works</i>										
Tons of asphalt used in resurfacing	27,480	-	-	13,263	-	15,453	-	639	5,770	7,507
Square yards of milling completed	546,965	1,208	-	219,862	-	302,937	-	10,718	92,988	143,962
Tons of salt used	650	85	915	1,330	315	848	705	769	1,098	183
Leaves collected (loads)	246	335	302	350	113	295	360	293	316	369
Parks, recreation and cultural										
<i>Parks and recreation</i>										
Tournaments hosted	41	23	58	52	48	52	47	58	62	58
Special events held	22	29	35	28	26	25	26	24	24	24
Youth sports teams	51	130	135	148	151	151	155	164	170	205
Adult sports teams	17	34	30	27	28	29	27	29	39	37
<i>Library</i>										
Circulation	86,953	147,646	194,000	212,350	227,443	230,454	240,516	252,237	271,600	295,911
Children's program attendance	2,149	5,077	9,516	10,901	7,226	8,972	3,622	3,616	3,924	4,926
Patron visits to the library	27,034	102,485	152,091	167,389	170,879	172,012	178,323	195,878	211,605	226,696
New patrons	188	773	769	904	879	968	1,049	1,138	1,373	1,315
Internet sessions	26,332	41,008	55,932	39,884	28,554	25,944	27,571	28,965	33,885	51,033
Electric										
Number of customer accounts	13,227	13,217	13,129	13,084	12,838	12,880	13,021	13,204	13,198	13,202
Water										
Number of customer accounts	9,720	9,665	9,636	9,482	9,567	9,486	9,381	9,372	9,375	9,365
Million gallons sold to customers	862	859	910	861	850	932	989	876	838	955
Sewage										
Number of customer accounts	9,160	9,108	9,072	9,041	9,018	8,952	8,929	8,824	8,823	8,803
Waste/water treated (million gallons/day)	7.9	7.3	8.7	6.0	7.2	9.1	6.8	7.8	7.0	7.0
Civic Center										
Concerts	5	13	13	15	13	11	6	9	11	13
Meetings	522	475	614	599	660	852	778	721	614	792
Tickets sold	16,531	66,954	78,745	93,510	88,662	93,373	73,668	82,929	83,638	87,006
Arena utilization days	86	108	155	162	202	215	198	191	175	173

Notes:

Source: Various City of Salem Departments

*In FY2017, Roanoke Valley Resource Authority (RVRA) started managing waste disposal services instead of the City Transfer Station.

TABLE 15
UNAUDITED

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

Function	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Public safety										
Police station	1	1	1	1	1	1	1	1	1	1
Law enforcement vehicles	57	52	53	48	47	47	46	48	47	47
Fire stations	3	3	3	3	3	3	3	3	3	3
Fire trucks	5	5	6	7	7	7	6	6	6	6
Ambulances	4	4	4	4	4	4	4	4	4	4
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	19	17	17	16	16	16	16	14	13	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	1	1	1
Electric										
Substations	11	11	11	11	11	11	11	11	11	11
Overhead distribution lines (miles)	161	161	163	163	166	165	172	172	172	172
Underground distribution lines (miles)	41	41	42	42	40	42	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	176	176	176	175	175	175	175
Sanitary sewer lines (miles)	171	171	170	170	170	170	170	170	170	177

Notes:

Source: City of Salem Finance Department

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COMPLIANCE SECTION



The Compliance Section of the City of Salem, Virginia's Annual Comprehensive Financial Report includes reports from the independent auditors.

CITY OF SALEM, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2021

<u>Federal Grantor</u> <i>Pass-through Grantor</i> Program Title or Cluster Title	<u>Federal ALN Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>	<u>Passed Through to Subrecipients</u>
<u>Department of Agriculture</u>				
<i>Local Environmental Agricultural Project Inc</i>				
Food Insecurity Nutrition Incentive Grants Program	10.331	FINI-120	\$ 2,596	
<i>Virginia Department of Agriculture and Consumer Services</i>				
SNAP Cluster:				
Supplemental Nutrition Assistance Program	10.551	--	\$ 3,535	
Total SNAP Cluster				3,535
Child Nutrition Cluster:				
Food Distribution - Commodities	10.555	--	161,705	
Summer Food Service Program	10.559	--	2,754	
<u>Department of Housing and Urban Development</u>				
<i>Virginia Department of Housing and Community Development</i>				
Community Development Block Grants	14.228	18-12		256,561
<u>Department of Justice</u>				
<i>Direct Payments</i>				
Bulletproof Vest Partnership Program	16.607	--		3,698
Equitable Sharing Program	16.922	--		83,818
<i>Virginia Department of Criminal Justice Services</i>				
Crime Victim Assistance	16.575	21-X9575VW19		75,782
<u>Department of Transportation</u>				
<i>Western Virginia Workforce Development Board</i>				
WIOA Cluster:				
WIA/WIOA Dislocated Worker Formula Grants	17.278	--	1,009	
Total WIOA Cluster				1,009
<i>Goodwill Industries of the Valleys</i>				
Reentry Employment Opportunities	17.270	--		868
<u>Department of Transportation</u>				
<i>Virginia Department of Transportation</i>				
Highway Planning and Construction Cluster:				
Highway Planning and Construction:				
Hanging Rock Battlefield Phase 2	20.205	UPC 106268	19,453	
Downtown Streetscape and Intersection Improvements	20.205	UPC 109612	707,145	
Apperson Drive Bridge Replacement	20.205	UPC 110574	208,102	
Downtown Streetscape and Intersection Improvements	20.205	UPC 111371	63,481	
Elizabeth Campus Greenway	20.205	UPC 113566	59,802	
Total Highway Planning and Construction Cluster				1,057,983
<i>Virginia Division of Motor Vehicles</i>				
Highway Safety Cluster:				
State and Community Highway Safety:				
Selective Enforcement - Speed FY19	20.600	FCS-2020-50040-20040	4,626	
Selective Enforcement - Speed FY20	20.600	FCS-2021-51002-21002	10,443	
Selective Enforcement - Pedestrian/Bicycle FY19	20.600	FPS-2020-50043-20043	1,981	
Selective Enforcement - Pedestrian/Bicycle FY20	20.600	FHLE-2021-51003-21003	1,732	
Total Highway Safety Cluster				18,782
Alcohol Open Container Requirements:				
Selective Enforcement - Alcohol FY19	20.607	154AL-2021-51001-21001		13,514
Selective Enforcement - Alcohol FY20	20.607	154AL-2020-50421-20421		16,259
Roanoke Valley DUI Task Force - Salem City FY20	20.607	154AL-2021-51004-21004		11,764
<u>Department of the Treasury</u>				
<i>Virginia Department of Accounts</i>				
COVID-19 Coronavirus Relief Fund - City	21.019	SLT0022	3,272,457	
COVID-19 Coronavirus Relief Fund - Municipal Utility Relief Program	21.019	SLT0022	221,084	
COVID-19 Coronavirus Relief Fund - School Division	21.019	SLT0218	663,128	
<u>U.S. Small Business Administration</u>				
<i>Direct Payments</i>				
Shuttered Venue Operators Grant	59.075	--		675,000
<u>Department of Education</u>				
<i>Virginia Department of Education</i>				
Adult Education - Basic Grants to States 2019	84.002	V002A190047	33,325	\$ 8,388
Adult Education - Basic Grants to States 2020	84.002	V002A200047	295,657	145,400
Title I Grants to Local Educational Agencies 2019	84.010	S010A190046	154,512	
Title I Grants to Local Educational Agencies 2020	84.010	S010A200046	456,617	
Special Education Cluster (IDEA):				
Special Education - Grants to States (IDEA, Part B) 2019	84.027	H027A190107	145,336	
Special Education - Grants to States (IDEA, Part B) 2020	84.027	H027A200107	691,802	
Special Education - Preschool Grants (IDEA Preschool) 2020	84.173	H173A200112	17,149	
Special Education - Preschool Grants (IDEA Preschool) 2021	84.173	H173A210112	1,442	
Total Special Education Cluster (IDEA)				855,729

(Continued)

CITY OF SALEM, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
JUNE 30, 2021

<u>Federal Grantor</u> <i>Pass-through Grantor</i> Program Title or Cluster Title	<u>Federal ALN Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>	<u>Passed Through to Subrecipients</u>
Department of Education (Continued)				
<i>Virginia Department of Education (Continued)</i>				
Career and Technical Education - Basic Grants to States (Perkins IV) 2019	84.048	V048A190046	1,807	
Career and Technical Education - Basic Grants to States (Perkins IV) 2020	84.048	V048A200046	52,552	
English Language Acquisition State Grants 2019	84.365	S365A190046	7,631	
English Language Acquisition State Grants 2020	84.365	S365A200046	13,525	
Supporting Effective Instruction State Grants 2019	84.367	S367A190044	50,831	
Supporting Effective Instruction State Grants 2020	84.367	S367A200044	39,308	
Student Support and Academic Enrichment Grants 2019	84.424	S424A190048	1,710	
Student Support and Academic Enrichment Grants 2020	84.424	S424A200048	35,469	
Governor's Emergency Education Relief (GEER) Fund	84.425C	S425C200042	34,594	
Elementary and Secondary School Emergency Relief (ESSER) Fund 2020	84.425D	S425D200008	328,547	
Elementary and Secondary School Emergency Relief (ESSER) Fund 2021	84.425D	S425D210008	46,237	
Election Assistance Commission				
<i>Virginia Department of Elections</i>				
Help America Vote Act-COVID-19	90.401	VA20101CARES	56,907	
Department of Health and Human Services				
<i>Direct Payments</i>				
CARES Act Provider Relief Fund	93.498	--	41,570	
<i>Virginia Department of Education</i>				
Temporary Assistance for Needy Families	93.558	2101VATANF	31,269	
<i>Virginia Department of Health</i>				
Child Nutrition Cluster (Continued):				
COVID-19 Summer Food Service Program for Children	10.559	202020N85034 1	224,911	
COVID-19 Summer Food Service Program for Children	10.559	202120N11994 1	336,766	
COVID-19 Summer Food Service Program for Children	10.559	202121N10994 1	80,415	
COVID-19 Summer Food Service Program for Children	10.559	202121N11994 1	752,849	
Total Child Nutrition Cluster				1,559,400
<i>Virginia Office of Children's Services</i>				
Social Services Block Grant	93.667	--	52,594	
<i>Goodwill Industries of the Valleys</i>				
Affordable Care Act (ACA) Health Profession Opportunity Grants	93.093	90FX0038-01-01	8,962	
Department of Homeland Security				
<i>Direct Payments</i>				
Assistance to Firefighters Grants	97.044	--	127,273	
<i>Virginia Department of Emergency Management</i>				
Homeland Security Grant Program	97.067	8306	32,184	
Total Expenditures of Federal Awards			\$10,696,048	\$ 153,788

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, 2021, the City of Salem School Division (School Division) had food commodities in inventory of \$103,662.

Note 3: Indirect Cost Rate

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

Note 4: Outstanding Loan Balances

At June 30, 2021, the City and School Division had no outstanding loan balances requiring continuing disclosure.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the 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, 2021, 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 18, 2021.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 18, 2021

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Salem, Virginia's (the "City") compliance with the types of compliance requirements described in the *OMB Circular Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2021. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, the terms, and condition of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for 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; 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* (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 each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 18, 2021

CITY OF SALEM, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2021

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

STATE COMPLIANCE MATTERS

Code of Virginia:

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

State Agency Requirements:

Education
Highway Maintenance Funds

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

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

CITY OF SALEM, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2021**

A. SUMMARY OF AUDITOR'S RESULTS

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

Name of Programs	Assistance Listing #
COVID-19 Coronavirus Relief Funds	21.019
Highway Planning and Construction Cluster: Highway Planning and Construction	20.205

8. The **threshold** for distinguishing Types A and B programs was **\$750,000**.
9. The City **was determined to be a low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS

None.

D. FINDINGS – COMMONWEALTH OF VIRGINIA

None.

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

Rosemarie B. Jordan, CPA

Director of Finance

Accounting/Accounts Payable/Purchasing

Patricia L. Bidanset
Ellen T. Bowen, CPA
Dawn M. Layne
Amy R. Morris, CPA
Robin B. Shelton
Tammy H. Todd, CPA, CPFO
Andrea C. Franklin
Kari L. Sutphin

Senior Accountant
Financial Services Supervisor
Accounting Supervisor
Special Projects Accountant
Senior Accountant
Assistant Director of Finance
Accounting Technician
Buyer

Administrative

Alyson R. Chaisson

Finance Administrative Secretary/
Accounting Technician

Payroll

Tara N. Pugh
Carrington R. Sumner

Payroll Technician
Payroll Manager