

**CITY OF SALEM, MASSACHUSETTS**

**REPORT ON EXAMINATION OF  
GENERAL PURPOSE FINANCIAL STATEMENTS  
AND ADDITIONAL INFORMATION  
YEAR ENDED JUNE 30, 1999  
AND  
INDEPENDENT AUDITOR'S REPORT**

**CITY OF SALEM, MASSACHUSETTS  
REPORT ON EXAMINATION OF  
GENERAL PURPOSE FINANCIAL STATEMENTS AND ADDITIONAL  
INFORMATION  
YEAR ENDED JUNE 30, 1999**

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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, 1999, 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, 1998. 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.

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, 1999, except for the Pension Trust Fund which is as of and for the year ended December 31, 1998, 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 February 14, 2000, on our consideration of the City of Salem's internal control structure and its compliance with laws and regulations.

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 and four 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

February 14, 2000

CITY OF SALEM, MASSACHUSETTS  
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP  
JUNE 30, 1999  
(Except for the Pension Trust which is for the year ended December 31, 1998)  
(General Fund 1998 amounts are shown for comparative purposes only.)

ASSETS AND OTHER DEBITS

|   | Governmental Fund Types |                   |                       | Fiduciary Fund Types   |                        | Proprietary Fund Type | Account Group                 | Combined Total (Memorandum Only) |
|---|-------------------------|-------------------|-----------------------|------------------------|------------------------|-----------------------|-------------------------------|----------------------------------|
|   | General Fund 1999       | General Fund 1998 | Special Revenue Funds | Capital Projects Funds | Trust and Agency Funds | Pension Trust Fund    | General Long-Term Obligations |                                  |
| Cash and equivalents  | \$9,132,777             | \$9,404,931       | \$4,961,624           | \$8,366,181            | \$1,672,092            | \$6,508,418           | \$1,876,229                   | \$32,517,321                     |
| Investments:  |                         |                   |                       |                        |                        |                       |                               |                                  |
| Receivables:  |                         |                   |                       |                        |                        |                       |                               |                                  |
| Property taxes (Note 4)   | 1,022,243               | 942,495           |                       |                        |                        |                       |                               | 1,022,243                        |
| Other (Note 7)  | 2,073,298               | 2,875,134         | 3,764,308             |                        |                        | 4,615,821             | 1,197,133                     | 10,453,427                       |
| Water and sewer user charges  |                         |                   |                       |                        |                        |                       |                               |                                  |
| Due from other government   | 94,527                  | 369,446           | 577,158               |                        | 192,878                |                       |                               | 1,197,133                        |
| Other assets  |                         | 204,765           |                       |                        |                        |                       |                               | 671,685                          |
| Amount to be provided for retirement of general long-term obligations |                         |                   |                       |                        |                        |                       | \$38,387,948                  | 192,878                          |
| Total assets and other debits   | \$12,322,845            | \$13,796,771      | \$9,303,090           | \$8,366,181            | \$8,186,100            | \$70,094,187          | \$38,387,948                  | \$149,733,713                    |

See notes to general purpose financial statements.

Continued

CITY OF SALEM, MASSACHUSETTS  
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP  
JUNE 30, 1999

(Except for the Pension Trust which is for the year ended December 31, 1998)  
(General Fund 1998 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 |                                  |
|   | 1999                    | 1998         |                       |                        |                        |                    |                       |                               |                                  |
| LIABILITIES, FUND EQUITY AND OTHER CREDITS        |                         |              |                       |                        |                        |                    |                       |                               |                                  |
| Warrants and accounts payable                     | \$3,031,905             | \$2,513,095  | \$1,061,372           | \$570,978              | \$361,134              | \$66,956           | \$86,494              |                               | \$5,111,883                      |
| Accrued expenses                                  | 385,869                 | 1,099,841    |                       |                        |                        |                    | 2,763                 |                               | 455,588                          |
| Due to Commonwealth                               | 35,130                  |              |                       | 11,200,000             |                        |                    |                       |                               | 11,235,130                       |
| Allowance for abatements                          | 291,238                 | 105,067      |                       |                        |                        |                    |                       |                               | 291,238                          |
| Other liabilities                                 |                         | 1,113,714    |                       |                        | 11,350                 | 1,340,566          | 1,197,133             |                               | 1,351,916                        |
| Deferred revenues                                 | 2,861,970               | 3,386,878    | 3,764,308             |                        |                        |                    |                       | \$288,660                     | 7,823,411                        |
| Risk financing activities                         |                         |              |                       |                        |                        |                    |                       | 2,264,231                     | 288,660                          |
| Compensated absences                              |                         |              |                       |                        |                        |                    |                       | 494,359                       | 2,264,231                        |
| Capital lease obligations                         |                         |              |                       |                        |                        |                    |                       | 35,340,698                    | 494,359                          |
| Bond indebtedness                                 |                         |              |                       |                        |                        |                    |                       |                               | 35,340,698                       |
| TOTAL LIABILITIES                                 | 6,606,112               | 8,218,595    | 4,825,680             | 11,770,978             | 372,484                | 1,407,522          | 1,286,390             | 38,387,948                    | 64,657,114                       |
| FUND EQUITY (DEFICIT) AND OTHER CREDITS           |                         |              |                       |                        |                        |                    |                       |                               |                                  |
| Reserved for encumbrances                         | 978,075                 | 250,549      |                       |                        |                        | 68,686,665         | 142,702               |                               | 1,120,777                        |
| Reserved for pension benefits                     |                         |              |                       |                        |                        |                    |                       |                               | 68,686,665                       |
| Reserved for health claims                        |                         |              |                       |                        | 571,606                |                    |                       |                               | 571,606                          |
| Designated for special revenue                    |                         |              | 4,477,410             | (3,404,797)            |                        |                    |                       |                               | 4,477,410                        |
| Designated for capital projects                   |                         |              |                       |                        |                        |                    |                       |                               | (3,404,797)                      |
| Designated for expendable trust                   |                         |              |                       |                        |                        |                    |                       |                               | 5,463,644                        |
| Designated for nonexpendable trust                |                         |              |                       |                        |                        |                    |                       |                               | 1,778,366                        |
| Retained earnings                                 |                         | 4,908,344    |                       |                        |                        |                    | 1,644,270             |                               | 1,644,270                        |
| Undesignated fund balances (as restated note 16)  | 4,738,658               |              |                       |                        |                        |                    |                       |                               | 4,738,658                        |
| Total fund equity (deficit)                       | 5,716,733               | 5,158,893    | 4,477,410             | (3,404,797)            | 7,813,616              | 68,686,665         | 1,786,972             |                               | 85,076,599                       |
| Total liabilities, fund equity, and other credits | \$12,322,845            | \$13,377,488 | \$9,303,090           | \$8,366,181            | \$8,186,100            | \$70,094,187       | \$3,073,362           | \$38,387,948                  | \$149,733,713                    |
|   |                         |              |                       |                        |                        |                    |                       |                               |                                  |
|   |                         |              |                       |                        |                        |                    |                       |                               | 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, 1999  
(General Fund 1998 amounts are shown for comparative purposes only.)

|   | Governmental Fund Types |              |                       |                        | Fiduciary Fund Types   |                                  |
|---|-------------------------|--------------|-----------------------|------------------------|------------------------|----------------------------------|
|   | General Fund            |              | Special Revenue Funds | Capital Projects Funds | Expendable Trust Funds | Combined Total (Memorandum Only) |
|   | 1999                    | 1998         |                       |                        |                        |                                  |
| REVENUES:   |                         |              |                       |                        |                        |                                  |
| Real and personal property taxes, net   | \$45,299,037            | \$45,004,696 |                       |                        |                        | \$45,299,037                     |
| Motor vehicle and other excise  | 2,658,847               | 2,658,569    |                       |                        |                        | 2,658,847                        |
| Intergovernmental   | 21,030,683              | 19,201,293   | 8,588,833             |                        |                        | 29,619,516                       |
| Departmental and other revenue  | 1,539,010               | 2,264,289    | 3,517,420             |                        |                        | 5,056,430                        |
| Licenses and permits  | 378,419                 | 304,447      |                       |                        |                        | 378,419                          |
| Fines and forfeitures   | 684,770                 | 645,592      |                       |                        |                        | 684,770                          |
| Investment income   | 392,136                 | 540,904      |                       |                        | \$76,063               | 468,199                          |
| Miscellaneous income  | 1,075,466               |              | 28,628                | 160,000                |                        | 1,264,094                        |
| Health claims contribution  |                         |              |                       |                        | 5,968,214              | 5,968,214                        |
| Total revenues  | 73,058,368              | 70,619,790   | 12,134,881            | 160,000                | 6,044,277              | 91,397,526                       |
| EXPENDITURES:   |                         |              |                       |                        |                        |                                  |
| General government  | 4,281,803               | 3,937,660    |                       |                        |                        | 4,281,803                        |
| Public safety   | 13,965,434              | 12,385,733   | 362,730               |                        |                        | 14,328,164                       |
| Education   | 32,116,384              | 30,608,062   | 5,402,067             |                        |                        | 37,518,451                       |
| Public works  | 4,490,661               | 3,775,469    |                       |                        |                        | 4,490,661                        |
| Health and human services   | 564,080                 | 543,433      | 1,489,529             |                        | 46,065                 | 2,099,674                        |
| Culture and recreation  | 2,824,761               | 2,398,642    |                       |                        |                        | 2,824,761                        |
| Pension and fringe benefits   | 8,848,704               | 8,230,562    |                       |                        |                        | 8,848,704                        |
| State and county assessments  | 1,970,865               | 1,887,916    |                       |                        |                        | 1,970,865                        |
| Debt service:   |                         |              |                       |                        |                        |                                  |
| Principal   | 2,980,702               | 3,050,000    |                       |                        |                        | 2,980,702                        |
| Interest  | 2,010,471               | 2,111,236    |                       |                        |                        | 2,010,471                        |
| Court judgments   | 400,000                 |              |                       |                        |                        | 400,000                          |
| Health claims   |                         |              |                       |                        | 6,221,375              | 6,221,375                        |
| Community development and capital outlay  |                         |              | 1,700,155             | 3,198,871              |                        | 4,899,026                        |
| Total expenditures  | 74,453,865              | 68,928,713   | 8,954,481             | 3,198,871              | 6,267,440              | 92,874,657                       |
| Excess (deficiency) of revenues over (under) expenditures   | (1,395,497)             | 1,691,077    | 3,180,400             | (3,038,871)            | (223,163)              | (1,477,131)                      |
| OTHER FINANCING SOURCES (USES):   |                         |              |                       |                        |                        |                                  |
| Loan proceeds   | 400,000                 |              |                       |                        |                        | 400,000                          |
| Operating transfers in  | 2,013,228               | 1,740,338    | 92,915                | 25,000                 | 413,713                | 2,544,856                        |
| Operating transfers out   | (459,891)               | (557,081)    | (1,273,478)           |                        |                        | (1,733,369)                      |
| Total other financing sources (uses)  | 1,953,337               | 1,183,257    | (1,180,563)           | 25,000                 | 413,713                | 1,211,487                        |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses (Note 3) | 557,840                 | 2,874,334    | 1,999,837             | (3,013,871)            | 190,550                | (265,644)                        |
| FUND BALANCES, JULY 1, 1998   | 5,578,176               | 2,703,842    | 2,477,573             | (390,925)              | 3,037,096              | 10,701,920                       |
| Prior period adjustment (Note 16)   | (419,283)               |              |                       |                        | 2,807,604              | 2,388,321                        |
| FUND BALANCES, JULY 1, 1998 as restated   | 5,158,893               | 2,703,842    | 2,477,573             | (390,925)              | 5,844,700              | 13,090,241                       |
| FUND BALANCES (DEFICIT), JUNE 30, 1999  | \$5,716,733             | \$5,578,176  | \$4,477,410           | (\$3,404,796)          | \$6,035,250            | \$10,436,276                     |

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, 1999**

|  | Budget            | Actual             | Variance<br>Favorable<br>(Unfavorable) |
|--|-------------------|--------------------|--|
| <b>REVENUES:</b>   |                   |                    |  |
| Real and personal property taxes, net  | \$45,142,411      | \$45,142,411       | \$0                                    |
| Motor vehicle and other excise   | 2,710,000         | 2,658,847          | (51,153)                               |
| Intergovernmental  | 21,131,754        | 21,030,683         | (101,071)                              |
| Departmental and other revenue   | 1,500,000         | 1,539,755          | 39,755                                 |
| Licenses and permits   | 350,000           | 378,419            | 28,419                                 |
| Fines and forfeitures  | 675,000           | 684,770            | 9,770                                  |
| Investment income  | 350,000           | 390,090            | 40,090                                 |
| Miscellaneous income   | 735,314           | 1,095,907          | 360,593                                |
| <b>Total revenues</b>  | <b>72,594,479</b> | <b>72,920,882</b>  | <b>326,403</b>                         |
| <b>OTHER FINANCING SOURCES :</b>   |                   |                    |  |
| Operating transfers (net)  | 2,432,388         | 2,432,388          |  |
| Transfers from free cash   | 1,372,785         | 1,372,785          |  |
| <b>Total other financing sources</b>   | <b>3,805,173</b>  | <b>3,805,173</b>   |  |
| <b>Total revenue and other financing sources</b>                                     | <b>76,399,652</b> | <b>76,726,055</b>  | <b>326,403</b>                         |
| <b>EXPENDITURES:</b>   |                   |                    |  |
| General government   | 4,487,045         | 4,220,723          | 266,322                                |
| Public safety  | 14,201,990        | 13,950,589         | 251,401                                |
| Education  | 32,971,058        | 33,022,754         | (51,696)                               |
| Public works   | 4,756,946         | 4,500,444          | 256,502                                |
| Health and human services  | 573,648           | 571,780            | 1,868                                  |
| Culture and recreation   | 2,983,584         | 2,811,281          | 172,303                                |
| Pension and fringe benefits  | 8,816,271         | 8,848,704          | (32,433)                               |
| State and county assessments   | 1,954,547         | 1,970,863          | (16,316)                               |
| Debt service   | 5,110,486         | 4,956,043          | 154,443                                |
| Court judgments  |                   | 400,000            | (400,000)                              |
| Prior year deficits  | 544,077           |                    | 544,077                                |
| <b>Total expenditures</b>  | <b>76,399,652</b> | <b>75,253,181</b>  | <b>1,146,471</b>                       |
| <b>Excess of revenues and other financing<br/>sources over expenditures (Note 3)</b> | <b>\$0</b>        | <b>\$1,472,874</b> |  |

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, 1999**

|   | <b>Proprietary<br/>Fund Type</b> |                                | <b>Combined Total<br/>(Memorandum<br/>Only)</b> |
|---|----------------------------------|--------------------------------|---|
|   | <b>Enterprise<br/>Fund</b>       | <b>Nonexpendable<br/>Trust</b> |   |
| <b>REVENUES:</b>                                    |                                  |                                |   |
| Charges for services                                | \$10,110,382                     |                                | \$10,110,382                                    |
| Intergovernmental                                   | \$501,111                        |                                | 501,111   |
| Investment income                                   |                                  | \$509,874                      | 509,874   |
|   |                                  |                                |   |
| Total revenues                                      | 10,611,493                       | 509,874                        | 11,121,367                                      |
|   |                                  |                                |   |
| <b>EXPENSES:</b>                                    |                                  |                                |   |
| Operating expenses                                  | 9,336,545                        |                                | 9,336,545                                       |
|   |                                  |                                |   |
| Total expenses                                      | 9,336,545                        |                                | 9,336,545                                       |
|   |                                  |                                |   |
| Income before transfers                             | 1,274,948                        | 509,874                        | 1,784,822                                       |
|   |                                  |                                |   |
| Other financing sources / (uses) - net<br>Transfers | (889,637)                        |                                | (889,637)                                       |
|   |                                  |                                |   |
| <b>NET INCOME</b>                                   | <b>385,311</b>                   | <b>509,874</b>                 | <b>895,185</b>                                  |
|   |                                  |                                |   |
| <b>RETAINED EARNINGS / FUND EQUITY:</b>             |                                  |                                |   |
| July 1, 1998  | 1,401,661                        | 3,656,813                      | 5,058,474                                       |
| prior period adjustment (Note 16)                   |                                  | (2,388,321)                    | (2,388,321)                                     |
| July 1, 1998 as restated                            | 1,401,661                        | 1,268,492                      |   |
| June 30, 1999                                       | \$1,786,972                      | \$1,778,366                    | \$5,953,659                                     |

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, 1999**

|   | <u>Proprietary<br/>Fund Type</u> |                                | <u>Combined Total<br/>(Memorandum<br/>Only)</u> |
|---|----------------------------------|--------------------------------|---|
|   | <u>Enterprise<br/>Fund</u>       | <u>Nonexpendable<br/>Trust</u> |   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES AND<br/>NONOPERATING REVENUE:</b>                               |                                  |                                |   |
| Net income from operations  | \$385,311                        | \$509,874                      | \$895,185                                       |
| Adjustments to reconcile net income<br>from operations to net cash<br>provided by operating activities: |                                  |                                |   |
| Effects of changes in assets and liabilities:   |                                  |                                |   |
| Accounts receivable and other assets  | 535,207                          |                                | 535,207   |
| Warrants and accounts payable   | 28,263                           |                                | 28,263  |
|   |                                  |                                |   |
| Net cash provided by operating activities   | <u>948,781</u>                   | <u>509,874</u>                 | <u>1,458,655</u>                                |
|   |                                  |                                |   |
| INCREASE / DECREASE IN CASH AND EQUIVALENTS   | 948,781                          | 509,874                        | 1,458,655                                       |
| Effect of prior period restatement (Note 16)  |                                  | (2,388,321)                    | (2,388,321)                                     |
|   |                                  |                                |   |
| CASH AND EQUIVALENTS, beginning of year   | <u>927,448</u>                   | <u>3,656,813</u>               | <u>4,584,261</u>                                |
|   |                                  |                                |   |
| CASH AND EQUIVALENTS, end of year   | <u><u>\$1,876,229</u></u>        | <u><u>\$1,778,366</u></u>      | <u><u>\$3,654,595</u></u>                       |

See notes to general purpose financial statements.

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 1999**

**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 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, and (2) maintains its enterprise funds on a modified accrual basis of accounting which is other than the basis prescribed by generally accepted accounting principles. The following summarizes the more significant policies.

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, 1999**

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

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

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.

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1999**

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

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

Fiduciary Fund Types - continued:

*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.

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.

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1999**

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

**(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.

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.

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1999**

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

(c) *Basis of Accounting-continued:*

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.

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.

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1999**

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

(e) Investments:

Investments in bonds and stocks for the Retirement System and Trust Fund investments are carried at current fair value. Deferred compensation plan assets are invested in mutual funds, which are also carried at current fair value.

(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).

(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, 1999.



**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1999**

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

(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, 1999, 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.

(j) 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.

(k) 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, 1999**

**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, 1999**

**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 | \$557,840 |
|--|-----------|

Reconciling Items:

|                                       |           |
|---------------------------------------|-----------|
| Transfer from unreserved fund balance | 1,372,785 |
|---------------------------------------|-----------|

|                       |         |
|-----------------------|---------|
| Transfers recognition | 479,051 |
|-----------------------|---------|

|                     |           |
|---------------------|-----------|
| Revenue recognition | (137,486) |
|---------------------|-----------|

|                                     |                  |
|-------------------------------------|------------------|
| Encumbrance/expenditure recognition | <u>(799,316)</u> |
|-------------------------------------|------------------|

|   |                           |
|---|---------------------------|
| Budgetary basis excess of revenues and other financing sources over expenditures and other financing uses | <u><u>\$1,472,874</u></u> |
|---|---------------------------|

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1999**

**4. 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 \$5,408,367 and the bank balance was \$8,121,136. Of the bank balance, \$550,463 was covered by federal depository insurance, \$7,570,673 was either covered by state depository insurance or collateralized.

At December 31, 1998, the carrying amount deposits for the Pension Trust Fund was (\$82,828) and the bank balance was \$935,932. Of the bank balance, \$935,932 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.

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1999**

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

The following schedule categorizes the City's investments:

|   | Category<br>1    | Category<br>2     | Category<br>3 | Fair<br>Value              |
|---|------------------|-------------------|---------------|----------------------------|
| <b>The City at June 30, 1999:</b>                   |                  |                   |               |                            |
| Government obligations                              | \$597,716        |                   |               | \$597,716                  |
| Corporate Bonds                                     | 2,039,741        |                   |               | 2,039,741                  |
| Stocks  | 3,235,444        |                   |               | 3,235,444                  |
|   | <u>5,872,901</u> |                   |               | <u>5,872,901</u>           |
| Investments not subject to categorization:          |                  |                   |               |                            |
| State Treasurer's Investment Pool                   |                  |                   |               | 4,119,896                  |
| Mutual funds  |                  |                   |               | 196,436                    |
| Certificates of Deposit                             |                  |                   |               | 251,792                    |
| Money markets                                       |                  |                   |               | <u>16,480,640</u>          |
| Total City funds                                    |                  |                   |               | 26,921,665                 |
| <b>Pension Trust Fund at<br/>December 31, 1998:</b> |                  |                   |               |                            |
| Government obligations                              |                  | \$15,890,666      |               | 15,890,666                 |
| Fixed income securities                             |                  | 19,599,065        |               | 19,599,065                 |
| Equity securities                                   |                  | 11,744,729        |               | 11,744,729                 |
|   | <u>0</u>         | <u>47,234,460</u> |               | <u>47,234,460</u>          |
| Investments not subject to categorization:          |                  |                   |               |                            |
| International mutual funds                          |                  |                   |               | 17,005,462                 |
| Real estate   |                  |                   |               | <u>1,321,273</u>           |
| Total Pension Trust Fund                            |                  |                   |               | <u>65,561,195</u>          |
| Total   |                  |                   |               | <u><u>\$92,482,860</u></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<br>Equivalents    |
|---|----------------------------|----------------------------|
| As presented above  | \$92,482,860               | \$5,325,539                |
| Reclass: Short-term investments reported in the combined balance<br>sheet as cash and equivalents as follows: |                            |                            |
| Short - term government obligations   | (6,591,246)                | 6,591,246                  |
| Money market investments  | (16,480,640)               | 16,480,640                 |
| State Treasurer's Investment Pool   | <u>(4,119,896)</u>         | <u>4,119,896</u>           |
| Total   | <u><u>\$65,291,078</u></u> | <u><u>\$32,517,321</u></u> |

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1999**

**5. 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.

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

|                                | <u>Outstanding</u>        |
|--------------------------------|---------------------------|
| Real Estate:                   |                           |
| 1999                           | \$ 889,785                |
| 1998 & Prior                   | (31,767)                  |
| Chapter 59 in Lieu of tax      | <u>136,043</u>            |
| Total Real Estate              | 994,061                   |
| Personal Property:             |                           |
| 1999                           | 23,064                    |
| 1998 & Prior                   | <u>5,118</u>              |
| Total Personal Property        | <u>28,182</u>             |
| Total Property Tax Receivables | <u><u>\$1,022,243</u></u> |

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1999**

**6. Other Receivables:**

The principal amounts classified as Other Receivables at June 30, 1999 include:

|                                  | General<br>Fund    | Special<br>Revenue<br>Fund | Trust &<br>Agency<br>Fund | Pension<br>Trust<br>Fund |
|----------------------------------|--------------------|----------------------------|---------------------------|--------------------------|
| Motor Vehicle and<br>Boat Excise | \$ 518,420         |                            |                           |                          |
| Tax Liens and<br>Foreclosures    | 1,554,878          |                            |                           |                          |
| Accrued Interest                 |                    |                            |                           | \$ 473,014               |
| Notes / Accounts<br>Receivable   |                    | \$3,764,308                |                           | 4,142,807                |
| Deposits                         |                    |                            | \$ 165,000                |                          |
|                                  | <u>\$2,073,298</u> | <u>\$3,764,308</u>         | <u>\$ 165,000</u>         | <u>\$4,615,821</u>       |

**(a) Community Development Loans:**

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 and its housing improvement program. The funding for the loans was through the United States Office of Housing and Urban Development. To date approximately 70 loans have been issued, estimating a principal amount of \$4,600,000. The remaining outstanding balance of \$1,936,847 has been reflected as a receivable in the Special Revenue Fund. The interest on these loans varies between 0-8% and the loans mature on various dates through 2031.

**(b) Sale of 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, 1999, \$1,827,461 remained outstanding with respect to this note. This amount has been included as other receivables in the Special Revenue Fund.

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1999**

**7. Bond Indebtedness:**

As of June 30, 1999, the City had the following outstanding long-term debt:

|  | <b>Date of<br/>Issue</b> | <b>Fiscal Year<br/>Of<br/>Maturity</b> | <b>Original<br/>Principal</b> | <b>Interest<br/>Rate (%)</b> | <b>Amount<br/>Outstanding</b> |
|--|--------------------------|--|-------------------------------|------------------------------|-------------------------------|
| <b><u>City Operational</u></b>         |                          |  |                               |                              |                               |
| <b><i>Inside Debt Limit:</i></b>       |                          |  |                               |                              |                               |
| Police Station                         | 9/1/92                   | 1/15/12                                | 5,450,000                     | 4.6-7.25                     | \$ 3,685,000                  |
| Police Station                         | 1/15/94                  | 1/15/04                                | 200,000                       | 4.15-5.25                    | 100,000                       |
| <b><i>Total inside debt limit</i></b>  |                          |  |                               |                              | <u>3,785,000</u>              |
| <b><i>Outside Debt Limit:</i></b>      |                          |  |                               |                              |                               |
| Bertram Field                          | 8/15/90                  | 6/15/00                                | 900,000                       | 6.2-6.8                      | \$ 100,000                    |
| School                                 | 8/15/90                  | 6/15/00                                | 1,500,000                     | 6.2-6.8                      | 160,000                       |
| School                                 | 7/15/91                  | 2/15/11                                | 9,500,000                     | 5.7-8.5                      | 6,000,000                     |
| School                                 | 9/1/92                   | 1/15/12                                | 12,000,000                    | 4.6-7.25                     | 8,140,000                     |
| School                                 | 1/15/94                  | 1/15/13                                | 9,000,000                     | 4.15-5.25                    | 6,625,000                     |
| Offstreet parking garage               | 7/15/91                  | 2/15/01                                | 1,600,000                     | 5.7-8.5                      | 445,000                       |
| School                                 | 7/1/96                   | 8/15/15                                | 7,000,000                     | 5.125-5.75                   | 6,540,000                     |
| School                                 | 7/1/96                   | 8/15/15                                | 1,800,000                     | 5.125-5.75                   | 1,600,000                     |
| Voting Equipment                       | 6/30/98                  | 6/30/01                                | 96,400                        | 4.50                         | 65,698                        |
| <b><i>Total outside debt limit</i></b> |                          |  |                               |                              | <u>29,675,698</u>             |
| <b>Total City Operational</b>          |                          |  |                               |                              | <u>33,460,698</u>             |
| <b><u>Enterprise</u></b>               |                          |  |                               |                              |                               |
| <b><i>Outside Debt Limit:</i></b>      |                          |  |                               |                              |                               |
| Water supply                           | 8/15/90                  | 6/15/00                                | 1,175,000                     | 6.66%                        | \$ 15,000                     |
| Water supply                           | 7/15/91                  | 2/15/02                                | 690,000                       | 6.36%                        | 200,000                       |
| Water supply                           | 1/15/94                  | 1/15/04                                | 1,050,000                     | 4.56%                        | 525,000                       |
| <b>Total Enterprise</b>                |                          |  |                               |                              | <u>740,000</u>                |
| <b><u>Community Development</u></b>    |                          |  |                               |                              |                               |
| <b><i>Outside Debt Limit:</i></b>      |                          |  |                               |                              |                               |
| HUD 108 1995-A                         | 2/1/95                   | 8/1/14                                 | 600,000                       | 9.0                          | \$ 540,000                    |
| HUD 108 1989-A                         | 6/29/89                  | 8/1/99                                 | 600,000                       | 4.38                         | 600,000                       |
| <b>Total Community Development</b>     |                          |  |                               |                              | <u>1,140,000</u>              |
| <b>TOTAL DEBT</b>                      |                          |  |                               |                              | <u><u>\$35,340,698</u></u>    |



**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1999**

**7. Bond Indebtedness - continued:**

During the year ended June 30, 1999, the following changes occurred in liabilities reported in the General Long-Term Obligations Account Group:

|                             | <u>Bonds</u>         | <u>Compensated<br/>Absences</u> | <u>Capital<br/>Lease<br/>Obligations</u> | <u>Risk<br/>Financing<br/>Activities</u> | <u>Totals</u>        |
|-----------------------------|----------------------|---------------------------------|--|--|----------------------|
| Payable at<br>July 1, 1998  | \$ 38,666,400        | \$ 2,038,193                    |  | \$ 402,106                               | \$ 41,106,699        |
| Additions                   |                      | 226,038                         | \$ 494,359                               | 6,517,210                                | 7,237,607            |
| Retirements                 | <u>(3,325,702)</u>   |                                 |  | <u>(6,630,656)</u>                       | <u>(9,956,358)</u>   |
| Payable at<br>June 30, 1999 | <u>\$ 35,340,698</u> | <u>\$ 2,264,231</u>             | <u>\$ 494,359</u>                        | <u>\$ 288,660</u>                        | <u>\$ 38,387,948</u> |

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

|            | <u>Principal</u>    | <u>Interest</u>     | <u>Total</u>        |
|------------|---------------------|---------------------|---------------------|
| 2000       | \$ 3,627,108        | \$ 1,914,173        | \$ 5,541,281        |
| 2001       | 2,768,590           | 1,722,966           | 4,491,556           |
| 2002       | 2,520,000           | 1,581,917           | 4,101,917           |
| 2003       | 2,475,000           | 1,447,957           | 3,922,957           |
| 2004       | 2,500,000           | 1,312,253           | 3,812,253           |
| Thereafter | <u>21,450,000</u>   | <u>5,612,107</u>    | <u>27,062,107</u>   |
|            | <u>\$35,340,698</u> | <u>\$13,591,373</u> | <u>\$48,932,071</u> |

At June 30, 1999, the City has authorized and unissued debt as follows:

|                           |                      |
|---------------------------|----------------------|
| School Construction       | \$ 69,350,000        |
| Golf Course Clubhouse     | 500,000              |
| Swimming Pool             | 450,000              |
| Judgment                  | 400,000              |
| Computers and Peripherals | <u>1,350,000</u>     |
|                           | <u>\$ 72,050,000</u> |

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1999**

**7. 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, 1999 (in thousands of dollars):

|  |          |                  |
|--|----------|------------------|
| Equalized Valuation - Real Estate<br>and Personal Property |          | \$2,159,717      |
| Debt Limit - 2 ½% of Equalized<br>Valuation                |          | 53,993           |
| Total Debt   | \$35,341 |                  |
| Less: Debt Exempt from Limit                               | (30,416) | <u>(4,925)</u>   |
| Legal Debt Margin  |          | <u>\$ 49,068</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 approximated below (unaudited):

| <u>Related Entity</u>      | <u>Principal<br/>(thousands)</u> | <u>Percent</u> | <u>Amount</u>       |
|----------------------------|----------------------------------|----------------|---------------------|
| Essex County               | \$ 850                           | 5.90%          | \$ 50,150           |
| MBTA                       | 2,399,780                        | .69%           | 16,558,482          |
| South Essex Sewer District | 207,942                          | 25.49%         | <u>53,004,473</u>   |
|                            |                                  |                | <u>\$69,613,105</u> |

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1999**

**8. 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 the 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 two BANs totaling \$11,600,000. The first has a principal amount of \$8,250,000 with an interest rate of 3.5% and maturity date of January 19, 2000; and the second has a principal amount of \$3,350,000 with an interest rate of 3.5% and maturity date of January 19, 2000.

**9. Leases:**

Payments on leases due in future years consist of the following:

|          | Principal         | Interest         | Total             |
|----------|-------------------|------------------|-------------------|
| June 30, |                   |                  |                   |
| 2000     | \$ 233,891        | \$ 25,869        | \$ 259,760        |
| 2001     | 246,530           | 13,230           | 259,760           |
| 2002     | <u>13,938</u>     | <u>282</u>       | <u>14,220</u>     |
|          | <u>\$ 494,359</u> | <u>\$ 39,381</u> | <u>\$ 533,740</u> |

The above amounts are specific to vehicle and equipment leases attributable to the Public Works and Cemetery Departments; furthermore, the remaining portion is for computer leases held in the City's name by the School Department. Subsequent to year-end, the City entered into additional lease agreements whose principal amount approximates an additional \$400,000.

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1999**

**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, 1999, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the City at June 30, 1999.

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, 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, 1999**

**12. Retirement System:**

**(a) Plan Description**

The City contributes to the City of Salem Contributory Retirement System (the Plan), a multiple 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, 1998. 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, 1998, was approximately \$18,800,000.

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 therefore, the City does not contribute to this plan.

**Membership**

Current membership in the Plan as of December 31, 1998, is as follows:

|  |                     |
|--|---------------------|
| Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them | 652                 |
| Active employees   | 811                 |
| Inactive employees   | <u>91</u>           |
|  | <u><u>1,554</u></u> |

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1999**

**12. Retirement System - continued:**

**(b) 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.

In previous years, the Legislature granted cost-of-living increases to benefits being paid to retirees. These increases were 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. However, beginning in 1998, the funding of future cost-of-living amounts became the responsibility of the individual communities. These communities are responsible for the full amounts for all new retirees beginning that year, and for any additional cost-of-living increases granted to individuals who retired before 1998. The State shall continue to fund the cost-of-living amounts previously granted to those who received support under the old method, but only for the duration of the retirees' selected, retirement option.

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.

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1999**

**12. Retirement System - continued:**

**(b) Benefits - continued**

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.

**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.

**(c) 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.

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1999**

**12. Retirement System - continued:**

**(d) 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, 1998, 1997, and 1996 were \$3,365,633, \$3,210,070, and \$3,221,000 respectively, which equaled its required contribution for each year.

**(e) Investment Concentration**

There were no investments (other than those issued or guaranteed by the United States Government) in any one organization that represents 5% or more of the System's net assets.

Required disclosures under Governmental Accounting Standards Board's Statements No. 25 and 27 are included in this report under the caption "Required Supplementary Information".



**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1999**

**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, 1999.

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.

Activity regarding these accounts for the year ended June 30, 1999 is as follows:

|                                |                    |
|--------------------------------|--------------------|
| Liability at beginning of year | \$ 402,106         |
| Provision for losses           | 6,517,210          |
| Payment for claims             | <u>(6,630,656)</u> |
| Balance at end of year         | <u>\$ 288,660</u>  |

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1999**

**14. Fund Deficits:**

The City incurred legal deficits in the following accounts and amount:

|                              |                   |
|------------------------------|-------------------|
| State and County Assessments | \$ 16,316         |
| Medicare                     | 32,433            |
| Charter School               | <u>51,696</u>     |
|                              | <u>\$ 500,445</u> |

These are anticipated to be raised on future tax recapitulation sheets.

**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 \$1,087,575 as of June 30, 1999, is accounted for as an Expendable Trust Fund.

**16. Prior Period Adjustment:**

The following adjustment was made to these prior period beginning balances to more accurately reflect the correct balances:

|                         | General<br>Fund    | Expendable<br>Trust Fund | Non-<br>Expendable<br>Trust Fund | Risk<br>Financing<br>Activities |
|-------------------------|--------------------|--------------------------|----------------------------------|---------------------------------|
| As previously presented | \$ 5,578,176       | \$ 3,037,096             | \$ 3,656,813                     | \$ 0                            |
| Reclass equity          | (419,283)          | 2,388,321                | (1,969,038)                      |                                 |
| Record provision        |                    |                          |                                  | 402,106                         |
| As restated             | <u>\$5,158,893</u> | <u>\$ 5,425,417</u>      | <u>\$ 1,687,775</u>              | <u>\$ 402,106</u>               |

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 1999**

**17. Segment Information for Enterprise Funds:**

The City maintains Enterprise funds which provide water and sewer services. Segment information for the year ended June 30, 1999 follows:

|  | Water               | Sewer             | Total               |
|--|---------------------|-------------------|---------------------|
| Revenues                                   | \$ 3,704,401        | \$ 6,907,092      | \$ 10,611,493       |
| Expenses                                   | (3,032,737)         | (5,938,229)       | (8,970,966)         |
| Debt Expense:                              |                     |                   |                     |
| Principal                                  | (315,000)           |                   | (315,000)           |
| Interest                                   | (50,579)            |                   | (50,579)            |
| Transfer(s) In                             | 12,100              | 5,450             | 17,550              |
| Indirect Costs Paid<br>to the General Fund | (382,136)           | (382,136)         | (764,272)           |
| Transfer(s) Out                            | <u>(142,915)</u>    | <u>          </u> | <u>(142,915)</u>    |
| Net Income (Deficit)                       | (206,866)           | 592,177           | 385,311             |
| Retained Earnings<br>July 1, 1998          | <u>1,469,906</u>    | <u>(68,245)</u>   | <u>1,401,661</u>    |
| Retained Earnings<br>June 30, 1999         | <u>\$ 1,263,040</u> | <u>\$ 523,932</u> | <u>\$ 1,786,972</u> |

**CITY OF SALEM, MASSACHUSETTS  
REQUIRED SUPPLEMENTARY INFORMATION  
STATEMENT OF PLAN NET ASSETS  
DECEMBER 31, 1998**

**ASSETS**

|                               |                   |
|-------------------------------|-------------------|
| CASH AND CASH EQUIVALENTS     | <u>6,508,418</u>  |
| INVESTMENTS ( at fair value): |                   |
| Bonds                         | \$28,898,485      |
| Stocks                        | 11,744,728        |
| Equity mutual funds           | 18,326,735        |
| Limited partnerships          |                   |
|                               | <hr/>             |
| Total Investments             | <u>58,969,948</u> |
| RECEIVABLES:                  |                   |
| Accounts receivable           | 4,142,807         |
| Interest due and accrued      | <u>473,014</u>    |
|                               | <hr/>             |
| Total Receivables             | <u>4,615,821</u>  |
|                               | <hr/>             |
| Total Assets                  | <u>70,094,187</u> |

**LIABILITIES**

|                                       |                  |
|---------------------------------------|------------------|
| PAYABLES:                             |                  |
| Accounts payable and accrued expenses | 66,956           |
| Due to other                          | <u>1,340,566</u> |
|                                       | <hr/>            |
| Total Liabilities                     | <u>1,407,522</u> |

|  |                            |
|--|----------------------------|
| <b><u>PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</u></b> | <u><u>\$68,686,665</u></u> |
|--|----------------------------|

**CITY OF SALEM, MASSACHUSETTS  
REQUIRED SUPPLEMENTARY INFORMATION  
STATEMENT OF CHANGES IN PLAN NET ASSETS  
YEAR ENDED DECEMBER 31, 1998**

**ADDITIONS**

|   |                   |
|---|-------------------|
| Contributions:  |                   |
| Employer  | \$4,268,352       |
| Employee  | 2,014,883         |
| From Commonwealth of Massachusetts  | 934,065           |
| From other systems and miscellaneous  | 199,894           |
| Investment Income   | 2,973,752         |
| Net gain on investments (including realized and<br>unrealized gains and losses) | <u>8,698,107</u>  |
| Total Additions   | <u>19,089,053</u> |

**DEDUCTIONS**

|  |                  |
|--|------------------|
| Benefit payments to retirees, survivors and<br>disability retirees | 7,508,614        |
| Refunds to members leaving the System                              | 418,997          |
| Transfers to other systems   | 433,560          |
| Payroll expenses of the System                                     | 106,439          |
| Other administrative expenses                                      | <u>475,444</u>   |
| Total Deductions   | <u>8,943,054</u> |

|                        |                   |
|------------------------|-------------------|
| INCREASE IN NET ASSETS | <u>10,145,999</u> |
|------------------------|-------------------|

**NET ASSETS HELD IN TRUST FOR PENSION BENEFITS**

|                   |                            |
|-------------------|----------------------------|
| Beginning of year | <u>\$58,540,666</u>        |
| End of year       | <u><u>\$68,686,665</u></u> |

**CITY OF SALEM, MASSACHUSETTS  
REQUIRED SUPPLEMENTARY INFORMATION  
OTHER REQUIRED PENSION DISCLOSURES  
YEAR ENDED DECEMBER 31, 1998**

**SCHEDULE OF FUNDING PROGRESS:**

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability (AAL)<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>(b-a/c) |
|--------------------------------|--|--|------------------------------------|--------------------------|---------------------------|---|
| 01/01/97                       | \$51,236,360                           | \$82,440,774                                   | \$31,204,414                       | 62.1%                    | \$22,930,939              | 136%  |
| 01/01/94                       | 41,074,617                             | 71,831,709                                     | 30,757,092                         | 57.2%                    | 17,753,129                | 173%  |
| 01/01/92                       | 33,180,956                             | 76,039,158                                     | 42,858,202                         | 43.6%                    | 16,993,481                | 252%  |

**SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS:**

| Year<br>Ended<br>December 31, | Annual<br>Required<br>Contribution | Percentage<br>Contributed |
|-------------------------------|------------------------------------|---------------------------|
| 1998                          | \$4,268,352                        | 100%                      |
| 1997                          | 4,003,864                          | 100%                      |
| 1996                          | 3,943,853                          | 100%                      |
| 1995                          | 3,887,240                          | 100%                      |
| 1994                          | 4,347,948                          | 100%                      |
| 1993                          | 5,233,797                          | 100%                      |
| 1992                          | 5,091,808                          | 100%                      |

**NOTE TO SCHEDULES:**

Additional information as of the latest actuarial valuation follows:

|                                |   |
|--------------------------------|---|
| Valuation date:                | January 1, 1997                             |
| Actuarial cost method:         | Individual entry age normal actuarial cost  |
| Amortization method:           | Required payments increase at 4.5% per year |
| Remaining amortization period: | 24 years                                    |
| Asset valuation method:        | Fair value                                  |
| Investment rate of return:     | 8.5%  |
| Projected salary increases:    | 6.0%  |
| Cost-of-living adjustments:    | None  |