

**CITY OF SALEM, MASSACHUSETTS**

**REPORT ON EXAMINATION OF  
GENERAL PURPOSE FINANCIAL STATEMENTS  
AND ADDITIONAL INFORMATION  
YEAR ENDED JUNE 30, 1996**

**REPORT ON COMPLIANCE AND  
INTERNAL CONTROL  
YEAR ENDED JUNE 30, 1996**

**SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE  
AND INDEPENDENT AUDITORS' REPORTS REQUIRED  
UNDER THE SINGLE AUDIT ACT OF 1984  
YEAR ENDED JUNE 30, 1996**

**CITY OF SALEM, MASSACHUSETTS**  
**REPORT ON EXAMINATION OF**  
**GENERAL PURPOSE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 1996**

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CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT CONSULTANTS

## INDEPENDENT AUDITORS' REPORT

April 28, 1997

To the City Manager and City Council  
City of Salem, Massachusetts

We have audited the accompanying general purpose financial statements of the City of Salem, Massachusetts, as of and for the year ended June 30, 1996, as listed in the accompanying table of contents, except for the Pension Trust Fund which is as of and for the year ended December 31, 1995. These general purpose financial statements are the responsibility of the City of Salem's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The general purpose financial statements referred to above do not include a statement of general fixed assets, which should be included to conform with generally accepted accounting principles. Inasmuch as the Commonwealth of Massachusetts does not require, and the City has not capitalized fixed assets, the amount that should be recorded in the general fixed asset account group is not known.

As more fully described in Note 2 (c), the City maintains their enterprise funds on a comprehensive basis of accounting other than generally accepted accounting principles. Accordingly, the enterprise funds are not intended to present the financial position and results of operations in conformity with generally accepted accounting principles.

As more fully described in Note 12, the City accounts for its risk financing activities on a comprehensive basis of accounting other than generally accepted accounting principles. Accordingly, the recognition of this activity is not intended to present the financial position and results of operation in conformity with generally accepted accounting principles.

In our opinion, except for the effects on the financial statements of the matters described in the preceding two paragraphs, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Salem, Massachusetts, at June 30, 1996, except for the Pension Trust Fund which is as of and for the year ended December 31, 1995, and the results of its operations and cash flows of its proprietary fund and similar trust funds for the year then ended, in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplemental schedule listed in the foregoing table of contents, which is also the responsibility of the City's management, is presented for purposes of additional analysis and is not a required part of the general purpose financial statements and, in our opinion, except for the effect of matters described in paragraphs three and four, is fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated April 28, 1997 on our consideration of the City of Salem's internal control structure and a report dated April 28, 1997 on its compliance with laws and regulations.

  
Tucci & Roselli  
Certified Public Accountants

CITY OF SALEM, MASSACHUSETTS  
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP  
JUNE 30, 1996

(Except for the Pension Trust which is for the year ended December 31, 1995)

	Governmental Fund Types			Fiduciary Fund Types		Proprietary Fund Type	Account Group
	General Fund	Special Revenue Funds	Capital Projects Funds	Trust and Agency Funds	Pension Trust Fund	Enterprise Fund	General Long-Term Obligations
ASSETS AND OTHER DEBITS							Combined Total (Memorandum Only)
Cash and equivalents	\$2,556,144	\$633,089	\$578,248	\$3,324,433	\$1,424,796	\$828,671	\$9,345,381
Investments:							
Investment in deferred compensation plan				3,248,438	42,165,476		45,413,914
Receivables:				4,093,045			4,093,045
Property taxes	1,591,975						1,591,975
Other	2,481,608	1,808,582		92,068	2,341,594	2,721,155	6,723,852
Water and sewer user charges							2,721,155
Due from other government		737,070					737,070
Other assets				318,800			318,800
Amount to be provided for retirement of general long-term obligations							
Total assets and other debits	\$6,629,727	\$3,178,741	\$578,248	\$11,076,784	\$45,931,866	\$3,549,826	\$110,393,186
						\$39,447,994	\$39,447,994

See notes to general purpose financial statements.

Continued

CITY OF SALEM, MASSACHUSETTS  
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP  
JUNE 30, 1996

(Except for the Pension Trust which is for the year ended December 31, 1995)

	Governmental Fund Types				Fiduciary Fund Types		Proprietary Fund Type	Account Group	
	General Fund	Special Revenue Funds	Capital Projects Funds	Trust and Agency Funds	Pension Trust Fund	Enterprise Fund		General Long-Term Obligations	Combined Total (Memorandum Only)
LIABILITIES, FUND EQUITY (DEFICIT) AND OTHER CREDITS									
Warrants and accounts payable	\$1,913,427	\$515,742	\$168,987	\$491,308		\$75,172			\$3,164,636
Accrued payroll and employee withholdings	79,581			488,224					567,805
Other liabilities				81,262					81,262
Notes payable			7,000,000						7,000,000
Deferred revenues	3,802,841	1,808,582				2,721,155			8,332,578
Deferred compensation liability				4,093,045				\$1,400,000	4,093,045
Hospital contingencies								36,195,000	1,400,000
Compensated absences								1,852,994	36,195,000
Bond indebtedness									1,852,994
TOTAL LIABILITIES	5,795,849	2,324,324	7,168,987	5,153,839		2,796,327		39,447,994	62,687,320
FUND EQUITY (DEFICIT) AND OTHER CREDITS									
Retained Earnings						753,499			753,499
Fund Balances (deficit)	833,878	854,417	(6,590,739)	5,922,945	45,931,866				46,952,367
Total liabilities, fund equity (deficit), and other credits	\$6,629,727	\$3,178,741	\$578,248	\$11,076,784	\$45,931,866	\$3,549,826		\$39,447,994	\$110,393,186

Concluded

See notes to general purpose financial statements.

**CITY OF SALEM, MASSACHUSETTS**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES (DEFICIT)**  
**ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS**  
**YEAR ENDED JUNE 30, 1996**

	Governmental Fund Types			Fiduciary Fund Types	
	General Fund	Special Revenue Funds	Capital Projects Funds	Expendable Trust Funds	Combined Total (Memorandum Only)
<b>REVENUES:</b>					
Real and personal property taxes, net	\$40,142,655				\$40,142,655
Motor vehicle excise	2,068,493				2,068,493
Intergovernmental	17,056,430	5,973,708			23,030,138
Departmental and other revenue	2,370,127	2,239,491			4,609,618
Licenses and permits	249,533		1,160		250,693
Fines and forfeitures	690,975				690,975
Investment income	224,209	226		284,616	509,051
Contributions				5,208,007	5,208,007
<b>Total revenues</b>	<b>62,802,422</b>	<b>8,213,425</b>	<b>1,160</b>	<b>5,492,623</b>	<b>76,509,630</b>
<b>EXPENDITURES:</b>					
General government	5,474,660	793,421			6,268,081
Public safety	11,913,768	46,418			11,960,186
Education	25,614,716	3,657,878			29,272,594
Public works	3,768,718	860,545			4,629,263
Health and human services	514,150	294,693			808,843
Culture and recreation	2,237,293	99,864		225,679	2,562,836
Pensions and fringe benefits	8,025,136				8,025,136
State and county assessments	2,280,985				2,280,985
Debt service	4,629,222				4,629,222
Health claims				4,960,672	4,960,672
Community development and capital outlay		2,597,378	4,324,332		6,921,710
<b>Total expenditures</b>	<b>64,458,648</b>	<b>8,350,197</b>	<b>4,324,332</b>	<b>5,186,351</b>	<b>82,319,528</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(1,656,226)</b>	<b>(136,772)</b>	<b>(4,323,172)</b>	<b>306,272</b>	<b>(5,809,898)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Operating transfers in	2,706,438	9,947			2,716,385
Operating transfers out	(957,451)	(1,082,120)			(2,039,571)
<b>Total other financing sources (uses)</b>	<b>1,748,987</b>	<b>(1,072,173)</b>			<b>676,814</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other uses</b>	<b>92,761</b>	<b>(1,208,945)</b>	<b>(4,323,172)</b>	<b>306,272</b>	<b>(5,133,084)</b>
<b>FUND BALANCES, (DEFICIT) JULY 1, 1995</b>	<b>741,117</b>	<b>2,063,362</b>	<b>(2,267,567)</b>	<b>3,846,476</b>	<b>4,383,388</b>
<b>FUND BALANCES, (DEFICIT) JUNE 30, 1996</b>	<b>\$833,878</b>	<b>\$854,417</b>	<b>(\$6,590,739)</b>	<b>\$4,152,748</b>	<b>(\$749,696)</b>

See notes to general purpose financial statements.

**CITY OF SALEM, MASSACHUSETTS**  
**STATEMENT OF REVENUES AND EXPENDITURES-**  
**BUDGET AND ACTUAL - GENERAL FUND BUDGETARY BASIS**  
**YEAR ENDED JUNE 30, 1996**

	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES:</b>			
Real and personal property taxes, net	\$40,622,662	\$40,529,357	(\$93,305)
Motor vehicle excise	1,975,000	2,068,493	93,493
Intergovernmental	16,699,856	17,056,430	356,574
Departmental and other revenue	2,183,679	2,370,127	186,448
Licenses and permits	290,000	249,534	(40,466)
Fines and forfeitures	638,000	690,975	52,975
Investment income	400,000	224,209	(175,791)
<b>Total revenues</b>	<b>62,809,197</b>	<b>63,189,125</b>	<b>379,928</b>
<b>OTHER FINANCING SOURCES :</b>			
Operating transfers in (net)	2,658,335	2,658,335	
Transfers from free cash	705,281	705,281	
<b>Total other financing sources</b>	<b>3,363,616</b>	<b>3,363,616</b>	
<b>Total revenue and other financing sources</b>	<b>66,172,813</b>	<b>66,552,741</b>	<b>379,928</b>
<b>EXPENDITURES:</b>			
General government	5,782,487	5,462,623	319,864
Public safety	11,925,504	11,826,303	99,201
Education	25,765,543	25,748,950	16,593
Public works	4,217,576	3,754,226	463,350
Health and human services	554,934	513,924	41,010
Culture and recreation	2,313,555	2,220,284	93,271
Pensions and fringe benefits	8,363,970	7,994,615	369,355
State and county assessments	1,849,786	2,280,985	(431,199)
Debt service	5,399,458	4,629,222	770,236
<b>Total expenditures</b>	<b>66,172,813</b>	<b>64,431,132</b>	<b>1,741,681</b>
<b>Excess of revenues and other financing sources over expenditures</b>		<b>\$2,121,609</b>	

See notes to general purpose financial statements.



**CITY OF SALEM, MASSACHUSETTS**  
**COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN**  
**RETAINED EARNINGS / FUND EQUITY - PROPRIETARY FUND AND SIMILAR TRUST FUNDS**  
**YEAR ENDED JUNE 30, 1996**

(Except for the Pension Trust which is for the year ended December 31, 1995)

	Proprietary Fund Type	Fiduciary Fund Types		Combined Total (Memorandum Only)
	Enterprise Fund*	Pension Trust Fund	Nonexpendable Trust	
<b>REVENUES:</b>				
Charges for services	\$7,276,845			\$7,276,845
Contributions		\$6,702,212		6,702,212
Net investment income		6,204,659	\$3,125	6,207,784
Other		164,723		164,723
<b>Total revenues</b>	<b>7,276,845</b>	<b>13,071,594</b>	<b>3,125</b>	<b>20,351,564</b>
<b>EXPENSES:</b>				
Operating expenses	7,574,172			7,574,172
Benefits paid		7,477,115		7,477,115
Administrative and general		103,333		103,333
<b>Total expenses</b>	<b>7,574,172</b>	<b>7,580,448</b>		<b>15,154,620</b>
<b>Income before transfers</b>	<b>(297,327)</b>	<b>5,491,146</b>	<b>3,125</b>	<b>5,196,944</b>
<b>OTHER FINANCING sources (net)</b>				
Transfers from General Fund	(676,814)			(676,814)
<b>NET INCOME</b>	<b>(974,141)</b>	<b>5,491,146</b>	<b>3,125</b>	<b>4,520,130</b>
<b>RETAINED EARNINGS / FUND EQUITY:</b>				
July 1, 1995	1,727,640	40,440,720	1,767,072	43,935,432
June 30, 1996	\$753,499	\$45,931,866	\$1,770,197	\$48,455,562

\* The operations of the Enterprise Fund include activity of a grant in which the revenue was received in a prior period.

See notes to general purpose financial statements.

**CITY OF SALEM, MASSACHUSETTS**  
**COMBINED STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND AND SIMILAR TRUST FUNDS**  
**YEAR ENDED JUNE 30, 1996**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	
	<u>Enterprise Fund</u>	<u>Nonexpendable Trust</u>	<u>Combined Total (Memorandum Only)</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES AND NONOPERATING REVENUE:</b>			
Net income (loss) from operations	(\$974,141)	\$3,125	(\$971,016)
Adjustments to reconcile net income (loss) from operations to net cash provided by operating activities:			
Effects of changes in assets and liabilities:			
Accounts receivable and other assets	1,371		1,371
Warrants and accounts payable	(37,580)		(37,580)
	<hr/>	<hr/>	<hr/>
Net cash provided (used) by operating activities	(1,010,350)	3,125	(1,007,225)
	<hr/>	<hr/>	<hr/>
<b>INCREASE IN CASH AND EQUIVALENTS</b>	(1,010,350)	3,125	(1,007,225)
	<hr/>	<hr/>	<hr/>
<b>CASH AND EQUIVALENTS, beginning of year</b>	1,839,021	1,767,072	3,606,093
	<hr/>	<hr/>	<hr/>
<b>CASH AND EQUIVALENTS, end of year</b>	<u>\$828,671</u>	<u>\$1,770,197</u>	<u>\$2,598,868</u>

See notes to general purpose financial statements.

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 1996**

**1. Definition of Reporting Entity:**

The City of Salem is governed by an elected Mayor and City Council. Generally Accepted Accounting Principles ("GAAP") require that the accompanying general purpose financial statements present the City of Salem (the primary government) and its component units. Component units are included in the City's reporting entity if their operational and financial relationships with the City are significant. Pursuant to this criteria, the following entities have been included in or excluded from the accompanying general purpose financial statements:

- Salem Housing Authority
- South Essex Regional Sewer District
- North Shore Regional School District

The City of Salem's Retirement System (the "system") has been identified as a component unit. The system was established under the authority of Chapter 32 of the Massachusetts General Laws, as amended, and is an independent contributory retirement system available to employees of the City. The powers of the system are vested in the Retirement Board. The system has been blended into the City's Fiduciary Fund Types for reporting purposes.

**2. Summary of Significant Accounting Policies:**

The accounting policies of the City of Salem, Massachusetts conform to generally accepted accounting principles as applicable to governmental units, except that the City (1) does not include a statement of general fixed assets (2) maintains its enterprise fund on a basis of accounting other than generally accepted accounting principles, and (3) accounts for risk financing on a basis of accounting other than generally accepted accounting principles. The following is a summary of the more significant policies:

**(a) Basis of Presentation-Fund Accounting:**

The activities of the City are accounted for through the use of several funds and an account group, each of which is a separate accounting entity. The operations of each fund and account group are accounted for through a separate set of self-balancing accounts which are summarized by type in the financial statements. The following fund types and account group are used by the City.

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1996**

2. **Summary of Significant Accounting Policies - continued:**

(a) **Basis of Presentation-Fund Accounting - continued:**

**Governmental Fund Types:**

Government Funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is based upon determination of changes in financial position, rather than upon net income. The following are the City's governmental fund types:

**General Fund** - The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Funds** - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to specified purposes.

**Capital Project Funds** - Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by trust funds).

**Fiduciary Fund Types:**

**Trust And Agency Funds** - Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent. Trust funds include expendable trust funds and non expendable trust funds. Non-expendable trust funds are reported as proprietary funds. Expendable trust funds are reported as governmental funds. Agency funds are custodial in nature and do not involve measurements of results of operations.

**Pension Trust Fund** - The Pension Trust Fund is used to account for the assets of the City of Salem Retirement System (the System) available for the payment of retired employees' benefits and administrative expenses of the System.

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1996**

2. **Summary of Significant Accounting Policies - continued:**

(a) **Basis of Presentation-Fund Accounting - continued:**

**Proprietary Fund Types:**

**Enterprise Fund** - The Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where net income and capital maintenance are measured. Costs of providing services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

**Account Group:**

**General Long-term Obligations Account Group** - This account group is used to account for all long-term obligations of the City.

(b) **Measurement Focus:**

All governmental funds and expendable trust funds are accounted for on a spending or "financial flow" measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheets. The reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, such statements present a summary of sources and uses of "available spendable resources" during a period. Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets notwithstanding their measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources", since they do not represent net current assets. Recognition of governmental fund type revenues represented by noncurrent receivables is deferred until they become current receivables.

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1996**

2. **Summary of Significant Accounting Policies - continued:**

(b) **Measurement Focus - continued:**

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities, but are reported as liabilities in the General Long-Term Obligations Account Group.

(c) **Basis of Accounting:**

The modified accrual basis of accounting is followed by governmental funds and expendable trust funds. Under the modified accrual basis, revenue is recognized that is both measurable and available to pay liabilities of the current period. Revenues not considered available are recorded as deferred revenues. Expenditures are recorded when the liability is incurred, except for interest on general long-term obligations, which is recorded when due.

In applying the susceptible to accrual concept to intergovernmental revenues, these are essentially two types of revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures incurred. In the other, monies are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year-end. Licenses and permits, fines and forfeitures and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned.

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1996**

**2. Summary of Significant Accounting Policies - continued:**

(c) Basis of Accounting-continued:

The City utilizes the accrued basis of accounting with respect to expense recognition, of the enterprise fund. The City has not maintained adequate records to properly account for other enterprise fund activities such as revenue recognition, the recognition of fixed assets, depreciation, reliable segment information, and contributed capital. The above deviations as well as other modifications are necessary for the enterprise fund to be in accordance with generally accepted accounting principles. Accordingly, the opinion has been qualified to accommodate this lack of compliance with generally accepted accounting principles.

The accrual basis of accounting is used by trust funds.

(d) Encumbrances and Continuing Appropriations:

Encumbrance accounting, is employed by governmental funds. With encumbrance accounting purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation. Open encumbrances at year-end are reported as reservations of fund balances. Encumbrances do not constitute expenditures or liabilities except for budget purposes.

Certain unexpended and unencumbered appropriations for incomplete projects are carried over to succeeding years. Such continuing appropriations are accounted for similar to encumbrances.

(e) Investments:

Investments are stated at lower of cost or market.

(f) Inventory:

Inventory items (materials and supplies), which are not material to the general purpose financial statements are recorded as expenditures when purchased (purchase method).

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1996**

2. **Summary of Significant Accounting Policies - continued:**

(g) **General Fixed Assets:**

General fixed assets are recorded as expenditures in applicable governmental funds. The City does not capitalize the cost of general fixed assets in a general fixed asset group, as is required by generally accepted accounting principles. Since the Commonwealth of Massachusetts does not require the capitalization of fixed assets, this is consistent with the practice of many municipalities in the Commonwealth of Massachusetts.

(h) **Compensated Absences:**

GAAP requires the accrual of a liability for vested or accumulated vacation and sick leave. Compensated absences expected to be liquidated with expendable available financial resources are reported as expenditures and fund liabilities. Accounts that are not expected to be liquidated with expendable available financial resources are reported in the General Long-Term Obligations Account Group. Employees earn vacation as they provide services. Except in certain circumstances, (i.e. pursuant to certain collective bargaining agreements), vacation time earned must be used annually and shall not be cumulative from year to year. In the case of estimated sick leave benefits only that portion of benefits calculated based on termination benefits are presented as a liability in the general long-term obligation account group at June 30, 1996

(i) **Post Retirement/Health Care and Life Insurance Benefits:**

The City provides certain health care and life insurance benefits for retired employees. Substantially all of the City's employees may become eligible for those benefits if they reach normal retirement age while working for the City. Benefits paid by the City are on a pay-as-you go basis, and there is no actuarial valuation available as of June 30, 1996, which would permit an estimation of the unfunded past service cost liability, the future costs of current participants in the plan and the annual amounts needed to fund such costs.



**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1996**

2. **Summary of Significant Accounting Policies - continued:**

(j) **Deferred Compensation:**

The City offers its employees a Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. The Plan, which is available to all employees, permits participants to defer a portion of their salary until future years. Amounts deferred under the Plan are not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under The Plan, all property and rights purchased with the amounts, and all income attributable to these amounts are solely the property and rights of the employer, subject only to the claims of the employer's general creditors. Participants' rights under the Plan are equal to those of general creditors of the employer in an amount equal to the fair market value of the deferred account of each participant.

The City has no liability for losses under the Plan but does have the duty of due care that would be required of an ordinary prudent investor. The City believes it is unlikely that Plan assets will be used to satisfy future claims of general creditors. At June 30, 1996, assets of \$4,093,045 are recorded in the Agency Fund.

(k) **Total Columns:**

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation since interfund elimination's have not been made.

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1996**

**3. Budgetary Accounting:**

The City must establish its property tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2-1/2 and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, plus (b) a provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all non-property tax revenue and transfers projected to be received by the City, including available surplus funds.

An annual budget is legally adopted for the general fund and the Enterprise Fund. Financial orders are initiated or recommended by the Mayor. Expenditures may not legally exceed appropriations at the department level. Department heads may transfer, with the Mayor's approval, appropriation balances from one expenditure account to another within their department or budget. The City Council and the Mayor must approve any transfer of unencumbered appropriation balances between departments or agencies.

At the close of each fiscal year, unencumbered appropriation balances (appropriation less expenditures and encumbrances) revert to the unreserved fund balance. Unencumbered appropriation balances in the capital project fund, however, do not lapse at the end of the fiscal year.

The budgets are prepared on a basis of accounting other than generally accepted accounting principles (GAAP). The "actual" results columns of the Statement of Revenues and Expenditures - Budget and Actual - General Fund - Budgetary Basis is presented on a "budget basis" to provide a meaningful comparison with the budget.

The major differences between the budget and GAAP basis are that:

- (a) Budgeted revenues are recorded when cash is received, except for real estate and personal property taxes, which are recorded as revenue when levied (budget), as opposed to when susceptible to accrual (GAAP).
- (b) Encumbrances and continuing appropriations are recorded as the equivalent of expenditures (budget), as opposed to a reservation of fund balances (GAAP).
- (c) Reserve fund transfers are recorded as sources (budget) as opposed to not recorded (GAAP).

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1996**

**3. Budgetary Accounting - continued:**

A reconciliation of budgetary-basis to GAAP-basis results is presented below:

GAAP basis excess of revenues and other financing sources over expenditures and other financing uses	\$92,761
Reconciling Items:	
Transfers recognition	1,614,629
Revenue recognition	386,703
Encumbrance/expenditure recognition	<u>27,516</u>
Budgetary basis excess of revenues and other financing sources over expenditures and other financing uses	<u>\$2,121,609</u>

**4. Fund Balance:**

The components of fund balance include the following:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Trust and Agency Fund</u>	<u>Pension Trust Fund</u>	<u>Enterprise Fund</u>
Reserved for encumbrances	\$ 449,341					
Reserved for pension benefits					\$ 45,931,866	
Reserved for health claims				\$ 2,250,822		
Designated for special revenue		\$ 854,417				
Designated for capital projects			(\$ 6,590,739)			
Designated for expendable trust				1,901,926		
Designated for nonexpendable trust				1,770,197		
Hospital contingency	(1,252,016)					
Undesignated fund balances	<u>1,636,463</u>					\$ 753,499
Total fund balance (deficit)	<u>\$ 833,788</u>	<u>\$ 854,417</u>	<u>(\$ 6,590,739)</u>	<u>\$ 5,922,945</u>	<u>\$ 45,931,866</u>	<u>\$ 753,499</u>

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1996**

**5. Cash and Investments:**

Statutes authorize the City to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's investment pool. In addition, there are various restrictions limiting the amount and length of deposits and investments.

In addition, the City's fiduciary fund types have additional investment powers, most notably the ability to invest in common stocks, corporate bonds and other specified investments.

At year end, the carrying amount of the City's deposits was \$2,902,025 and the bank balance was \$2,356,430. Of the bank balance, \$773,609 was covered by federal depository insurance. \$1,582,821 was uninsured.

At December 31, 1995, the carrying amount deposits for the Pension Trust Fund was \$1,424,796 and the bank balance was \$1,877,588. The entire bank balance was covered by federal depository insurance.

Investments are categorized into these three categories of credit risk:

- (1) Insured or registered, or securities held by the government or its agent in the government's name.
- (2) Uninsured or unregistered, with securities held by counterparty's trust department or agent in the government's name.
- (3) Uninsured or unregistered, with securities held by counterparty's trust department or agent but not in the government's name.

The following schedule categorizes the City's investments:

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1996**

**5. Cash and Investments - continued:**

Investment	Category 1	Category 2	Category 3	Total	Market Value
<b>City at June 30, 1996:</b>					
Equity Securities	3,248,438			3,248,438	4,508,695
	<u>3,248,438</u>			<u>3,248,438</u>	<u>4,508,695</u>
Investments no subject to categorization:					
State Treasurer's Investment Pool				267,202	267,202
Money markets				4,751,358	4,751,358
Deferred compensation plan mutual fund investment				<u>4,093,045</u>	<u>4,093,045</u>
Total City funds				12,360,043	13,620,300
<b>Pension Trust Fund at December 31, 1995:</b>					
Government obligations	13,967,798			13,967,798	13,967,798
Fixed income securities	6,161,711			6,161,711	6,161,711
Equity securities	<u>19,197,619</u>			<u>19,197,619</u>	<u>19,197,619</u>
	39,327,128			39,327,128	39,327,128
Investments not subject to categorization:					
International mutual funds				2,711,348	2,711,348
Real estate				<u>127,000</u>	<u>127,000</u>
Total Pension Trust Fund				42,165,476	42,165,476
Total				<u>54,525,519</u>	<u>55,785,776</u>

Following is a reconciliation of investments and cash and short-term investments as summarized above to the balance as recorded in the combined balance sheet:

	Investments	Cash and Short-term Investments	Investments of Deferred Compensation Plan
As presented above	54,525,519	4,326,821	
Reclass: Short-term investments reported in the combined balance sheet as cash and short-term investments; as follows:			
Deferred compensation plan investments	(4,093,045)		4,093,045
Money market investments	(4,751,358)	4,751,358	
State Treasurer's Investment Pool	<u>(267,202)</u>	<u>267,202</u>	
Total	<u>45,413,914</u>	<u>9,345,381</u>	<u>4,093,045</u>

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1996**

**6. Property Taxes:**

Real and personal property taxes are based on values assessed as of each January 1 and are normally due on August 1, November 1, February 1, and May 1 or thirty days subsequent to mailing date. By law, all taxable property in the Commonwealth must be assessed at 100% of fair cash value. Taxes due and unpaid after the respective due dates are subject to interest and penalties. The City has an ultimate right to foreclose on property for which taxes have not been paid. Property taxes levied are recorded as receivables, net of estimated uncollectibles, in the fiscal year of the levy. Property tax revenues are recorded in accordance with the modified accrual basis of accounting described in Note 2 (c).

A statewide tax limitation statute known as "Proposition 2 1/2" limits the property tax levy to an amount equal to 2-1/2% of the value of all taxable property in the City. A secondary limitation is that no levy in a fiscal year may exceed the preceding year's allowable tax levy by more than 2-1/2%, plus taxes levied on certain property newly added to the tax rolls. Certain Proposition 2-1/2 taxing limitations can be overridden by a City wide referendum vote.

**7. Other Receivables:**

The principal amounts classified as other receivables included the following at June 30:

	<u>General Fund</u>	<u>Special Revenue Fund</u>
Motor Vehicle and Boat Excise	\$ 495,397	
Tax Liens	1,866,320	
Foreclosures	78,769	
Mortgages		\$1,808,582
Other	<u>41,122</u>	
	<u>\$2,481,608</u>	<u>\$1,808,582</u>

A significant portion of these accounts receivable is in excess of one year overdue, and collection is therefore doubtful. All of these receivables are fully reserved until collected.

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1996**

**8. Bond indebtedness:**

As of June 30, 1996, the City had the following outstanding long-term debt:

	<u>Date of Issue</u>	<u>Fiscal Year Of Maturity</u>	<u>Original Principal</u>	<u>Interest Rate</u>	<u>Amount Outstanding</u>
<b>INSIDE DEBT LIMIT</b>					
Library	8/15/90	6/15/99	2,200,000	6.84%	\$770,000
Recreation	8/15/90	6/15/99	900,000	6.84%	400,000
Police Station	7/15/91	7/15/10	400,000	5.7-8.5%	160,000
Police Station	9/1/92	1/15/12	5,450,000	4.6-7.25%	4,565,000
<b>Total inside debt limit</b>					<u>5,895,000</u>
<b>OUTSIDE DEBT LIMIT</b>					
HUD 108 1995-A	8/1/95	8/1/14	600,000	8.5%	600,000
HUD 108 1989-A	2/1/90	8/1/99	600,000	8.5%	600,000
Racial balance	8/15/90	6/15/99	1,500,000	6.84%	650,000
Racial balance	7/15/91	7/15/10	9,500,000	6.5-6.75%	7,500,000
Racial balance	9/1/92	1/15/12	12,000,000	5.7-8.5%	10,065,000
Racial balance	1/15/94	7/15/12	9,000,000	4.6-7.25%	8,050,000
Betram field	9/1/92	1/15/12	300,000	4.15-5.25%	120,000
Offstreet parking garage	7/15/91	7/15/10	1,600,000	5.0%	1,010,000
Water supply	8/15/90	6/15/99	1,175,000	4.87%	455,000
Water supply	7/15/91	7/15/10	690,000	6.84%	410,000
Water supply	1/15/94	7/15/12	1,050,000	5.7%-8.5%	840,000
<b>Total outside debt limit</b>					<u>30,300,000</u>
<b>TOTAL DEBT</b>					<u><u>\$ 36,195,000</u></u>

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1996**

**8. Bond indebtedness - continued:**

The following summarizes long-term debt transactions of the City for the year ended June 30, 1996:

Bonds payable at July 1, 1995	\$ 39,180,000
Additions	600,000
Retirements	( <u>3,585,000</u> )
Bonds payable at June 30, 1996	<u>\$ 36,195,000</u>

Payments on general long term obligation bonds due in future years consist of the following for the year ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1997	\$3,045,000	\$2,000,824	\$5,045,824
1998	3,090,000	1,828,732	4,918,732
1999	2,925,000	1,660,161	4,585,161
2000	3,210,000	1,470,998	4,680,998
2001	2,340,000	1,302,722	3,642,722
Thereafter	<u>21,585,000</u>	<u>6,928,399</u>	<u>28,513,399</u>
	<u>\$36,195,000</u>	<u>\$15,191,836</u>	<u>\$51,386,836</u>

At June 30, 1996 the City has authorized and unissued debt of \$5,500,000.



**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1996**

**8. Bond indebtedness - continued:**

**(a) Legal Debt Margin**

The City is subject to the General Laws of the Commonwealth of Massachusetts which limits the amount of bonded debt (exclusive of several categories of general obligation debt issues exempt from the debt limit) the City may have outstanding up to 2 ½% of the valuation of taxable property as last equalized by the Commonwealth's Department of Revenue. The following is a computation of the legal debt margin as of June 30, 1996 (in thousands of dollars):

Equalized Valuation - Real Estate and Personal Property			\$1,959,366
Debt Limit - 2 ½% of Equalized Valuation			48,984
Total Debt	\$36,195		
Less: Debt Exempt from Limit	(30,300)	( 5,895)	
Legal Debt Margin			<u>\$ 43,089</u>

**(b) Overlapping Debt:**

The City's proportionate share of debt of other governmental units which provide services within the City's boundaries, and which is annually assessed to the City, is summarized below (unaudited):

<u>Related Entity</u>	<u>Principal (thousands)</u>	<u>Percent</u>	<u>Amount</u>
MBTA	\$2,399,780	0.69%	\$16,558,000
South Essex Sewer District	140,145	25.49%	<u>35,722,961</u>
			<u>\$52,280,961</u>

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1996**

**9. Temporary Borrowing:**

The City is authorized to borrow on a temporary basis to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Temporary loans are general obligations of the City and carry maturity dates which are limited by statute. Interest expenditures for temporary borrowing are accounted for in the general fund.

The City has a Capital Projects Fund BAN totaling \$7,000,000 bearing an interest rate of 4.0% and maturing July 1, 1996.

**10. Contingencies:**

Various legal actions and claims are pending against the City. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 1996, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the City at June 30, 1996.

The City participates in a number of federal financial assistance programs. Although the City grant programs have been audited in accordance with the provisions of the Single Audit Act of 1984 through June 30, 1996, these programs are still subject to financial and *compliance* audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1996**

**10. Contingencies - continued:**

The City is subject to certain federal arbitrage laws in accordance with its long-term borrowings. Failure to comply with the rules could result in the payment of penalties. The amount of penalties, if any, cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

In March, 1993 the City was awarded approximately \$1,800,000 in damages as a result of a lawsuit against the Commonwealth of Massachusetts. The state has filed an appeal, and no judgment has been rendered by the Appeals Court. Accordingly, this judgment has not been recognized in the City's general purpose financial statements.

Cost reports for the Shaughnessy-Kaplin Rehabilitation Hospital's year ended of June 30, 1990 (the final year under City management) have been audited by third party payers and result in adjustments to prior reimbursements received by the City. The City is liable for \$600,000 plus accrued interest of \$400,000 as a result of the audits and has included this amount in its long-term obligations account group. Additionally, other costs related to the hospital's operations in the amount of \$400,000 for which the City is liable have also been included in the long term obligations group of accounts.

**11. Retirement System:**

**Plan Description:**

The City contributes to the Salem Employees Retirement System, a single employer plan, established under Chapter 32 of the General Laws of the Commonwealth of Massachusetts. The City's payroll for employees covered by the System for the year ended December 31, 1995 was \$18,486,325.

Substantially all full-time employees of the City, except teachers and certain administrative personnel employed by the School Department, participate in the System. Benefits paid under the plan, referred to as "retirement allowance", consists of amounts contributed by the participants, and a pension portion funded by the City.

The participants contribute a certain percentage of their compensation annually, determined by their date of employment as follows:

<u>Year employed</u>	<u>Employee contribution rate</u>
Prior to 1975	5%
1975 - 1983	7%
1984 and later	8%
1979 and later	2% of salary in excess of \$30,000

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1996**

**11. Retirement System - continued:**

The employer contribution by the City as determined by the actuarial valuation of January 1, 1994, consists of the amount required to pay the employer normal cost plus the amortization of the original unfunded actuarial liability.

Teachers and certain administrative employees of the School Department participate in a contributory retirement plan administered by the Massachusetts Teachers Retirement Board. Contributions to this plan are made entirely by the Commonwealth of Massachusetts, and therefore, the City does not contribute to the plan.

**Funding Status and Progress:**

The amount shown below as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the System on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding methods used to determine contributions to the System.

Statement No. 5 of the Governmental Accounting Standards Board requires that actuarial valuations be performed at least biennially, with an actuarial update to the date 12 months after that biennial valuation. A new valuation is required if significant changes have been made to benefit provisions since the last valuation. The most recent actuarial valuation of the system was prepared as of January 1, 1994.

Significant actuarial assumptions used in the valuation include:

1. Rate of investment return of 8% per annum, compounded annually.
2. Projected salary increase of 5.5% per annum, compounded annually, with a 4.25% attributable to inflation and 1.25% attributable to longevity, productivity and merit increases.
3. No cost-of-living increases have been assumed as these benefits are the responsibility of the State.

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1996**

**11. Retirement System - continued:**

*Funding Status and Progress - continued:*

4. The \$30,000 salary cap no longer applies for purposes of benefit determination.
5. Assets held by the fund are valued at market value.

The total unfunded pension benefit obligation applicable to the System at January 1, 1995, is as follows:

Pension benefit obligation:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$44,428,151
Current employees:	
Accumulated employee contributions, including allocated investment earnings	12,261,474
Employer-financed vested	9,167,706
Employer-financed nonvested	<u>3,592,708</u>
Total pension benefit obligation	69,450,039
 Net assets available for benefits, at market value	 <u>41,074,617</u>
 Unfunded pension benefit obligation	 <u><u>\$28,375,422</u></u>

In accordance with Massachusetts General Laws, employer contributions to the System have historically been determined on a pay-as-you-go basis. Generally accepted accounting principles require that the annual minimum provision for pensions costs should include normal cost, interest on unfunded past service cost liability, and amortization of unfunded vested benefits, on an acceptable actuarial cost method.

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1996**

**11. Retirement System - continued:**

*Funding Status and Progress - continued:*

The System accepted the funding provisions of Section 22D, of Chapter 32, of the Massachusetts General Laws accordingly, beginning July 1, 1993, the City has been making appropriations in accordance with a level funding schedule.

The employer and employee contributions to the system were as follows:

	<u>Employer Contribution</u>	<u>% of Covered Payroll</u>	<u>Employee Contribution</u>	<u>% Of Covered Payroll</u>
December 31, 1995	\$4,051,853	21.92%	\$1,551,737	8.3%

The three year and ten year historical trend information required by Statement No. 5 of the Governmental Accounting Standards Board is not available and accordingly has not been presented.

**12. Risk Financing:**

The City has established a self-insured medical program which is accounted for in the Health Claims Trust Fund, an expendable trust fund. Both employees and the City contribute to the payment of medical claims based upon primary care premium formula. The percentage is dependent upon the plan that is selected. The employee portion is paid into the Health Claims Trust Fund. The City's portion is appropriated in the general fund and transferred out to be expended from the expendable trust fund. The purpose of this program is to pay medical claims of the City's employees and their covered dependents. The City carries insurance on individual medical claims in excess of \$100,000 annually. Estimated losses on claims are charged to expenditures in the period the claim is determinable. The City accrues claims submitted for medical services rendered prior to June 30, 1996.

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1996**

**12. Risk Financing - continued:**

The City has also established self-insurance programs for unemployment and workers' compensation claims. Workers' compensation claims are appropriated for as part of the annual budget. Unemployment claims are paid to employees by the Commonwealth of Massachusetts, for which the City is billed on a monthly basis.

The City engages an independent insurance carrier for all casualty insurance.

The above is not in accordance with generally accepted accounting principles which require that such activities be recorded either in the general fund or in an internal service fund. Additionally, generally accepted accounting principles require that an actuarial valuation be determined for claims incurred but not reported, and that this amount be accrued in the general long-term obligations group of accounts.

**13. Fund Deficits/Subsequent events:**

The City incurred a deficit of \$431,199 on state and county assessments. This is anticipated to be raised on future tax recapitulation sheets.

The Capital Projects Fund has a legal deficit of \$6,590,739. This deficit was raised on July 1, 1996 through a bond issuance of \$8,800,000. This debt which matures in July, 2016 and bears interest at 5.48% was issued for the purpose of school remodeling and renovations. \$7 million of this debt is subject to reimbursement on an annual basis under Chapter 645 from the Commonwealth of Massachusetts State Board of Education.

The City's general fund equity includes a deficit of \$1,252,016 which has accumulated as a result of the City's prior years building maintenance activities of the Shaughnessy-Kaplin Rehabilitation Hospital. This deficit is anticipated to be raised in the future.

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1996**

**13. Fund Deficits/Subsequent events:**

The hospital's building and land were sold by the City on December 16, 1996. The negotiated purchase price was \$4.8 million after netting off undepreciated assets. Additionally, lease payments in the amount of \$316,215 were applied to the purchase price. The purchase price will be paid over a period of 60 months at 7.5% interest, and is secured by a first mortgage on the property. The City is obligated to repay the federal government approximately \$1.4 million in costs associated with the operation of the hospital (see note 10).

**14. Loans Receivable:**

The City has retained two banks to service various term loans executed by the City as part of its business loan program for local economic development. The funding for the loans was through the United States Office of Housing and Urban Development. To date 42 loans have been issued totaling \$3,736,670. \$1,808,582 remain outstanding and have been reflected as a receivable in the special revenue fund. The interest on these loans vary between 0% and 8% and the loans mature on various dates through 2013.

**15. Stabilization:**

In accordance with Massachusetts General Laws, the City has established a stabilization fund to be utilized as an additional reserve fund. The fund is subject to appropriation at the discretion of the Emergency Finance Board and a two-thirds vote of the City Council. The activities of this fund, which had a balance of approximately \$453,000 as of June 30, 1996, is accounted for as an expendable trust fund.



**CITY OF SALEM, MASSACHUSETTS**  
**RECONCILIATION OF TREASURER'S CASH**  
**YEAR ENDED JUNE 30, 1996**

Treasurer's cash and equivalents balance, June 30, 1996	\$9,345,381
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Composition of balance on June 30, 1996:

State Street Bank and Trust Company	252,501
Boston Safe Company	3,461,686
Eastern Bank	1,464,847
Salem Five Cents Savings Bank	75,209
United States Trust	50,027
Century Bank and Trust	238,270
BayBank, NA	110,211
Fleet Bank	1,670,138
Pension Trust fund (as of Decemebr 31, 1996)	1,424,796
Massachusetts Municipal Depository Trust	267,202
	\$9,014,887

Reconciling Items:

Outstanding checks	(1,688,881)
Deposits in transit	2,019,375
	\$9,345,381

Presentation of cash and equivalents  
in balance sheet on June 30, 1996:

General Fund	\$2,556,144
Special Revenue Fund	633,089
Capital Projects Fund	578,248
Trust and Agency Funds	3,324,433
Enterprise fund	828,671
Pension Trust Fund (as of December 31, 1995)	1,424,796
	\$9,345,381

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# TUCCI & ROSELLI

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CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT CONSULTANTS

**Independent Auditors' Report on Compliance With  
Laws and Regulations Based On An Audit  
Of General Purpose Financial Statements Performed  
In Accordance With Government Auditing Standards**

To the Honorable Mayor and City Council  
City of Salem  
Salem, Massachusetts

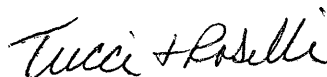
We have audited the general purpose financial statements of the City of Salem, Massachusetts as of and for the year ended June 30, 1996, and have issued our report thereon dated April 28, 1997.

We have conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards, require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to the City of Salem, Massachusetts, is the responsibility of the City of Salem, Massachusetts' management. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatements, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective of our audit of the general purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of management and any agencies that provided federal financial assistance to the City of Salem, Massachusetts. This restriction is not intended to limit the distribution of this report, which upon acceptance by the City of Salem, Massachusetts is a matter of public record.



Tucci & Roselli  
Certified Public Accountants  
April 28, 1997

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# TUCCI & ROSELLI

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CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT CONSULTANTS

**Independent Auditors' Report on Compliance With  
Structure Based on an Audit of the General Purpose Financial Statements  
Performed in Accordance With Government Auditing Standards**

To the Honorable Mayor and City Council  
City of Salem  
Salem, Massachusetts

We have audited the general purpose financial statements of the City of Salem, Massachusetts as of and for the year ended June 30, 1996, and have issued our report thereon dated April 28, 1997

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

The management of the City of Salem, Massachusetts is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

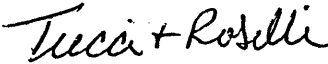
In planning and performing our audit of the general-purpose financial statements of the City of Salem, Massachusetts for the year ended June 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation and assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertion of management in the general purpose financial statements. See Schedule of Reportable Conditions on Page 36.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

We also noted certain matters involving the internal control structure and its operation that we have reported to the management of the City of Salem, Massachusetts in a separate letter dated April 28, 1997.

This report is intended solely for the use of management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the City of Salem, is matter of public record.

  
Tucci & Roselli  
Certified Public Accountants  
April 28, 1997

**CITY OF SALEM, MASSACHUSETTS  
SCHEDULE OF REPORTABLE CONDITIONS  
YEAR ENDED JUNE 30, 1996**

- Monthly reconciliations between the daily cash book and the individual account balances were not performed for the entire period.
- The daily cash book was not maintained in a complete form.
- Bank balances for all bank balances were not reconciled to their corresponding book balances in an accurate manner.
- Reconciliations between the Treasurer's cash detail and the Accountant's cash detail were not performed in a timely fashion
- Quarterly reconciliations which are required to be submitted to the Bureau of Accounts were not submitted in a timely manner.
- Reconciliations of the detail grants administered by the Community Development Office were not reconciled to the records maintained by the City Auditor's Office.
- The cash management system in place with respect to the detail grants administered by the Community Development Office and the School Business Office was determined to be inadequate.

**CITY OF SALEM, MASSACHUSETTS  
REPORT ON SCHEDULE OF FEDERAL FINANCIAL  
ASSISTANCE AND INDEPENDENT AUDITORS'  
REPORTS REQUIRED UNDER THE  
SINGLE AUDIT ACT OF 1984  
YEAR ENDED JUNE 30, 1996  
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# TUCCI & ROSELLI

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CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT CONSULTANTS

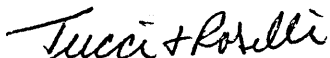
## **INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**

To the Honorable Mayor and Members of  
the City Council  
City of Salem, Massachusetts

We have audited the general purpose financial statements of the City of Salem, Massachusetts as of and for the year ended June 30, 1996, and have issued our report thereon, dated April 28, 1997. These general purpose financial statements are the responsibility of the City of Salem's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States and the provisions of Office of Management and Budget Circular A-128, "Audits of State and Local Governments". Those standards and OMB Circular 128 require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the City of Salem, Massachusetts, taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.



Tucci & Roselli  
Certified Public Accountants  
April 28, 1997

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# TUCCI & ROSELLI

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CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON THE INTERNAL  
CONTROL STRUCTURE USED IN ADMINISTERING  
FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

The Honorable Mayor and Members of  
the City Council of the  
City of Salem, Massachusetts

We have audited the general purpose financial statements of the City of Salem, Massachusetts, as of and for the year ended June 30, 1996, and have issued our reports thereon dated April 28, 1997. We have also audited the compliance of the City of Salem, Massachusetts, with requirements applicable to major federal financial assistance programs and have issued our report thereon dated April 28, 1997.

We conducted our audits in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments". Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement and about whether the City of Salem, Massachusetts complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the year ended June 30, 1996, we considered the internal control structure of the City of Salem, Massachusetts, in order to determine our auditing procedures for the purpose of expressing our opinions on the general purpose financial statements of the City of Salem, Massachusetts, and on the compliance of the City of Salem, Massachusetts, with requirements applicable to major programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the general purpose financial statements in a separate report dated April 28, 1997.

The management of the City of Salem, Massachusetts, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:



## Administrative Controls

### General Requirements

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property management - not applicable
- Federal financial reports
- Allowance costs/cost principles
- Drug-free workplace
- Administrative requirements

### Administrative Controls- continued

#### Specific Requirements

- Types of services allowed or not allowed
- Eligibility
- Matching, level of effort, or earmarking
- Reporting
- Cost allocation
- Special requirements, if any
- Monitoring subrecipients

### Claims for Advances and Reimbursements

### Amounts Claimed or Used for Matching

For all the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

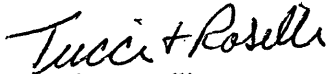
During the year ended June 30, 1996, the City of Salem, Massachusetts expended 74.36 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to the each of the City of Salem, Massachusetts' major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of the City of Salem, Massachusetts, in the a separate letter dated April 28, 1997.

This report is intended for the information of management. However, this report is a matter of public record, and its distribution is not limited.

A handwritten signature in cursive script that reads "Tucci & Roselli".

Tucci & Roselli  
Certified Public Accountants  
April 28, 1997

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# TUCCI & ROSELLI

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CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
GENERAL REQUIREMENTS APPLICABLE TO  
FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

To the Honorable Mayor and Members of  
the City Council of the  
City of Salem, Massachusetts

We have audited the general purpose financial statements of the City of Salem, Massachusetts as of and for the year ended June 30, 1996, and have issued our report thereon dated April 28, 1997.

We have applied procedures to test City of Salem, Massachusetts', compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the year ended June 30, 1996.

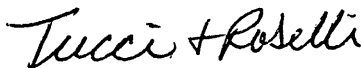
General Requirements

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property management - not applicable
- Federal financial reports
- Allowance costs/cost principles
- Drug-free workplace
- Administrative requirements

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's "Compliance Supplement for Single Audits of State and Local Governments". Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on City of Salem, Massachusetts', compliance with the requirements listed above. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed above. With respect to items not tested, nothing came to our attention that caused us to believe that the City of Salem, Massachusetts, had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in a separate letter dated April 28, 1997.

This report is intended for the information of management. However, this report is a matter of public record and its distribution is not limited.

  
Tucci & Roselli  
Certified Public Accountants  
April 28, 1997

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# TUCCI & ROSELLI

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CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
SPECIFIC REQUIREMENTS APPLICABLE TO MAJOR  
FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

To the Honorable Mayor and Members of  
the City Council of the  
City of Salem, Massachusetts

We have audited the general purpose financial statements of the City of Salem, Massachusetts, as of and for the year ended June 30, 1996, and have issued our report thereon dated April 28, 1997.

We have also audited the City of Salem, Massachusetts' compliance with the governing requirements, listed below, that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the year ended June 30, 1996.

**Specific Requirements**

- Types of services
- Eligibility
- Matching, level of effort, or earmarking
- Reporting
- Cost allocation
- Special requirements, if any
- Monitoring subrecipients

The management of the City of Salem, Massachusetts, is responsible for the City of Salem, Massachusetts' compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments". Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining on a test basis, evidence about the City of Salem, Massachusetts' compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in a separate letter dated April 28, 1997. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the City of Salem, Massachusetts, complied in all material respects, with the governing requirements, listed above, that are applicable to each of its major federal financial assistance programs for the year ended June 30, 1996.

This report is intended for the information of management. However, this report is a matter of public record and its distribution is not limited.

*Tucci & Roselli*

Tucci & Roselli

Certified Public Accountants

April 28, 1997

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# TUCCI & ROSELLI

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CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
SPECIFIC REQUIREMENTS APPLICABLE TO NON-MAJOR  
FEDERAL FINANCIAL ASSISTANCE PROGRAM TRANSACTIONS**

To the Honorable Mayor and Members of  
the City Council of the  
City of Salem, Massachusetts

We have audited the general purpose financial statements of the City of Salem, Massachusetts, as of and for the year ended June 30, 1996, and have issued our report thereon dated April 28, 1997.

In connection with our audit of the general purpose financial statements of the City of Salem, Massachusetts, and with our consideration of the City of Salem, Massachusetts' control structure used to administer federal financial assistance programs, as required by Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments", we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the year ended June 30, 1996. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or not allowed; eligibility; and special tests and provisions that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the City of Salem, Massachusetts' compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the City of Salem, Massachusetts, had not complied in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements which are described in a separate letter dated April 28, 1997.

This report is intended for the information of management. However, this report is a matter of public record and its distribution is not limited.

*Tucci & Roselli*

Tucci & Roselli  
Certified Public Accountants  
April 28, 1997

**CITY OF SALEM**  
**SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**  
**JUNE 30, 1996**

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Total Expenditure
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>		
<b><u>DIRECT PROGRAMS:</u></b>		
Kidnet - College Family Support	84.233A	186,493
Plan New School	84.211B	61,215
Project Globe	84.003C	40,772
<b><u>PASSED THROUGH COMMONWEALTH:</u></b>		
Chapter One	* 84.01	1,024,948
Plummer		10,952
NET		780
Title VIB - SPED 94-142	84.027	287,033
SPED IEP Training	84.027	6,200
SPED Curriculum Frameworks	84.027	2,830
Title VIB - SPED Early Childhood	84.173	56,311
Kidnet Plus - Learning Together	84.173	953
Title VI - Project Help: Chapt II Block Grant	84.151	33,635
Teacher Train Math & Science (Eisenhower)	84.164	22,832
Curriculum Development - State Lead	84.048	21,686
Curriculum Development - Perkins	84.048	38,546
Emergency Immigration	84.162	16,677
G 2000 Professional Development	84.276	54,495
G 2000 Alternative Education	84.276	10,973
School to Work	84.278B	38,117
Drug Free Schools	84.186	29,595
DARE	84.186A	850
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>		
<b><u>PASSED THROUGH COMMONWEALTH:</u></b>		
National School Lunch Program	* 10.555	530,561
School Breakfast Program	10.553	101,912
Food Distribution	10.550	65,919
<b><u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u></b>		
CDBG Entitlement	* 14.218	1,624,873
HIP	* 14.218	45,356
Sections 108	* 14.218	208,069
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>		
Federal Council on Aging	93.045	94,827
		<u>4,617,410</u>

\*Denotes major program

See notes to Schedule of Federal Financial Assistance.

**CITY OF SALEM, MASSACHUSETTS  
NOTES TO SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE  
YEAR ENDED JUNE 30, 1996**

1. Scope of Audit

The City of Salem, Massachusetts (the City) is a governmental agency established by the laws of the Commonwealth of Massachusetts.

All operations related to the City's federal grant programs are included in the scope of the OMB Circular A-128 Audit Requirements for Audits of State and Local Governments (the single audit).

Compliance testing of specific requirements was performed for the following major programs:

<u>Description</u>	<u>Total Expenditures</u>
Chapter One Community Development	\$1,024,948
Block Grant	1,878,298
School Lunch	<u>530,561</u>
	<u>\$3,433,807</u>

2. Summary of Significant Accounting Policies

Accounting policies and financial reporting practices permitted for municipalities in Massachusetts are prescribed by the Uniform Municipal Accounting System (UMAS) promulgated by the Commonwealth of Massachusetts Department of Revenue. The significant accounting principles followed by the City are as follows:

a. Basis of Presentation

The accompanying Schedule of Federal Financial Assistance includes the federal grant transactions of the City, although some of these programs may be supplemented with state and other revenue, only federal activity is shown. The receipts, proceeds from federal grants, and disbursements are recorded on the modified accrual basis whereby revenue is recognized when it becomes available and measurable and expenditures are recognized when the liability is incurred. The activities of these programs are reflected in the general purpose financial statements in the Special Revenue Fund.



**CITY OF SALEM, MASSACHUSETTS  
NOTES TO SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE  
CONTINUED  
YEAR ENDED JUNE 30, 1996**

3. Non-Cash Commodities

The Schedule of Federal Financial Assistance includes \$65,919 of USDA commodities, which is a non-cash item and accordingly is not recorded in the general purpose financial statements.