

CITY OF SALEM, MASSACHUSETTS

**REPORT ON EXAMINATION OF
GENERAL PURPOSE FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION
YEAR ENDED JUNE 30, 1997
AND
INDEPENDENT AUDITOR'S REPORT**

**CITY OF SALEM, MASSACHUSETTS
REPORT ON EXAMINATION OF
GENERAL PURPOSE FINANCIAL STATEMENTS AND ADDITIONAL
INFORMATION
YEAR ENDED JUNE 30, 1997**

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TUCCI & ROSELLI

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the City Council and Mayor
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, 1997, 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, 1996. 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 discussed in Note 12, the City has not had an actuarial valuation of its Pension Trust Fund performed as of December 31, 1996. Accordingly, it is unable to determine the effect, if any, that the net pension obligation has on the General Long-Term Obligations Account Group, as is required by generally accepted accounting principles.

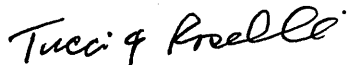
As more fully described in Note 13, the City accounts for its risk financing activities on a comprehensive basis of accounting other than generally accepted accounting principles. Accordingly, the recognition of this activity is not intended to present the financial position and results of operation 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 four 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, 1997, except for the Pension Trust Fund which is as of and for the year ended December 31, 1996, and the results of its operations and cash flows of its nonexpendable trust funds and proprietary fund types for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 21, 1997, which includes instances of material weaknesses, on our consideration of the City of Salem's internal control structure and its compliance with laws and regulations.

The City of Salem, Massachusetts, adopted Governmental and Accounting Standards Board (GASB) Statement Number 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans" and GASB Statement Number 27, "Accounting for Pensions by State and Local Governmental Employers."

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The statistical section, which is not a required part of the general purpose financial statements, but presented for additional analysis and the required supplementary information is also the responsibility of the City's management, and in our opinion, except for the effect of matters described in paragraphs three, four, five, and six, is fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.



Tucci & Roselli
Certified Public Accountants
November 21, 1997

CITY OF SALEM, MASSACHUSETTS
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP
JUNE 30, 1997

(Except for the Pension Trust which is for the year ended December 31, 1996)
 (General Fund 1996 amounts are shown for comparative purposes only.)

	Governmental Fund Types				Fiduciary Fund Types		Proprietary Fund Type	Account Group	Combined Total (Memorandum Only)
	General Fund		Special Revenue Funds	Capital Projects Funds	Trust and Agency Funds	Pension Trust Fund	Enterprise Fund	General Long-Term Obligations	
	1997	1996							
ASSETS AND OTHER DEBITS									
Cash and equivalents	\$5,637,273	\$3,808,160	\$569,356	\$1,621,835	\$1,830,343	\$2,347,105	\$1,273,720		\$13,279,632
Investments:									
Investment in deferred compensation plan					3,695,098	46,545,660			50,240,758
Receivables:					5,436,915				5,436,915
Property taxes (Note 4)	1,822,954	1,591,975							1,822,954
Other (Note 7)	2,327,557	2,481,608	4,762,134		167,426	2,389,508			9,646,625
Water and sewer user charges							3,040,844		3,040,844
Due from other government			1,567,174					7,119	1,567,174
Other assets	277,195								284,314
Amount to be provided for retirement of general long-term obligations								\$43,539,911	43,539,911
Total assets and other debits	\$10,064,979	\$7,881,743	\$6,898,664	\$1,621,835	\$11,129,782	\$51,282,273	\$4,321,683	\$43,539,911	\$128,859,127

See notes to general purpose financial statements.

Continued

CITY OF SALEM, MASSACHUSETTS
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP
JUNE 30, 1997

(Except for the Pension Trust which is for the year ended December 31, 1996)
(General Fund 1996 amounts are shown for comparative purposes only.)

	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
	1997	1996						
LIABILITIES, FUND EQUITY AND OTHER CREDITS								
Warrants and accounts payable		\$1,913,427	\$725,692	\$31,509	\$29,638		\$43,842	\$3,372,696
Accrued expenses	716,585	79,581		107,700	70,145			894,430
Allowance for abatements	117,500							117,500
Other liabilities					144,473			144,473
Deferred revenues	3,985,037	3,802,841	4,762,134		5,436,915		3,040,844	11,788,015
Deferred compensation liability								5,436,915
Compensated absences								1,589,911
Bond indebtedness								41,950,000
TOTAL LIABILITIES	7,361,137	5,795,849	5,487,826	139,209	5,681,171		3,084,686	65,293,940
FUND EQUITY AND OTHER CREDITS (as restated)								
Reserved for encumbrances	557,509							51,282,273
Reserved for pension benefits								1,207,024
Reserved for health claims					1,207,024			1,901,598
Designated for special revenue			1,901,598	1,482,626				1,482,626
Designated for capital projects								2,471,390
Designated for expendable trust					2,471,390			1,770,197
Designated for nonexpendable trust					1,770,197			(490,760)
Hospital contingency			(490,760)					1,236,997
Retained earnings								1,236,997
Undesignated fund balances	2,146,333						1,236,997	2,146,333
Total liabilities, fund equity, and other credits	\$10,064,979	\$5,795,849	\$6,898,664	\$1,621,835	\$11,129,782	\$51,282,273	\$4,321,683	\$128,301,618

See notes to general purpose financial statements.

Concluded

**CITY OF SALEM, MASSACHUSETTS
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
YEAR ENDED JUNE 30, 1997
(General Fund 1996 amounts are shown for comparative purposes only.)**

	Governmental Fund Types			Fiduciary Fund Types	
	General Fund		Special Revenue Funds	Capital Projects Funds	Expendable Trust Funds
	1997	1996			Combined Total (Memorandum Only)
REVENUES:					
Real and personal property taxes, net	\$42,400,497	\$40,142,655			\$42,400,497
Motor vehicle and other excise	2,327,427	2,068,493			2,327,427
Intergovernmental	17,566,369	17,056,430	\$8,187,137		25,753,506
Departmental and other revenue	1,594,068	2,370,127	2,559,129		4,153,197
Licenses and permits	296,415	249,533			296,415
Fines and forfeitures	654,441	690,975			654,441
Investment income	294,782	224,209			
Health claims contribution					\$224,040
					4,999,175
Total revenues	65,133,999	62,802,422	10,746,266		5,223,215
					81,103,480
EXPENDITURES:					
General government	4,078,734	5,474,660	706,225		4,784,959
Public safety	11,715,870	11,913,768	78,469		11,794,339
Education	28,139,366	25,614,716	3,295,716		31,435,082
Public works	4,208,451	3,768,718	941,633		5,150,084
Health and human services	549,015	514,150	313,878		862,893
Culture and recreation	2,308,523	2,237,293	156,938		2,647,724
Pension and fringe benefits	8,265,821	8,025,136			8,265,821
State and county assessments	1,842,397	2,280,985			1,842,397
Debt service:					
Principal	2,725,000	3,065,000			2,725,000
Interest	2,395,126	1,564,222			2,395,126
Health claims					4,449,929
Community development and capital outlay			2,354,083	785,085	3,139,168
Total expenditures	66,228,303	64,458,648	7,846,942	785,085	4,632,192
					79,492,522
Excess (deficiency) of revenues over (under) expenditures	(1,094,304)	(1,656,226)	2,899,324	(785,085)	591,023
					1,610,958
OTHER FINANCING SOURCES (USES):					
Bond proceeds				8,800,000	8,800,000
Operating transfers in	1,747,191	2,706,438	22,385	58,450	1,828,026
Operating transfers out	(34,939)	(957,451)	(1,113,272)		(1,212,661)
Total other financing sources (uses)	1,712,252	1,748,987	(1,090,887)	8,858,450	(64,450)
					9,415,365
Excess of revenues and other financing sources over expenditures and other uses (Note 3)	617,948	92,761	1,808,437	8,073,365	526,573
					11,026,323
FUND BALANCES, (DEFICIT) JULY 1, 1996, as restated	2,085,894	1,993,133	(397,599)	(6,590,739)	3,151,841
					(1,750,603)
FUND BALANCES, JUNE 30, 1997	\$2,703,842	\$2,085,894	\$1,410,838	\$1,482,626	\$3,678,414
					\$9,275,720

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, 1997**

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Real and personal property taxes, net	\$42,390,664	\$42,552,413	\$161,749
Motor vehicle and other excise	1,977,455	2,327,427	349,972
Intergovernmental	17,574,770	17,566,369	(8,401)
Departmental and other revenue	1,598,700	1,594,068	(4,632)
Licenses and permits	290,000	296,415	6,415
Fines and forfeitures	638,000	654,441	16,441
Investment income	400,000	294,783	(105,217)
Total revenues	64,869,589	65,285,916	416,327
OTHER FINANCING SOURCES :			
Operating transfers (net)	1,628,108	1,621,070	(7,038)
Transfers from free cash	781,371	781,371	
Total other financing sources	2,409,479	2,402,441	(7,038)
Total revenue and other financing sources	67,279,068	67,688,357	409,289
EXPENDITURES:			
General government	4,442,504	4,121,806	320,698
Public safety	11,899,484	11,750,318	149,166
Education	28,390,742	28,202,570	188,172
Public works	4,187,858	4,096,173	91,685
Health and human services	569,020	546,841	22,179
Culture and recreation	2,490,596	2,395,602	94,994
Pension and fringe benefits	8,305,108	8,260,457	44,651
State and county assessments	1,820,444	1,842,397	(21,953)
Debt service	5,173,312	5,120,126	53,186
Total expenditures	67,279,068	66,336,290	942,778
Excess of revenues and other financing sources over expenditures (Note 3)		\$1,352,067	

See notes to general purpose financial statements.

CITY OF SALEM, MASSACHUSETTS
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS / FUND BALANCES - NONEXPENDABLE TRUST FUNDS AND
PROPRIETARY FUND TYPES
YEAR ENDED JUNE 30, 1997

	Proprietary Fund Type		Combined Total (Memorandum Only)
	Enterprise Fund	Nonexpendable Trust	
REVENUES:			
Charges for services	\$7,788,694		\$7,788,694
Contributions			0
Net investment income			0
Other			0
Total revenues	7,788,694	0	7,788,694
EXPENSES:			
Operating expenses	6,689,831		6,689,831
Benefits paid			0
Administrative and general			0
Total expenses	6,689,831		6,689,831
Income before transfers	1,098,863	0	1,098,863
OTHER FINANCING sources (net)			
Transfers from General Fund	(615,365)		(615,365)
NET INCOME	483,498	0	483,498
RETAINED EARNINGS / FUND EQUITY:			
July 1, 1996	753,499	1,770,197	2,523,696
June 30, 1997	\$1,236,997	\$1,770,197	\$3,007,194

See notes to general purpose financial statements.

**CITY OF SALEM, MASSACHUSETTS
COMBINED STATEMENT OF CASH FLOWS
NONEXPENDABLE TRUST FUNDS AND PROPRIETARY FUND TYPES
YEAR ENDED JUNE 30, 1997**

	<u>Proprietary Fund Type</u>		<u>Combined Total (Memorandum Only)</u>
	<u>Enterprise Fund</u>	<u>Nonexpendable Trust</u>	
CASH FLOWS FROM OPERATING ACTIVITIES AND NONOPERATING REVENUE:			
Net income from operations	\$483,498		\$483,498
Adjustments to reconcile net income from operations to net cash provided by operating activities:			
Effects of changes in assets and liabilities:			
Accounts receivable and other assets	(326,808)		(326,808)
Warrants and accounts payable	288,359		288,359
Net cash provided by operating activities	<u>445,049</u>	<u>0</u>	<u>445,049</u>
INCREASE IN CASH AND EQUIVALENTS	445,049	0	445,049
CASH AND EQUIVALENTS, beginning of year	<u>828,671</u>	<u>1,770,197</u>	<u>2,598,868</u>
CASH AND EQUIVALENTS, end of year	<u>\$1,273,720</u>	<u>\$1,770,197</u>	<u>\$3,043,917</u>

See notes to general purpose financial statements.

**CITY OF SALEM, MASSACHUSETTS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 1997**

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 funds on a modified accrual basis of accounting which is other than the basis prescribed by generally accepted accounting principles, (3) accounts for the risk financing activities of the health claims and workmen's compensation on a basis of accounting other than generally accepted accounting principles, and (4) has not been consistent with all the required pension disclosures. 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, 1997

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, 1997

2. Summary of Significant Accounting Policies - continued:

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

Proprietary Fund Types:

Enterprise funds - 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, 1997

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, 1997

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 funds. The City has not maintained adequate records to properly account for other Enterprise Funds activities such as revenue recognition, the recognition of fixed assets, depreciation, and contributed capital. The above deviations as well as other modifications are necessary for the Enterprise funds to be in accordance with generally accepted accounting principles.

The accrual basis of accounting is used by trust funds.

(d) Encumbrances:

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.

(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, 1997

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, 1997.

(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, 1997, 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, 1997

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, 1997, assets of \$5,436,915 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.

(l) Comparative Data:

Summaries of comparative data, which is not required, for the prior year general fund have been presented in the accompanying general purpose financial statements to provide an understanding of changes in the general fund financial position and operations.

CITY OF SALEM, MASSACHUSETTS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 1997

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 Funds. Council 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, 1997

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	\$617,948
Reconciling Items:	
Transfers recognition	690,189
Revenue recognition	151,917
Encumbrance/expenditure recognition	<u>(107,987)</u>
Budgetary basis excess of revenues and other financing sources over expenditures and other financing uses	<u>\$1,352,067</u>

4. Receivables - Real Estate and Personal Property:

The following schedule is a breakdown of real estate and personal property tax receivables by year:

	<u>Amount</u>
Real Estate:	
1997	\$1,124,766
1996	613,184
Chapter 59 in Lieu of tax	10,218
Deferred Tax Clause 41A	<u>41,123</u>
Total Real Estate	1,789,291
Personal Property:	
1997	29,293
1996 & Prior	<u>4,370</u>
Total Personal Property	<u>33,663</u>
TOTAL RECEIVABLES	<u>\$1,822,954</u>

CITY OF SALEM, MASSACHUSETTS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 1997

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 \$3,216,196 and the bank balance was \$4,307,906. Of the bank balance, \$516,726 was covered by federal and state depository insurance and \$3,791,180 was uninsured.

At December 31, 1996, the carrying amount deposits for the Pension Trust Fund was \$22,699 and the bank balance was \$578,040. 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, 1997

5. Cash and Investments - continued:

	Category 1	Category 2	Category 3	Total	Market Value
The City at June 30, 1997:					
Government obligations	\$199,563			\$199,563	\$199,563
Equity securities	3,307,661			3,307,661	3,949,963
	<u>3,507,224</u>			<u>3,507,224</u>	<u>4,149,526</u>
Investments not subject to categorization:					
Mutual funds				382,893	382,893
State Treasurer's Investment Pool				6,820,955	6,820,955
Money markets				700,357	700,357
Deferred compensation plan mutual fund investment				<u>5,436,915</u>	<u>5,436,915</u>
Total City funds				<u>16,848,344</u>	<u>17,490,646</u>
Pension Trust Fund at December 31, 1996:					
Government obligations	2,324,405			2,324,405	2,324,405
Fixed income securities		\$22,728,021		22,728,021	22,728,021
Equity securities	20,367,257			20,367,257	20,367,257
	<u>22,691,662</u>	<u>22,728,021</u>		<u>45,419,683</u>	<u>45,419,683</u>
Investments not subject to categorization:					
International mutual funds				3,287,383	3,287,066
Real estate				<u>163,000</u>	<u>163,000</u>
Total Pension Trust Fund				<u>48,870,066</u>	<u>48,869,749</u>
Total				<u>\$65,718,410</u>	<u>\$66,360,395</u>

The following is a reconciliation of investments and cash and equivalents as summarized above to the balance as recorded in the combined balance sheet:

	Investments	Cash and Equivalents	Investments of Deferred Compensation Plan
As presented above	\$65,718,410	\$3,238,895	
Reclass: Short-term investments reported in the combined balance sheet as cash and equivalents as follows:			
Mutual funds	(382,893)	382,893	
Deferred compensation plan investments	(5,436,915)		5,436,915
Money market investments	(2,836,889)	2,836,889	
State Treasurer's Investment Pool	<u>(6,820,955)</u>	<u>6,820,955</u>	
Total	<u>\$50,240,758</u>	<u>\$13,279,632</u>	<u>\$5,436,915</u>

CITY OF SALEM, MASSACHUSETTS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 1997

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:

	General Fund	Special Revenue Fund
Motor Vehicle and Boat		
Excise	\$547,527	
Tax Liens and		
Foreclosures	1,778,544	
Notes Receivable		\$4,762,134
Other	1,486	
	<u>\$2,327,557</u>	<u>\$4,762,134</u>

A significant portion of these accounts receivable is in excess of one year overdue.

**CITY OF SALEM, MASSACHUSETTS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 1997**

7. Other Receivables - continued:

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, approximately 42 loans have been issued totaling approximately \$3,750,000. The remaining outstanding balance of \$1,588,123 has been reflected as a receivable in the Special Revenue Fund. The interest on these loans varies between 0% and 8% and the loans mature on various dates through 2013.

8. Note Receivable - Hospital:

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. Lease payments in the amount of \$316,215 were applied to the purchase price. The payment schedule to the City was made retroactive to January 1, 1996, accordingly the City received proceeds for \$1,058,003, which represents eleven monthly installments of principle, at the time of the sale. The City is to receive monthly installments of \$96,182 plus interest accruing at 7.5% until January 1, 2001. As of June 30, 1997, \$3,174,011, remained outstanding with respect to this note. This amount has been included as other receivables in the Special Revenue Fund.

As of June 30, 1997 the City's Special Revenue Fund equity includes a deficit of \$490,760, which has accumulated as a result of the City's prior years building maintenance activities of the Shaughnessy-Kaplan Rehabilitation Hospital. This deficit is anticipated to be raised through future proceeds. Additionally, the City was awarded a medicare reimbursement of \$270,000, which was received subsequent to year end and will be used to offset a portion of this deficit.

9. Bond Indebtedness:

As of June 30, 1997, 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>
INSIDE DEBT LIMIT					
Library	8/15/90	6/15/99	2,200,000	6.66%	\$ 485,000
Recreation	8/15/90	6/15/00	900,000	6.66%	300,000
Police Station	1/15/94	1/15/04	200,000	5.7-8.5%	140,000
Police Station	9/1/92	1/15/12	5,450,000	4.6-7.25%	<u>4,270,000</u>
Total inside debt limit					\$5,195,000

CITY OF SALEM, MASSACHUSETTS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 1997

9. Bond Indebtedness (continued):

OUTSIDE DEBT LIMIT

HUD 108 1995-A	2/1/95	8/1/14	600,000	9.0%	600,000
HUD 108 1989-A	6/29/89	8/1/99	600,000	4.38%	600,000
Racial balance	8/15/90	6/15/00	1,500,000	6.67%	480,000
Racial balance	7/15/91	2/15/11	9,500,000	6.5-6.75%	7,000,000
Racial balance	9/1/92	1/15/12	12,000,000	5.7-8.5%	9,420,000
Racial balance	1/15/94	1/15/13	9,000,000	4.6-7.25%	7,575,000
Betram field	9/1/92	1/15/98	300,000	4.15-5.25%	60,000
Offstreet parking garage	7/15/91	2/15/01	1,600,000	5.0%	835,000
Water supply	8/15/90	6/15/00	1,175,000	6.66%	310,000
Water supply	7/15/91	2/15/02	690,000	6.36%	340,000
Water supply	1/15/94	1/15/04	1,050,000	4.56%	735,000
School	7/1/96	8/15/15	7,000,000	5.48%	7,000,000
School	7/1/96	8/15/15	1,800,000	5.48%	1,800,000
Total outside debt limit					<u>36,755,000</u>
TOTAL DEBT					<u><u>\$ 41,950,000</u></u>

The following summarizes long-term debt transactions of the City for the year ended June 30, 1997:

Bonds payable at July 1, 1996	\$36,195,000
Additions	8,800,000
Retirements	<u>(3,045,000)</u>
Bonds payable at June 30, 1997	<u><u>\$41,950,000</u></u>

CITY OF SALEM, MASSACHUSETTS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 1997

9. Bond Indebtedness - continued:

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>
1998	\$ 3,380,000	\$ 2,307,253	\$ 5,687,253
1999	3,295,000	2,121,077	5,416,077
2000	3,595,000	1,911,151	5,506,151
2001	2,735,000	1,721,424	4,456,424
2002	2,520,000	1,581,916	4,101,916
Thereafter	<u>26,425,000</u>	<u>8,372,320</u>	<u>34,797,320</u>
	<u>\$41,950,000</u>	<u>\$18,015,141</u>	<u>\$59,965,141</u>

At June 30, 1997, the City has authorized and unissued debt of \$500,000.

(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, 1997 (in thousands of dollars):

Equalized Valuation - Real Estate and Personal Property	\$1,981,280
Debt Limit - 2 ½% of Equalized Valuation	49,532
Total Debt	\$41,950
Less: Debt Exempt from Limit	(36,755) <u>(5,195)</u>
Legal Debt Margin	<u>\$ 44,337</u>

CITY OF SALEM, MASSACHUSETTS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 1997

9. Bond Indebtedness - continued:

(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>
Essex County	\$ 850	5.90%	\$ 50,150
MBTA	2,399,780	.69%	16,558,000
South Essex Sewer District	140,145	25.49%	<u>35,722,961</u>
			<u><u>\$52,331,111</u></u>

10. Prior Period Adjustments:

Certain adjustments have been made to the beginning fund balances in order to properly conform to the June 30, 1997 presentation. These adjustments are summarized as follows:

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Expendable Trust Funds</u>
As previously reported	\$ 833,878	\$ 854,417	\$4,152,748
Reclassification:			
Hospital deficit	1,252,016	(1,252,016)	
Corrections:			
Trust fund cash adjustment			(1,415,273)
Trust funds previously not reported			414,366
As restated	<u><u>\$2,085,894</u></u>	<u><u>(\$ 397,599)</u></u>	<u><u>\$3,151,841</u></u>

CITY OF SALEM, MASSACHUSETTS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 1997

11. 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, 1997, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the City at June 30, 1997.

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 Amendments of 1996 through June 30, 1997, 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.

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.

CITY OF SALEM, MASSACHUSETTS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 1997

12. Retirement System:

Plan Description:

The City contributes to the City of Salem Contributory Retirement System (the Plan), a single employer defined benefit pension plan, established under Chapter 32 of the General Laws of the Commonwealth of Massachusetts. The Plan is administered by the City of Salem and is part of the reporting entity. A stand alone annual statement was issued for the year ended December 31, 1996. This report is available at the Retirement Office, 93 Washington Street, Salem, Massachusetts.

Substantially all full-time employees of the City, except teachers and certain administrative personnel employed by the School Department, participate in the Plan. The members of the retirement system do not participate in the Social Security System. Benefits paid under the Plan, referred to as "retirement allowances," include both an annuity portion, funded principally from amounts contributed by the participants, and a pension portion, funded by the City. The City's payroll for employees covered by the Plan for the year ended December 31, 1996, was approximately \$18,500,000.

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

Membership:

Current membership in the Plan as of January 1, 1997, is as follows:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	628
Active employees	<u>795</u>
Total	<u><u>1,423</u></u>

CITY OF SALEM, MASSACHUSETTS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 1997

12. Retirement System - continued:

Benefits:

Massachusetts Contributory Retirement System benefits are uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest three-year average annual rate of regular compensation. Benefit payments are based upon a participant's age, length of creditable service, level of compensation and group classification.

The retirement allowance consists of two parts: an annuity and a pension. Participants' accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and annuity is the pension.

From time to time, the Legislature may grant cost-of-living increases to benefits being paid to retirees. These increases are expressed as a percentage of the retiree's allowance subject to a maximum dollar increase. Since 1982, cost-of-living increases granted to members of local retirement systems have been the financial responsibility of the State.

Participants who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total contributions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either 0%, 50% or 100% of the regular interest which has accrued upon those contributions. A vested employee under the age of 55 who elects to leave his accumulation on deposit may apply for benefits upon reaching that age.

Survivor benefits are extended to eligible beneficiaries of participants whose death occurs prior to or following retirement.

The System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of Massachusetts, if such member has paid the stipulated contributions specified in sections or provisions of such laws.

**CITY OF SALEM, MASSACHUSETTS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 1997**

12. Retirement System - continued:

Normal Retirement:

Normal retirement occurs at age 65; however, participants may retire after twenty years of service or at any time after attaining age 55. Participants with hire dates subsequent to January 1, 1978, must have minimum of ten years' creditable service in order to retire at age 55. Participants become vested after ten years of service. Benefits commencing before age 65 are provided at a reduced rate. Members working in certain occupations may retire with full benefits earlier than age 65.

Disability Retirement:

The System provides for both an ordinary disability retirement, where a participant is permanently incapacitated from a cause unrelated to employment, and an accidental disability retirement, where the disability is the result of an injury or illness received or aggravated in the performance of duty. The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of service, average compensation and veteran status.

Funding Status and Progress:

The City has elected provisions of Chapter 32, Section 22D of Massachusetts General Laws, which require that a funding schedule be established to fully fund the accrued liability by June 30, 2021. Under provisions of this law, participating employers are assessed their share of the total retirement cost based on the entry age, normal actuarial cost method. Amortization of the unfunded actuarial liability is determined using the level dollar amortization method over a 27-year period.

Significant actuarial assumptions used to compute the pension benefit obligation were as follows:

Rate of return on investments on present and future assets	8.0%
Projected salary increases per year	5.5%
Total salary for all employees	5.0%

CITY OF SALEM, MASSACHUSETTS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 1997

12. Retirement System - continued:

Contribution Requirements and Contributions Made:

The Plan's funding policies have been established by Chapter 32 of the Massachusetts General Laws. The annuity portion of the retirement allowance is funded by employees who contribute a percentage of their regular compensation. Employees whose creditable service began prior to January 1, 1975, contribute 5% of their base salary or wage; those whose service date is subsequent to January 1, 1975, and prior to January 1, 1984, contribute 7%; those whose service date is subsequent to January 1, 1984, and prior to July 1, 1996, contribute 8%, and those whose service date is subsequent to July 1, 1996, contribute 9%. Additionally, employees hired after January 1979 contribute an additional 2% on earnings in excess of \$30,000.

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

The Pension Reform Act of 1987 was enacted by the State Legislature in January 1988. The Act amends Chapter 32 of the General Laws and requires amortization of the unfunded pension liability over a forty-year period.

The employer contribution to the Plan for the year ended December 31, 1996, was \$3,221,976 (17.42 percent of current covered payroll); employee contributions for the period were \$1,602,964 (8.67 percent of covered payroll).

GAAP requires disclosure of the actuarial value of plan assets, the actuarial accrued liability, the annual required contribution and the determination of the net pension obligation or asset which would require inclusion in the General Long-Term Obligations Account Group. The City has not had an acceptable actuarial valuation performed to determine these amounts accordingly this required supplementary information has not been disclosed.

CITY OF SALEM, MASSACHUSETTS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 1997

13. 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, 1997.

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.

14. Fund Deficits:

The City incurred a deficit of \$21,953 on state and county assessments. This is anticipated to be raised on future tax recapitulation sheets.

CITY OF SALEM, MASSACHUSETTS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 1997

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 \$508,000 as of June 30, 1997, is accounted for as an Expendable Trust Fund.

16. Segment Information for Enterprise funds:

The City maintains Enterprise funds which provide water and sewer services. Segment information for the year ended June 30, 1997 follows:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Revenues	\$2,898,322	\$4,890,373	\$7,788,695
Expenses	(2,107,352)	(4,582,479)	(6,689,831)
Transfer(s) In	12,554		12,554
Transfer Out	(15,000)		(15,000)
Indirect Costs Paid to the General Fund	<u>(306,460)</u>	<u>(306,460)</u>	<u>(612,920)</u>
Net Income (Deficit)	482,064	1,434	483,498
Retained Earnings July 1, 1996	<u>279,101</u>	<u>474,398</u>	<u>753,499</u>
Retained Earnings June 30, 1997	<u>\$ 761,165</u>	<u>\$475,832</u>	<u>\$1,236,997</u>

**CITY OF SALEM, MASSACHUSETTS
RECONCILIATION OF TREASURER'S CASH
YEAR ENDED JUNE 30, 1997**

Treasurer's cash and equivalents balance, June 30, 1997	<u>\$13,279,632</u>
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Composition of balance on June 30, 1997:

State Street Bank and Trust Company	440,794
Boston Safe Company	929,002
Eastern Bank	1,747,954
Salem Five Cents Savings Bank	81,816
United States Trust	51,637
Century Bank and Trust	87,906
BankBoston	114,450
Fleet Bank	1,838,585
Pension Trust Fund (as of December 31, 1996)	2,347,105
Massachusetts Municipal Depository Trust	<u>6,788,239</u>
	\$14,427,488

Reconciling Items:

Outstanding checks	(1,232,398)
Deposits in transit	209,421
Unreported deposits	(255,324)
Variance	<u>130,445</u>
	\$13,279,632

Presentation of cash and equivalents
in balance sheet on June 30, 1997:

General Fund	\$5,637,273
Special Revenue Fund	569,356
Capital Projects Fund	1,621,835
Trust and Agency Funds	1,830,343
Enterprise fund	1,273,720
Pension Trust Fund (as of December 31, 1996)	<u>2,347,105</u>
	\$13,279,632

**CITY OF SALEM, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF NET ASSETS AVAILABLE FOR PLAN BENEFITS
DECEMBER 31, 1996**

ASSETS

INVESTMENTS:

Bonds at amortized cost (market value of \$22,682,107)	\$22,728,021
Stocks at market value (cost of \$23,348,086)	20,367,256
Equity mutual funds at market value	3,287,383
Limited partnerships at market value	<u>163,000</u>

Total Investments	<u>46,545,660</u>
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CASH AND CASH EQUIVALENTS

2,347,105

RECEIVABLES:

Accounts receivable	2,090,605
Interest due and accrued	<u>298,903</u>

Total Receivables	<u>2,389,508</u>
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Total Assets	<u><u>51,282,273</u></u>
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NET ASSETS AVAILABLE FOR PLAN BENEFITS

\$51,282,273

**CITY OF SALEM, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS
YEAR ENDED DECEMBER 31, 1996**

ADDITIONS

Contributions:	
Employer	\$4,125,863
Employee	1,626,885
From Commonwealth of Massachusetts	819,881
From other systems and miscellaneous	220,922
Investment Income	602,772
Net gain on investments (including realized and unrealized gains and losses)	5,544,879
Total Additions	<u>12,941,202</u>

DEDUCTIONS

Benefit payments to retirees, survivors and disability retirees	6,966,030
Refunds to members leaving the System	285,036
Transfers to other systems	225,604
Payroll expenses of the System	73,548
Other administrative expenses	40,577
Total Deductions	<u>7,590,795</u>

INCREASE IN NET ASSETS	<u>5,350,407</u>
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NET ASSETS AVAILABLE FOR PLAN BENEFITS

Beginning of year	<u>45,931,866</u>
End of year	<u><u>\$51,282,273</u></u>