

CITY OF SALEM

MASSACHUSETTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT



For the Fiscal Year Ended June 30, 2008

Kimberley L. Driscoll, Mayor
Richard Viscay, Jr., Finance Director

Prepared by the City of Salem Finance Department

On the cover

A view of Salem Harbor from Winter Island.



Salem Common

In 1802, the Salem Common was named Washington Square. A wooden fence with four large, impressive gates was added to the Common in 1805. One of the gates on the western side was decorated with carvings by Samuel McIntire, the famous Salem architect and wood carver. Today the medallion portrait of George Washington and the gold painted eagle which adorned the original gate are preserved in the Peabody Essex Museum.

After Salem's great fire of 1914 which cut a destructive path through much of the city, the Salem Common was filled with tents to house the people who had lost their homes in the fire's devastation. Reminders of the City's past and evidence of our current lifestyle coexist in harmony on Salem Common today. A modern playground fills a large area of the park with the sounds of children playing while a handsome bandstand from an earlier era looms over the grounds.

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Prepared by Finance Department

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JUNE 30, 2008

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Introductory Section



Salem Willows Park

The Salem Willows offers beautiful shaded seaside grounds, scenic ocean views, a public pier, a bandstand for concerts, picnic areas, beaches, children's rides, activities and many eateries. One of Salem's treasures, this park has a fascinating history.

Salem Willows is renowned for the European white willow trees planted here in 1801 to form a shaded walk for patients convalescing at the old smallpox hospital. Later the area became a park. During the first half of the 20th century, Restaurant Row on the park's north shore served fresh seafood favored by locals and visitors alike. A carousel with carved flying horses was another special attraction at Salem Willows, which then, as now, operated as an entertainment center. Visitors still flock here during the summer to enjoy the sunshine, the arcade and the park's ample picnic grounds and recreational facilities.

Introductory Section

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City of Salem, Massachusetts

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Letter of Transmittal

Kimberley L. Driscoll, Mayor
Richard Viscay, Finance Director

December 9, 2008

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

At the close of each fiscal year, state law requires the City of Salem to publish a complete set of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), and that are audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) of the City of Salem, Massachusetts, for the fiscal year ending June 30, 2008 for your review.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements for the fiscal year ended June 30, 2008, are fairly presented in conformity with GAAP.

The City of Salem's financial statements have been audited by Powers & Sullivan, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2008, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principals used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion, that the City's financial statements for the fiscal year ended June 30, 2008 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit

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engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Salem's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement that analysis and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the City

The City of Salem, which was incorporated as a town in 1630 and became a city on March 23, 1836, is situated on the Massachusetts coast, 16 miles northeast of Boston. The City has a population of approximately 40,407 and occupies a land area of approximately 8 square miles. The second city in the Commonwealth to be incorporated, it is the Shire City of Essex County. Salem has operated under the Plan B form of government, with a mayor and an eleven-person City Council, seven elected from wards, and four at-large, since 1915.

The Mayor is elected for four years in November of unevenly-numbered years. The Mayor is the administrative head of the City and chairman ex-officio of the School Committee, the Board of Library Trustees, and the Board of Trust Fund Commissioners. The Mayor acts with the City Council and School Committee to carry out city business. The Mayor appoints his or her office staff, the City Solicitor, and the Assistant City Solicitor without City Council confirmation. The appointments of most City department heads, and members of the various boards and commissions, however, require City Council confirmation. The Mayor has the right to veto any order, resolution, or ordinance passed by the Council. However, a veto may be overturned by a two-thirds vote of all councilors. After reviewing and revising estimates prepared by department heads, the Mayor submits the budget to the City Council for final action. The Mayor approves all municipal payrolls, vouchers, contracts and instruments; and recommends bond issues, legislations and orders to the City Council; and represents the city with other levels of government. As the general administrator of all City departments, the Mayor is consulted by department heads pertaining to the City's welfare.

The City Council is primarily the legislative branch of the City government. As the legislative body, the Council confirms appointments made by the Mayor and appropriates all monies necessary to City operation. It can approve, disapprove, or reduce the amount of appropriations, but not add to the appropriation. The Council receives orders of recommendation by the Mayor and petitions from the public, and acts on them after committee study. The City Council also has the power to enact the Ordinances and other regulations. A majority of the City Council constitutes a quorum, and the affirmative vote of a majority of all the members of the Council is necessary for the adoption of any motion resolution, or ordinance. In some instance, adoption by a two-thirds vote of the members is required by statute.

The City provides general governmental services for the territory within its boundaries, including police and fire protection, disposal of garbage and rubbish (for residential properties); public education, including vocational-technical education at the high school level; street maintenance; certain water services, through the Salem and Beverly Water Supply Board; certain sewerage disposal services, through the South Essex Sewerage District; and parks and recreational facilities. Approximately 95 percent of the City is connected to the sewerage system; the entire area of the City is served by the municipal water system. The Salem Housing Authority is responsible for managing 1,462 units of low income housing for the City. Buildings are either owned by the Authority, or are part of the rental subsidy program or the voucher program. Of the 1,462 units, 715 are included in twelve elderly developments, nine family developments, and one handicapped accessible family development. These units are owned and operated by the Authority. The principal highways serving the City are state Routes 1A, 107, and 114,

all of which provide immediate access to Routes 1 and 128 and other major highways serving the greater Boston area. The City is a member municipality of the Massachusetts Bay Commuter Railroad, which provides passenger and freight service.

Within 170 days after the annual organization of the City government (which is ordinarily in early January), the Mayor is required to submit a budget of proposed expenditures for the fiscal year beginning on the next July 1. The City Council may make appropriations for the recommended purposes and may reduce or reject any item. Without recommendation of the Mayor, the City Council may not increase any item or make an appropriation for a purpose not included in the proposed budget (except by a two-thirds vote in case of the failure of the Mayor to recommend an appropriation for such a purpose within 7 days after a request from the City Council, pursuant to state statute). If the Council fails to act on any item of the proposed budget within 45 days, that item takes effect. The City's operating budget for fiscal year 2008 totaled approximately \$108 million.

Factors Affecting Economic Condition

The City of Salem is a historic waterfront community that has a rich cultural heritage, known worldwide for its architecture, maritime history, literary prominence, and witchcraft hysteria. For this reason, tourism is one of the City's major industries, accommodating almost one million visitors each year.

Salem originated as one of the earliest landing sites of the English colonists, and went on to rise as the first major port in the United States, opening up the East Indian trade. In its heyday, Salem was known as a thriving hub of American commerce and was the home of Nathaniel Hawthorne. Salem is well known for the infamous Salem Witchcraft Trials of 1692, when nineteen people were convicted for the crime of witchcraft and were put to their deaths.

The City's golden years have left her modern inhabitants with architectural treasures, fine museums, and a sparkling literary heritage. Equally important, the development of Salem has produced a rich ethnic history, to which people of all races, creeds, colors and origins have contributed over the generations. Long a trading, manufacturing and retail center, Salem has been making a slow, and sometimes painful, transition to a service-based economy. The City today serves as the home of Salem State College, the North Shore Medical Center, the Essex County District Superior and Probate Courts, and Registry of Deeds, the world-famous Peabody Essex Museum, and a host of banks and other financial institutions. It is the educational, medical, legal, cultural and banking hub of the North Shore.

Salem boasts an impressive collection of historically significant residential structures that are always in high demand. The uniqueness of these historic homes, coupled with a growing downtown condominium market, has helped boost home sales prices in Salem.

The City also enjoys a mix of commercial businesses and markets. Commercial development has been prominent in the Highland Avenue and Vinnin Square areas. Additionally, the City has recently experienced a \$100 million expansion of the Peabody Essex Museum and the privately funded renovation and reuse of several key properties. In fact, private investment in commercial and residential developments in downtown since 2001 totals close to \$50 million, and expected future investment over the next two years totals close to an additional \$10 million. The redevelopment of long dormant and underutilized industrial sites is helping to revitalize our central business district.

The Salem waterfront is also experiencing a great deal of investment from the addition of the Pickering Wharf Hotel and a municipally managed Harbor Walkway project which will connect pedestrians walking along the harbor from the Pickering Wharf area to adjacent areas.

The City also boasts Shetland Park, a sprawling business park which houses more than 70 concerns and an industrial park on Technology Way which houses large or expanding companies. The North Shore Medical Center has recently invested \$12 million for their new 10,700 square foot cardiac surgical suite and also built a new 19,000 square foot Emergency Department, which is one of the most sophisticated and modern emergency facilities in the state.

According to the Massachusetts Workforce Development Agency, the City had a labor force of 23,627, of whom 22,475 were employed and 1,152, or 4.9% were unemployed. The Commonwealth, for the same period, had an unadjusted unemployment rate of 5.1%.

On the operating side, the City had experienced financial challenges during fiscal year 2007 and into the 2008 budget cycle. The City uncovered a multi-million dollar shortfall in the school department that left the schools with a substantial mid-year budget gap. This discovery was made as we were in the process of hiring a new school business manager. The deficit was eradicated by a combination of mid year budget cuts, a citywide community fundraising effort, and a state funding bill. These items, plus many hours of hard work by the School and City's finance offices, allowed us to weather the storm without laying off any classroom teachers. There was also a great deal of collaboration between the School and City's finance departments in order to efficiently and effectively make cuts and transfer funds to ensure that the City would close the year without any general fund appropriation deficits. We were able to accomplish this as well as adopt a fiscal 2009 budget that is in balance and is transparent to the City Council, School Committee, and the taxpayers of Salem.

Both the School Business Manager and Finance Director have weekly meetings to ensure that communication lines are open and finances are in order. We have consolidated the benefits administration of the School and the City to ensure proper budgeting and reconciliation of participants in our health insurance, dental insurance, and life insurance plans. All financial transactions, including journal entries, budget transfers, and retirement anticipations have also been consolidated into one department with multiple signoffs to ensure the proper checks and balances are in place to account for such.

The City has also developed the Five Year Financial Forecast and made it part of the budget process. This is the second year that such a forecast has been completed. This forecast acts as a useful tool to the Mayor and Council to better identify "budget busters" on the expenditure side and to also determine whether forecasted revenue growth is adequate for future expenses.

We have also, for the first time in fiscal 2008, developed a Five Year Capital Improvement Plan (CIP) for the purpose of maintaining the City's capital and infrastructure, including policies on debt service and capital improvement budgeting. The first year of the five year capital plan (fiscal 2009) was adopted by the Council in April of 2008. The CIP for fiscal 2009 includes \$3 million for water meter replacement throughout the City, \$2.5 million for replacement of a water transmission main, and \$4.35 million in upgrading the South River Basin drainage issues. We've also allocated money for departmental equipment, including \$375,000 for a new pumper truck for the Fire Department, \$135,000 for new school buses, and \$100,000 for new equipment for the maintenance of the City's municipal golf course, to name a few.

The City has major capital expenses in fiscal 2008, including \$11.5 million toward the high school renovations. The total high school project is budgeted for \$67.4 million and should be complete during fiscal year 2009. The City has been in the process of renovating several schools which is being financed, in part, by the State's School Building Assistance Program which is run by the Massachusetts School Building Authority. Through this program, the City is reimbursed for 90% of the construction and debt interest costs of the projects. Other significant fiscal 2008 capital expenditures were technological upgrades (point of sale cafeteria equipment) for the school department, nine new vehicles for the Salem police department, as well as a new F-550 dump truck for the department of public services

One of the key challenges for the City has been rising health care costs for City employees/retirees, as well as increases in pension costs. Since the state law, known as proposition 2 ½, caps the City's ability to raise taxes to meet rising costs, the City is actively exploring the use of alternative, local revenue sources to help offset the aforementioned rising expenditures. In fiscal year 2006, the City Council accepted the provisions of Massachusetts General Law (M.G.L.) chapter 32B, section 18, a Massachusetts statute requiring all Medicare-eligible retirees who are currently on self-insured plans to move from self-insured coverage to a fully insured Medicare supplement plan. This provision saved the City approximately \$700,000 in fiscal 2007 and continues to realize savings for the City. This is a major cost saving initiative that will insure that all retirees over the age of 65 are treated consistently, while also providing greater control of costs associated with the City's Healthcare Insurance Trust account, the fastest rising municipal budget item for each of the last five years.

The City also put its health insurance out to bid for the second time in three years. This process resulted in the City changing its health insurance providers from Tufts to Blue Cross through the Massachusetts Interlocal Insurance Agency (MIIA). The Request for Quotation (RFQ) process proved to be quite successful, as the insurance rates for active employees increased only 6.4% when they became effective in July of 2008. The 6.4% increase, when compared to the 11% increase that was quoted by Tufts, saved the City and the employees over \$600,000. Furthermore, the City introduced a third product to compliment its HMO and PPO plans, the HMO Value Plus plan. This plan is offered to all City employees at a premium that is 9% less than the HMO and 19% less than the PPO. This third option, with slightly higher co-pays for office visits, Rx, and ER visits, allows the employees more options in choosing their health plan. The HMO Value Plus plan is intended to mirror the co-pays found in the Commonwealth's Group Insurance Commission (GIC) plan design.

Another significant change in the health insurance budget was the City and School's AFSCME union and the Teacher's union modifying the contribution rates to the health insurance as the Firefighters Union agreed to a year earlier. All three of the new contracts lower the municipal contribution for health insurance from 80% in fiscal 2007 to 79% in fiscal 2008, 77% in fiscal 2009, and 75% in fiscal 2010. The City's exempt employees have also adopted this structure and all other City's bargaining units have been informed that these contribution percentages will be the basis for contract negotiations. It is believed that through collective bargaining with all of the City's unions, we will have uniformity in the contribution rates which will help stabilize the ever increasing cost of providing health benefits to the employees of the City.

In fiscal 2007, the Mayor appointed herself to the Salem Retirement Board. By appointing herself, Mayor Driscoll has taken an active role in managing the City's retirement system. The annual assessment from the Retirement Board to the City continues to be one of the biggest budget busters year in and year out. The Retirement Board has moved all available funds into the State's Public Reserve Investment Trust (PRIT) to take advantage of its higher returns and lower administrative fees. Because of its size, the PRIT can diversify assets for maximum possible return. The Retirement Board shifted these assets voluntarily to the PRIT after a complete analysis and a vote of the Retirement Board. Over the last 10 years (as of June 30, 2008), the PRIT fund has returned 8.16% annually compared to the public fund median return of 6.00% over the same 10 year time period. This places the PRIT in the top one percentile ranking of all public pension plans with over one billion dollars in assets per the Trust Universe Comparison Services (TUCS) master trust report.

To help curb the fiscal challenges, the City also adjusted fees charged for vital records from the City Clerks office, established a program to store boats in the winter at Winter Island, and negotiated a PILOT agreement with the Northeast Animal Shelter that begins in 2009. The Council also passed, in fiscal 2008, an increase of \$5 on expired parking meters, bringing the fine from \$10 to \$15. For several years, it was cheaper to receive a ticket for an expired meter than it was to park in one of our municipal garages. Both the State Revenue Department and Parking Board recommended this change to the ticket fine structure to encourage greater use of the parking garage by long term parkers and freeing up additional short term spaces for downtown merchants. The additional revenue from these new collections is estimated to generate \$270,000 per year.

At the end of fiscal year 2006, the City purchased a Ferry Boat in which they received a state grant for 75% of the purchase cost. The City is leasing the Ferry Boat to Water Transportation Services, Inc., which operates the ferry. The City received \$60,000 in revenue from Water Transportation Services in fiscal 2007 and \$75,000 in fiscal 2008 and will receive \$100,000 in fiscal 2009 per the three year agreement entered into in fiscal 2007.

The City implemented a trash fee for fiscal year 2007 which went into effect in September 2006. The revenue received from the trash fees totaled \$450,000, for the ten months of collections during fiscal year 2007 and \$780,000 a year for the twelve months of collections in fiscal year 2008. These amounts are based on the number of residential and commercial units that are currently being billed for trash. The fees collected are used to offset the cost of collecting solid waste. The City adopted an Enterprise Fund for solid waste collections in fiscal year 2008.

Our contract for solid waste collection was set to expire on June 30, 2008. As such, a committee was formed to develop a Request for Proposal (RFP) for trash collection for a term of five years. As a result of the procurement, the City was able to reduce its cost of collection by 20%, approximately \$600,000 in total. As a result of this, the City has reduced its fee by 20% for trash collection as well, reducing non-owner occupied tenements from \$20 per unit to \$16 per unit, and businesses from \$30 per unit to \$24 per unit.

The procurement of the solid waste collection not only saved the City \$600,000, but it also increased the pick up of recyclables from bi-weekly to weekly. Weekly recycling, combined with a newly negotiated rate for cardboard recycling from \$25 per ton to \$65 per ton is estimated to save the City an additional \$100,000 by crediting these new revenues to the Enterprise Fund for solid waste collections as another way to offset the net cost of collection the City's solid waste and recyclables.

The City has set a target level for the Stabilization fund of 5% of the City's current operating budget. The target funding date is projected to occur by fiscal year 2012. The Stabilization fund shall be funded by appropriations from free cash, operating budget appropriations when available, and other one time non-recurring revenues that become available for appropriation per M.G.L.

In fiscal 2008, the City also established a second Stabilization fund for the funding of retirement buyouts for both City and School employees. During the fiscal 2009 budget process, all department heads were asked to estimate those employees who may retire and to calculate the estimated cost of each person's buyout for fiscal 2009. It was determined that the estimated liability for fiscal 2009 would be \$400,000. As such, the City Council adopted the law to establish the new Stabilization fund for retirement buyouts and appropriated \$400,000 to the fund. It is the hope of the Finance Department that this fund will grow so that if there are any unanticipated retirements, the City will be able to fund these unanticipated costs within the fund instead of using the general fund appropriations to fund salaries of active employees within the department that has the unanticipated retirement. This will allow the departments to backfill vacancies in a timely manner without having to request a supplemental appropriation by the Council to their salary line.

Free cash is the remaining, unrestricted funds from operations of the previous fiscal year including unexpended free cash from the previous year, actual receipts in excess of revenue estimates shown on the tax rate recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash. The calculation of free cash is based on the balance sheet as of June 30, which is submitted by the community's auditor, accountant, or comptroller. Free cash is not available for appropriation until certified by the Massachusetts Director of Accounts. Free cash is the term used for a community's funds that are available for appropriation. Once free cash is certified, it is available for appropriation by City Council.

Free cash may be used for any lawful municipal purpose and provides communities with flexibility to fund additional appropriations after the tax rate has been set. Free cash balances do not necessarily carry forward to the next fiscal year (July 1st); the Director's certification expires on June 30th at the end of the fiscal year.

The City's policy is to use free cash for reserves, capital, and special uses in accordance with the policies set forth by the Mayor and Finance Director. Any drawdown of the Stabilization Fund from the prior fiscal year should be allocated from the certified free cash if the free cash exceeds such drawdown. Twenty percent of any free cash available after funding a prior year drawdown will also be allocated from free cash to Stabilization Fund up to the goal of stabilization fund equaling 5% of the current operating budget of the City. Twenty percent of any free cash available after funding a prior year drawdown of Stabilization fund will also be allocated to the Capital Improvement Fund for funding Capital. Any free cash available after funding the above may be used to augment trust funds related to fringe benefits and unfunded liabilities related to employee benefits, including Health Insurance Trust Fund, Workers' Compensation Fund, Unemployment Fund, and any health benefits payable through Police and Fire operating budgets (111f settlements). Free cash available may also be used to augment general fund appropriations for expenses that increased due to extraordinary and/or unforeseen events as detailed by the department head of the affected budget.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement of Excellence in Financial Reporting to the City of Salem for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2007. This was the third year that the City submitted a CAFR to the GFOA. In order to receive this prestigious award, a government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

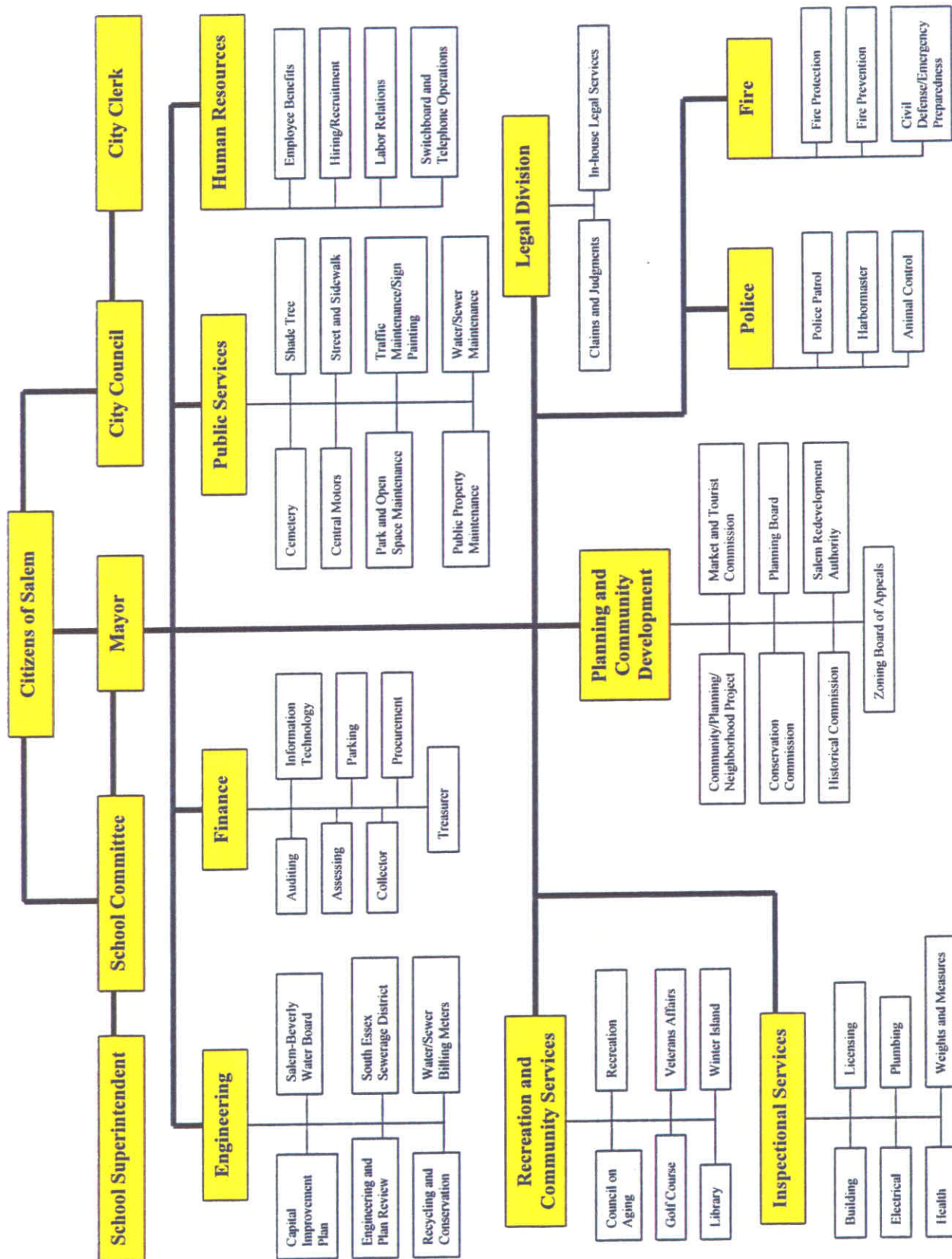
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the Finance Department's staff. We would like to express our appreciation to all the members of the departments who assisted and contributed to the preparation of this report. Credit must also be given to the City Council and Mayor for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Salem's finances.

Respectfully submitted,



Richard Viscay
Finance Director



Principal Executive Officers

TITLE	NAME	FIRST TOOK OFFICE	TERM EXPIRES
Mayor	Kimberley L. Driscoll	1/2/2006	12/31/2009
President, City Council	Michael Sosnowski	1/2/2006	12/31/2008
Finance Director	Richard Viscay	3/6/2006	1/31/2009
Treasurer	Anne L. Busteed	5/22/2000	1/31/2007*
Collector	Bonnie Celi	3/11/2004	1/31/2009
City Clerk	Cheryl LaPointe	7/15/2004	11/9/2009
City Solicitor	Elizabeth Rennard	1/10/2006	Indefinite
Asst. Finance Director	Nina Bridgman	1/22/2004	1/31/2008*

*Treasurer's and Asst. Finance Director's terms have not been extended.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Salem
Massachusetts

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

Financial Section



Downtown Salem

The Essex Street Pedestrian Mall, is a shady red-bricked plaza sandwiched between rows of shops. The inventory of the corner bookstore spills onto tables out front on most days, and trolleys occasionally pass by. Young women hand out coupons and ads for nearby shops. Many tourists and locals enjoy the view of the terrace garden of the Peabody Essex Museum. Fountains at each end of the mall are a great place for people to relax and enjoy the views of historic Salem or sit on a bench and have a bite to eat. The red line of the Heritage Trail will lead visitors in and out of the area to various points of interest and history within the City.

Financial Section

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salem, Massachusetts, as of and for the fiscal year ended June 30, 2008 (except for the Salem Contributory Retirement System which is as of and for the year ended December 31, 2007), which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Salem, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salem, Massachusetts, as of June 30, 2008 (except for the Salem Contributory Retirement System which is as of December 31, 2007), and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis, located on the following pages, and schedule of revenues, expenditures and changes in fund balance – general fund – budgetary basis, other post-employment benefit plan schedule of funding progress, and other post-employment benefit plan actuarial methods and assumptions located after the notes to the basic financial statements, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

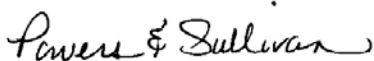
Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The combining fund statements, as listed in the table of contents, are presented for the purpose of supplementary analysis and are not a required part of the financial statements of the City of Salem, Massachusetts. Such supplementary information has been subjected to the auditing procedures applied in the audit of the financial

statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

As described in Note 16, the City has restated the net assets of the Governmental and Business-type Activities in the entity wide financial statements as of June 30, 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2008 on our consideration of the City of Salem, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Pavers & Sullivan".

December 9, 2008

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the City of Salem, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented in this report in conjunction with additional information that we have furnished in our letter of transmittal.

The Governmental Accounting Standards Board (GASB) is the authoritative standard setting body that provides guidance on how to prepare financial statements in conformity with generally accepted accounting principals (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislators and others) can assess the financial condition of one government compared to others.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Salem's basic financial statements. These basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, education, public works, community development, health and human services, culture and recreation and interest. The business-type activities include the activities of water and sewer, parking services, trash disposal as well as the municipal golf course.

The government-wide financial statements include not only the City of Salem itself (known as the *primary government*), but also a legally separate public employee retirement system for which the City of Salem is financially accountable. Financial information for this *component unit* is reported separately within the fiduciary fund statements.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and

demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Salem adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided as required supplementary information for the general fund to demonstrate compliance with this budget.

Proprietary funds. The City maintains two types of propriety funds.

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer activities, parking services, trash disposal, and for the operation of the municipal golf course.

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to retirees' health insurance.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for propriety funds.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

Governmental Activities

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City of Salem's governmental assets exceeded liabilities by \$140 million at the close of fiscal 2008 an increase of \$500 thousand from the prior year. This is an indication that the overall financial position of the City has improved during the current fiscal year.

Net assets of \$140 million (100%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future

spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the governmental net assets, \$6.9 million (5%), represents resources that are subject to external restrictions on how they may be used. The balance of *unrestricted net assets* has a year end deficit of \$6.7 million. The primary reason for this deficit balance is the recognition of other post-employment benefit expenses of \$6.9 million, due to the implementation of Governmental Auditing Standards Board (GASB) Statement 45. Fiscal year 2008 was the City's initial year for the implementation of GASB Statement 45. This statement required the City to obtain an actuarial valuation of the City's liability to pay other post-employment benefits to current employees and retirees. The City is allowed to amortize the liability, which totaled \$160 million, over 30 years, since there is no legal obligation to fund the liability at this time. The City has opted to continue to fund other post-employment benefits on a pay-as-you go basis. As a result, the City is required to record the difference between the current year pay-as-you go cost and the current year actuarial determined cost as a liability in the full accrual financial statements. This difference totaled \$6.9 million for fiscal 2008.

The components of the City's governmental activities are presented below.

	Governmental Activities	
	Fiscal 2008	Fiscal 2007
Assets:		
Current assets.....	\$ 29,975,519	\$ 30,051,728
Noncurrent assets (excluding capital).....	25,750,071	35,727,288
Capital assets.....	161,393,672	153,601,798
Total assets.....	217,119,262	219,380,814
Liabilities:		
Current liabilities (excluding debt).....	8,296,834	11,450,475
Noncurrent liabilities (excluding debt).....	13,154,225	5,955,395
Current debt.....	4,594,497	8,908,864
Noncurrent debt.....	51,110,000	53,600,000
Total liabilities.....	77,155,556	79,914,734
Net Assets:		
Capital assets net of related debt.....	139,683,360	132,787,853
Restricted.....	6,948,839	8,868,048
Unrestricted.....	(6,668,493)	(2,189,821)
Total net assets.....	\$ 139,963,706	\$ 139,466,080

	<u>Fiscal 2008</u>	<u>Fiscal 2007</u>
Program revenues:		
Charges for services.....	\$ 5,568,333	\$ 6,438,645
Operating grants and contributions.....	41,168,760	37,957,703
Capital grants and contributions.....	9,615,336	30,118,572
General Revenues:		
Real estate and personal property taxes.....	63,230,976	60,991,003
Motor vehicle and other excise taxes.....	3,286,119	3,357,765
Nonrestricted grants.....	9,163,777	8,971,625
Unrestricted investment income.....	462,275	965,694
Other revenues.....	2,877,637	2,215,208
Total revenues.....	<u>135,373,213</u>	<u>151,016,215</u>
Expenses:		
General government.....	10,598,174	9,641,318
Public safety.....	28,262,847	24,433,343
Education.....	75,874,227	75,513,149
Public works.....	6,846,006	9,229,479
Community development.....	1,567,381	1,804,554
Health and human services.....	5,904,063	4,675,688
Culture and recreation.....	3,293,415	2,448,265
Interest.....	2,503,461	2,604,390
Total expenses.....	<u>134,849,574</u>	<u>130,350,186</u>
Excess (Deficiency) before transfers.....	523,639	20,666,029
Transfers.....	<u>(26,013)</u>	<u>2,437,695</u>
Change in net assets.....	\$ <u><u>497,626</u></u>	\$ <u><u>23,103,724</u></u>

The governmental expenses totaled \$134.8 million of which \$56.4 million (42%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. The decrease seen in public works in fiscal year 2008 relates to the establishment of a trash disposal enterprise fund and the \$3 million in annual expenses are no longer reported as a governmental activity. General revenues totaled \$79 million, primarily coming from property taxes, motor vehicle and other excise, and non-restricted state aid.

Business-type Activities

For the City's business-type activities, assets exceeded liabilities by \$14.5 million at the close of fiscal year 2008.

	Business-type Activities	
	Fiscal 2008	Fiscal 2007
Assets:		
Current assets.....	\$ 7,727,919	\$ 8,252,450
Capital assets.....	15,375,825	14,482,759
Total assets.....	23,103,744	22,735,209
Liabilities:		
Current liabilities (excluding debt).....	681,411	1,028,082
Noncurrent liabilities (excluding debt).....	313,650	80,000
Current debt.....	1,373,333	482,687
Noncurrent debt.....	6,250,908	6,396,105
Total liabilities.....	8,619,302	7,986,874
Net Assets:		
Invested in capital assets, net of related debt.....	8,836,475	9,138,929
Unrestricted.....	5,647,967	5,609,406
Total net assets.....	\$ 14,484,442	\$ 14,748,335

Business-type net assets of \$8.8 million (60.6%) represent investments in capital assets net of related debt. The remaining \$5.6 million (39.4%) is available to be used for the ongoing operation of the City's water, sewer, parking, trash and the municipal golf course activities. There was a decrease of \$264 thousand in net assets reported in connection with the enterprise funds.

The water enterprise fund's net assets of \$3.4 million (57%) represent the investment in capital assets while \$2.5 million (43%) is unrestricted. The water department experienced a net decrease of \$107 thousand in net assets from the prior year. The water fund pays an annual assessment to the Salem Beverly Water Supply Board, which totaled \$2.1 million, or 57% of the funds expenses for fiscal year 2008. The minor change in net assets is the result of the City's policy to recover 100% of the cost of operations through rates while still maintaining adequate reserves.

The sewer enterprise fund's net assets of \$851 thousand (23%) represent the investment in capital assets net of related debt, and \$2.9 million (77%) is unrestricted. The unrestricted balance includes the City's \$1.1 million equity interest in the South Essex Sewerage District. The sewer department operations experienced a net increase of \$1,081 during the current fiscal year. Approximately 86% of the expenses in the sewer fund consist of the annual assessments paid to the South Essex Sewerage District. The minor change in net assets is the result of the City's policy to recover 100% of the cost of operations through rates while still maintaining adequate reserves.

The golf course enterprise fund's net assets of \$285 thousand (61%) represent the investment in capital assets while \$183 thousand (39%) is unrestricted. The golf course operations experienced a decrease of \$14 thousand during fiscal year 2008.

The parking enterprise fund's net assets of \$4.3 million (103%) represent the investment in capital assets net of related debt while (\$118,413) (less than 3%) is unrestricted. The parking operations experienced a net decrease of \$247 thousand during fiscal year 2008, mostly due to depreciation expense of \$225 thousand. The City reports this fee-for-service activity an enterprise fund however any cash based surplus generated is transferred back to the general fund to support City programs. In fiscal year 2008, \$961 thousand was transferred back to the general fund. Consequently, the funds remaining in the enterprise fund at year end represent non-current assets and liabilities and the assets and liabilities related to the enterprise funds capital construction projects.

During fiscal year 2008, the City voted to establish a trash disposal enterprise fund. The trash fee is set with full knowledge that the revenue will not be sufficient to cover the cost of operations. The City budgets for a subsidy from the general fund equal to the cash basis deficit in the fund at June 30th. At fiscal year-end a \$2.4 million transfer was made from the general fund to cover the deficit. As of June 30, 2008, the trash fund's statement of net assets is comprised only of non-cash assets and liabilities which results in unrestricted net assets of \$103 thousand.

	Business-type Activities	
	Fiscal 2008	Fiscal 2007
Program revenues:		
Charges for services.....	\$ 14,004,233	\$ 13,776,703
Capital grants and contributions.....	49,707	-
Total revenues.....	14,053,940	13,776,703
Expenses:		
Cost of service and administration.....	6,445,788	2,713,667
District assessment.....	7,148,484	6,933,555
Depreciation.....	487,355	464,614
Interest.....	262,219	219,320
Total expenses.....	14,343,846	10,331,156
Excess (Deficiency) before transfers.....	(289,906)	3,445,547
Transfers.....	26,013	(2,437,695)
Change in net assets.....	\$ (263,893)	\$ 1,007,852

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$13 million of which \$1.5 million is reported in the general fund, \$649 thousand is reported in the stabilization major fund, \$2.7 million is reported in the school capital projects major fund, and \$8.1 million is reported in the nonmajor governmental funds. Cumulatively there was an increase of \$3.7 million in fund balances from the prior year.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1.3 million, while total fund balance was \$1.5 million. The general fund net assets increased by \$2.6 million in fiscal year 2008. The majority of this increase relates to a \$1.2 million increase in chapter 70 school aid received from the Commonwealth, and a \$1.25 million one time contribution received from the Dominion Power Plant. Public works expenditures decreased by \$3.2 million due to the creation of the trash enterprise fund during fiscal year 2008, this was offset by a decrease in trash receipts of \$450 thousand, and the general fund subsidy to the trash enterprise fund of \$2.4 million.

The stabilization major fund is used to account for the accumulation of resources to be used for general and/or capital purposes upon approval of City Council. The fund increased by \$161 thousand in fiscal 2008, due to investment earnings and a budgeted transfer in from the general fund to fund the stabilization fund of \$138 thousand.

The school capital projects fund is used to account for the City's ongoing major school construction projects. The fund increased by \$3 million in fiscal 2008 due to the recognition of proceeds on long-term BANs. During fiscal 2008, the City received an additional \$17.3 million to offset school construction expenditures. This was comprised of \$5.1 million in the general fund to offset bond payments on completed school projects, and \$12.2 million in the school capital projects major fund to offset current costs.

General Fund Budgetary Highlights

The \$1.8 million increase between the original budget and the final amended budget was due to several council orders issued throughout the fiscal year to utilize available funds to address budget issues. The most significant components of the increase were the use of \$1 million from the short-term borrowing for the school deficit funding, \$420 thousand appropriated for a collective bargaining reserve for the school department, \$69 thousand appropriated for other pay raises, \$138 thousand in free cash transferred to the stabilization fund, and \$50 thousand in overlay appropriated for various municipal purposes.

The City experienced a net surplus of actual revenues compared to budget of \$155 thousand. The deficiency in real estate and personal property taxes, of \$508 thousand, was due to lower than anticipated collection rates. This was partially offset with a surplus in collections in tax liens of \$306 thousand. The surplus in intergovernmental revenue was mainly due to Medicare and Medicaid reimbursements which came in approximately \$344 thousand over budget. The deficiency in departmental and other revenue was mainly due to parking fees, which are budgeted in the general fund. Parking revenues were approximately \$188 thousand less than anticipated.

Due to recent budget cuts, most departments, with the exception of the schools, ended the year with a minimal amount of unspent funds. State and county assessments were lower than anticipated by \$199 thousand, all related to the charter school assessments. The City's snow and ice removal account ended the year in a deficit of \$596 thousand, which is allowable under state law. This deficit is required to be funded in the subsequent year's tax levy. The City also experienced a deficit in its group insurance account of \$65 thousand which will be raised in the subsequent fiscal year. The largest variance to the appropriation budget is in the school department, which reports expenditures under the appropriation by \$2.7 million. This is the result of over-expenditures of the fiscal year 2007 budget which were raised in fiscal year 2008.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounts to \$176.8 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, system improvements, machinery and equipment, and infrastructure related to governmental and business-type activities. The City's total investment in capital assets for the current year was \$13 million for governmental activities and \$1.4 million for business-type activities.

The major capital asset event during the current fiscal year was the continued work on a major renovation to the Salem High School which is reported as construction in progress pending the completion of the project. The City receives a 90% reimbursement of eligible construction costs from the Massachusetts School Building Authority as work progresses on this project.

Debt Administration. Outstanding long-term debt of the general government, as of June 30, 2008, totaled \$55,704,497, of which \$51,728,633 is related to school projects, and \$1,000,000 is related to the school deficit funding loan, leaving a balance of \$2,975,864 for other CIP related projects.

The Commonwealth of Massachusetts is obligated to provide school construction assistance for approved school projects through a grant program administered by the Massachusetts School Building Authority (MSBA). The assistance is paid to support construction costs and reduce the total debt service of the City. At June 30, 2008 the City has recorded a receivable from the MSBA of \$33.7 million, which is equal to 90% of approved construction and interest costs incurred by the City to date, less amounts that have been reimbursed to the City by the MSBA.

The City has \$2,930,000 in governmental related short-term notes remaining which came due on 10/23/08, with an interest rate of 4.00%. The City's short-term notes represent \$2,930,000 in temporary financing for school construction projects. Subsequent to year end, on October 23, 2008, the City reissued \$2,930,000 related to the school construction projects. As a result, the \$2,930,000 has been classified as long-term debt.

At year end the golf course, parking and water enterprise funds have \$260,000, \$875,000 and \$5,489,241, respectively, of outstanding long-term debt, which is fully supported by fees and does not rely on a general fund subsidy. Additionally, the City had water-improvement BANs outstanding at June 30, 2008 totaling \$1,000,000. Subsequent to year end, on October 23, 2008, the City reissued \$1 million related to the water-improvement projects. As a result, the \$1 million has been classified as long-term debt.

Please refer to notes 5, 8 and 9 in the financial statements for further discussion of the major capital and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the City of Salem's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, City Hall, 93 Washington Street, Salem, Massachusetts 01970.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 11,581,020	\$ 3,723,963	\$ 15,304,983
Investments.....	4,257,794	-	4,257,794
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	616,214	-	616,214
Tax liens.....	1,292,211	-	1,292,211
Motor vehicle and other excise taxes.....	629,206	-	629,206
User fees.....	-	2,690,049	2,690,049
Trash fees.....	170	128,310	128,480
Departmental and other.....	496,446	-	496,446
Intergovernmental.....	10,937,151	78,030	11,015,181
Loans.....	159,691	-	159,691
Internal balances.....	5,616	(5,616)	-
Investment in joint venture.....	-	1,113,183	1,113,183
Total current assets.....	<u>29,975,519</u>	<u>7,727,919</u>	<u>37,703,438</u>
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	25,247,238	-	25,247,238
Loans.....	502,833	-	502,833
Capital assets, non depreciable.....	55,893,083	276,422	56,169,505
Capital assets, net of accumulated depreciation.....	<u>105,500,589</u>	<u>15,099,403</u>	<u>120,599,992</u>
Total noncurrent assets.....	<u>187,143,743</u>	<u>15,375,825</u>	<u>202,519,568</u>
TOTAL ASSETS.....	<u>217,119,262</u>	<u>23,103,744</u>	<u>240,223,006</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	1,759,630	45,787	1,805,417
Accrued liabilities.....	412,007	397,547	809,554
Accrued payroll.....	2,885,116	19,309	2,904,425
Health claims payable.....	103,360	-	103,360
Tax refunds payable.....	104,471	-	104,471
Accrued interest.....	1,126,457	166,658	1,293,115
Capital lease obligations.....	289,374	-	289,374
Compensated absences.....	1,502,065	52,110	1,554,175
Workers' compensation.....	114,354	-	114,354
Bonds and notes payable.....	4,594,497	1,373,333	5,967,830
Total current liabilities.....	<u>12,891,331</u>	<u>2,054,744</u>	<u>14,946,075</u>
NONCURRENT:			
Capital lease obligations.....	386,580	-	386,580
Compensated absences.....	5,478,338	65,890	5,544,228
Other post-employment benefits.....	6,863,646	247,760	7,111,406
Workers' compensation.....	425,661	-	425,661
Bonds and notes payable.....	51,110,000	6,250,908	57,360,908
Total noncurrent liabilities.....	<u>64,264,225</u>	<u>6,564,558</u>	<u>70,828,783</u>
TOTAL LIABILITIES.....	<u>77,155,556</u>	<u>8,619,302</u>	<u>85,774,858</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	139,683,360	8,836,475	148,519,835
Restricted for:			
Loans.....	662,524	-	662,524
Permanent funds:			
Expendable.....	3,291,512	-	3,291,512
Nonexpendable.....	1,650,597	-	1,650,597
Grants and gifts.....	1,344,206	-	1,344,206
Unrestricted.....	<u>(6,668,493)</u>	<u>5,647,967</u>	<u>(1,020,526)</u>
TOTAL NET ASSETS.....	<u>\$ 139,963,706</u>	<u>\$ 14,484,442</u>	<u>\$ 154,448,148</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2008

		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Primary Government:					
Governmental Activities:					
General government.....	\$ 10,598,174	\$ 718,713	\$ 159,833	\$ 341,388	\$ (9,378,240)
Public safety.....	28,262,847	2,378,961	1,034,617	18,498	(24,830,771)
Education.....	75,874,227	1,586,525	32,858,433	7,897,854	(33,531,415)
Public works.....	6,846,006	58,076	17,000	1,156,651	(5,614,279)
Community development.....	1,567,381	3,741	1,505,221	-	(58,419)
Health and human services.....	5,904,063	105,854	3,921,831	-	(1,876,378)
Culture and recreation.....	3,293,415	716,463	101,088	200,945	(2,274,919)
Interest.....	2,503,461	-	1,570,737	-	(932,724)
Total Governmental Activities...	134,849,574	5,568,333	41,168,760	9,615,336	(78,497,145)
Business-Type Activities:					
Water.....	3,895,551	4,318,889	-	49,707	473,045
Sewer.....	5,894,870	6,555,593	-	-	660,723
Golf Course.....	386,099	570,142	-	-	184,043
Parking.....	936,826	1,651,032	-	-	714,206
Trash.....	3,230,500	908,577	-	-	(2,321,923)
Total Business-Type Activities..	14,343,846	14,004,233	-	49,707	(289,906)
Total Primary Government.....	\$ 149,193,420	\$ 19,572,566	\$ 41,168,760	\$ 9,665,043	\$ (78,787,051)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2008

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ <u>(78,497,145)</u>	\$ <u>(289,906)</u>	\$ <u>(78,787,051)</u>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	63,230,976	-	63,230,976
Tax liens.....	752,178	-	752,178
Motor vehicle and other excise taxes.....	3,286,119	-	3,286,119
Hotel/motel tax.....	373,655	-	373,655
Penalties and interest on taxes.....	353,952	-	353,952
Payments in lieu of taxes.....	1,229,435	-	1,229,435
Grants and contributions not restricted to specific programs.....	9,163,777	-	9,163,777
Unrestricted investment income.....	462,275	-	462,275
Miscellaneous.....	168,417	-	168,417
<i>Transfers, net</i>	<u>(26,013)</u>	<u>26,013</u>	<u>-</u>
Total general revenues and transfers.....	<u>78,994,771</u>	<u>26,013</u>	<u>79,020,784</u>
Change in net assets.....	497,626	(263,893)	233,733
<i>Net Assets:</i>			
Beginning of year, as restated.....	<u>139,466,080</u>	<u>14,748,335</u>	<u>154,214,415</u>
End of year.....	\$ <u><u>139,963,706</u></u>	\$ <u><u>14,484,442</u></u>	\$ <u><u>154,448,148</u></u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2008

	General	Stabilization	School Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents.....	\$ 3,431,863	\$ 648,947	\$ 3,320,469	\$ 4,179,741	\$ 11,581,020
Investments.....	-	-	-	4,257,794	4,257,794
Receivables, net of uncollectibles:					
Real estate and personal property taxes.....	616,214	-	-	-	616,214
Tax liens.....	1,292,211	-	-	-	1,292,211
Motor vehicle and other excise taxes.....	629,206	-	-	-	629,206
Trash fees.....	170	-	-	-	170
Departmental and other.....	434,346	-	-	21,217	455,563
Intergovernmental.....	33,391,837	-	919,033	1,873,519	36,184,389
Loans.....	-	-	-	662,524	662,524
Due from other funds.....	194,395	-	-	788,715	983,110
TOTAL ASSETS.....	\$ 39,990,242	\$ 648,947	\$ 4,239,502	\$ 11,783,510	\$ 56,662,201
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable.....	\$ 18,668	\$ -	\$ 1,510,098	\$ 230,864	\$ 1,759,630
Accrued liabilities.....	404,586	-	-	-	404,586
Accrued payroll.....	2,727,269	-	-	157,847	2,885,116
Tax refunds payable.....	104,471	-	-	-	104,471
Accrued interest on short-term debt.....	-	-	-	-	-
Deferred revenues.....	35,193,243	-	-	2,467,898	37,661,141
Due to other funds.....	-	-	-	788,715	788,715
Notes payable.....	-	-	-	-	-
TOTAL LIABILITIES.....	38,448,237	-	1,510,098	3,645,324	43,603,659
FUND BALANCES:					
Reserved for:					
Encumbrances and continuing appropriations.....	220,608	-	-	-	220,608
Perpetual permanent funds.....	-	-	-	1,650,597	1,650,597
Unreserved:					
Undesignated, reported in:					
General fund.....	1,321,397	-	-	-	1,321,397
Special revenue funds.....	-	648,947	-	3,119,376	3,768,323
Capital projects funds.....	-	-	2,729,404	76,701	2,806,105
Permanent funds.....	-	-	-	3,291,512	3,291,512
TOTAL FUND BALANCES.....	1,542,005	648,947	2,729,404	8,138,186	13,058,542
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 39,990,242	\$ 648,947	\$ 4,239,502	\$ 11,783,510	\$ 56,662,201

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2008

Total governmental fund balances.....		\$ 13,058,542
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		161,393,672
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		37,661,141
Internal service funds are used by management to account for health insurance activities.		
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.....		(258,677)
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(1,126,457)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds and notes payable.....	(55,704,497)	
Workers' compensation.....	(540,015)	
Capital leases.....	(675,954)	
Compensated absences.....	(6,980,403)	
Other post-employment benefits.....	(6,863,646)	
Net effect of reporting long-term liabilities.....		(70,764,515)
Net assets of governmental activities.....		<u>\$ 139,963,706</u>

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2008

	General	Stabilization	School Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 63,376,714	\$ -	\$ -	\$ -	\$ 63,376,714
Tax liens.....	306,948	-	-	-	306,948
Motor vehicle and other excise taxes.....	3,427,889	-	-	-	3,427,889
Hotel/motel tax.....	373,655	-	-	-	373,655
Charges for services.....	1,537,631	-	-	44,493	1,582,124
Penalties and interest on taxes.....	353,952	-	-	-	353,952
Payments in lieu of taxes.....	1,229,435	-	-	-	1,229,435
Licenses and permits.....	510,120	-	-	-	510,120
Fines and forfeitures.....	1,222,170	-	-	-	1,222,170
Intergovernmental.....	37,200,938	-	11,603,278	15,602,554	64,406,770
Departmental and other.....	1,600,685	-	-	2,087,752	3,688,437
Contributions.....	-	-	-	819,731	819,731
Investment income.....	355,841	22,737	-	84,007	462,585
TOTAL REVENUES.....	111,495,978	22,737	11,603,278	18,638,537	141,760,530
EXPENDITURES:					
Current:					
General government.....	4,357,726	-	-	588,737	4,946,463
Public safety.....	15,681,963	-	-	621,970	16,303,933
Education.....	45,369,665	-	11,493,232	9,607,025	66,469,922
Public works.....	3,029,652	-	-	575,885	3,605,537
Community development.....	-	-	-	1,567,381	1,567,381
Health and human services.....	812,389	-	-	4,494,055	5,306,444
Culture and recreation.....	1,754,078	-	-	588,660	2,342,738
Pension benefits.....	15,180,985	-	-	-	15,180,985
Employee benefits.....	11,570,087	-	-	-	11,570,087
State and county charges.....	5,933,670	-	-	-	5,933,670
Debt service:					
Principal.....	4,300,000	-	-	2,320,000	6,620,000
Interest.....	2,511,783	-	-	110,606	2,622,389
TOTAL EXPENDITURES.....	110,501,998	-	11,493,232	20,474,319	142,469,549
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	993,980	22,737	110,046	(1,835,782)	(709,019)
OTHER FINANCING SOURCES (USES):					
Issuance of bonds and notes.....	-	-	2,930,000	1,000,000	3,930,000
Premium from issuance of bonds and notes.....	84,840	-	-	-	84,840
Capital lease financing.....	394,779	-	-	-	394,779
Transfers in.....	4,191,691	138,230	-	178,308	4,508,229
Transfers out.....	(3,041,717)	-	-	(1,492,525)	(4,534,242)
TOTAL OTHER FINANCING SOURCES (USES).....	1,629,593	138,230	2,930,000	(314,217)	4,383,606
NET CHANGE IN FUND BALANCES.....	2,623,573	160,967	3,040,046	(2,149,999)	3,674,587
FUND BALANCES AT BEGINNING OF YEAR.....	(1,081,568)	487,980	(310,642)	10,288,185	9,383,955
FUND BALANCES AT END OF YEAR.....	\$ 1,542,005	\$ 648,947	\$ 2,729,404	\$ 8,138,186	\$ 13,058,542

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds.....	\$ 3,674,587
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital outlay.....	12,930,767
Depreciation expense.....	<u>(5,138,893)</u>
Net effect of reporting capital assets.....	7,791,874
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>	
	(6,443,056)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>	
Capital lease principal payments.....	498,731
Capital lease issuance.....	(394,779)
Issuance of bonds and notes.....	(3,930,000)
Debt service principal payments.....	<u>6,620,000</u>
Net effect of reporting long-term debt.....	2,793,952
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>	
Net change in compensated absences accrual.....	(437,057)
Net change in workers' compensation.....	(134,712)
Net change in accrued interest on long-term debt.....	34,088
Net change in other post-employment benefits.....	<u>(6,863,646)</u>
Net effect of recording long-term liabilities and amortizing deferred losses.....	(7,401,327)
<p>Internal service funds are used by management to account for health insurance activities</p>	
The net activity of internal service funds is reported with Governmental Activities.....	<u>81,596</u>
Change in net assets of governmental activities.....	<u>\$ 497,626</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2008

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Parking	Trash	Total	
ASSETS							
CURRENT:							
Cash and cash equivalents.....	\$ 2,912,687	\$ 518,757	\$ 269,185	\$ 23,334	\$ -	\$ 3,723,963	\$ -
Receivables, net of allowance for uncollectibles							
User fees.....	965,250	1,724,799	-	-	-	2,690,049	-
Trash fees.....	-	-	-	-	128,310	128,310	-
Departmental and other.....	-	-	-	-	-	-	40,883
Intergovernmental.....	78,030	-	-	-	-	78,030	-
Investment in joint venture.....	-	1,113,183	-	-	-	1,113,183	-
Total current assets.....	3,955,967	3,356,739	269,185	23,334	128,310	7,733,535	40,883
NONCURRENT:							
Capital assets, non depreciable.....	10,589	99,552	118,067	48,214	-	276,422	-
Capital assets, net of accumulated depreciation	8,803,937	751,791	427,012	5,116,663	-	15,099,403	-
Total noncurrent assets.....	8,814,526	851,343	545,079	5,164,877	-	15,375,825	-
TOTAL ASSETS.....	12,770,493	4,208,082	814,264	5,188,211	128,310	23,109,360	40,883
LIABILITIES							
CURRENT:							
Warrants payable.....	45,786	-	-	-	-	45,786	-
Accrued liabilities.....	52,488	340,992	-	-	4,068	397,548	7,421
Accrued payroll.....	9,171	8,768	-	-	1,370	19,309	-
Health claims payable.....	-	-	-	-	-	-	103,360
Accrued interest.....	142,889	-	6,400	17,369	-	166,658	-
Due to other funds.....	-	-	-	-	5,616	5,616	188,779
Compensated absences.....	9,455	9,455	11,283	21,917	-	52,110	-
Bonds and notes payable.....	1,268,333	-	30,000	75,000	-	1,373,333	-
Total current liabilities.....	1,528,122	359,215	47,683	114,286	11,054	2,060,360	299,560
NONCURRENT:							
Compensated absences.....	6,869	6,869	33,650	18,502	-	65,890	-
Other post-employment benefits obligation.....	57,566	57,259	34,983	83,959	13,993	247,760	-
Bonds and notes payable.....	5,220,908	-	230,000	800,000	-	6,250,908	-
Total noncurrent liabilities.....	5,285,343	64,128	298,633	902,461	13,993	6,564,558	-
TOTAL LIABILITIES.....	6,813,465	423,343	346,316	1,016,747	25,047	8,624,918	299,560
NET ASSETS							
Invested in capital assets, net of related debt.....	3,410,176	851,343	285,079	4,289,877	-	8,836,475	-
Unrestricted.....	2,546,852	2,933,396	182,869	(118,413)	103,263	5,647,967	(258,677)
TOTAL NET ASSETS.....	\$ 5,957,028	\$ 3,784,739	\$ 467,948	\$ 4,171,464	\$ 103,263	\$ 14,484,442	\$ (258,677)

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2008

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Parking	Trash	Total	
OPERATING REVENUES:							
Employee contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 503,958
Employer contributions	-	-	-	-	-	-	1,135,134
Charges for services	4,318,889	6,555,593	570,142	1,651,032	908,577	14,004,233	-
Other	-	-	-	-	-	-	83,479
TOTAL OPERATING REVENUES	4,318,889	6,555,593	570,142	1,651,032	908,577	14,004,233	1,722,571
OPERATING EXPENSES:							
Cost of services and administration	1,331,376	863,284	344,742	675,886	3,230,500	6,445,788	-
District Assessment	2,140,679	5,007,805	-	-	-	7,148,484	-
Depreciation	212,888	23,781	25,609	225,077	-	487,355	-
Employee benefits	-	-	-	-	-	-	1,643,733
TOTAL OPERATING EXPENSES	3,684,943	5,894,870	370,351	900,963	3,230,500	14,081,627	1,643,733
OPERATING INCOME (LOSS)	633,946	660,723	199,791	750,069	(2,321,923)	(77,394)	78,838
NONOPERATING REVENUES (EXPENSES):							
Investment income	-	-	-	-	-	-	2,758
Interest expense	(210,608)	-	(15,748)	(35,863)	-	(262,219)	-
Intergovernmental	49,707	-	-	-	-	49,707	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET	(160,901)	-	(15,748)	(35,863)	-	(212,512)	2,758
INCOME (LOSS) BEFORE TRANSFERS	473,045	660,723	184,043	714,206	(2,321,923)	(289,906)	81,596
TRANSFERS:							
Transfers in	-	-	353,301	-	2,425,186	2,778,487	-
Transfers out	(580,266)	(659,642)	(551,730)	(960,836)	-	(2,752,474)	-
TOTAL TRANSFERS	(580,266)	(659,642)	(198,429)	(960,836)	2,425,186	26,013	-
CHANGE IN NET ASSETS	(107,221)	1,081	(14,386)	(246,630)	103,263	(263,893)	81,596
NET ASSETS AT BEGINNING OF YEAR, as restated...	6,064,249	3,783,658	482,334	4,418,094	-	14,748,335	(340,273)
NET ASSETS AT END OF YEAR	\$ 5,957,028	\$ 3,784,739	\$ 467,948	\$ 4,171,464	\$ 103,263	\$ 14,484,442	\$ (258,677)

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2008

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Parking	Trash	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from customers and users.....	\$ 4,483,926	\$ 6,480,184	\$ 570,142	\$ 1,651,032	\$ 780,267	\$ 13,965,551	\$ -
Receipts from interfund services provided.....	-	-	-	-	-	-	1,696,089
Payments to vendors.....	(3,038,283)	(5,480,877)	(132,062)	(229,303)	(3,169,923)	(12,050,448)	-
Payments to employees.....	(347,380)	(329,253)	(178,185)	(358,205)	(41,146)	(1,254,169)	-
Payments for interfund services used.....	-	-	-	-	-	-	(1,609,355)
NET CASH FROM OPERATING ACTIVITIES.....	1,098,263	670,054	259,895	1,063,524	(2,430,802)	660,934	86,734
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:							
Transfers in.....	-	-	353,301	-	2,425,186	2,778,487	-
Transfers out.....	(580,266)	(659,642)	(551,730)	(960,836)	-	(2,752,474)	-
Advances from other funds.....	-	-	-	-	5,616	5,616	(89,492)
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(580,266)	(659,642)	(198,429)	(960,836)	2,430,802	31,629	(89,492)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Proceeds from the issuance of bonds and notes.....	1,000,000	-	-	-	-	1,000,000	-
Acquisition and construction of capital assets.....	(1,751,352)	(85,543)	-	-	-	(1,836,895)	-
Principal payments on bonds and notes.....	(149,551)	-	(30,000)	(75,000)	-	(254,551)	-
Interest expense.....	(103,655)	-	(13,475)	(36,988)	-	(154,118)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(1,004,558)	(85,543)	(43,475)	(111,988)	-	(1,245,564)	-
CASH FLOWS FROM INVESTING ACTIVITIES:							
Investment income.....	-	-	-	-	-	-	2,758
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(486,561)	(75,131)	17,991	(9,300)	-	(553,001)	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	3,399,248	593,888	251,194	32,634	-	4,276,964	-
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 2,912,687	\$ 518,757	\$ 269,185	\$ 23,334	\$ -	\$ 3,723,963	\$ -
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:							
Operating income (loss).....	\$ 633,946	\$ 660,723	\$ 199,791	\$ 750,069	\$ (2,321,923)	\$ (77,394)	\$ 78,838
Adjustments to reconcile operating income (loss) to net cash from operating activities:							
Depreciation.....	212,888	23,781	25,609	225,077	-	487,355	-
Changes in assets and liabilities:							
User fees.....	165,037	(75,409)	-	-	-	89,628	-
Trash fees.....	-	-	-	-	(128,310)	(128,310)	-
Investment in joint venture.....	-	4,596	-	-	-	4,596	-
Departmental and other.....	-	-	-	-	-	-	(26,482)
Working capital deposit.....	-	-	-	-	-	-	82,426
Warrants payable.....	-	-	(421)	-	-	(421)	(40,618)
Accrued liabilities.....	30,350	977	-	-	4,068	35,395	7,421
Accrued payroll.....	3,152	2,803	-	-	1,370	7,325	-
Health claims payable.....	-	-	-	-	-	-	(14,851)
Other post-employment benefits.....	57,566	57,259	34,983	83,959	13,993	247,760	-
Accrued compensated absences.....	(4,676)	(4,676)	(67)	4,419	-	(5,000)	-
Total adjustments.....	464,317	9,331	60,104	313,455	(108,879)	738,328	7,896
NET CASH FROM OPERATING ACTIVITIES.....	\$ 1,098,263	\$ 670,054	\$ 259,895	\$ 1,063,524	\$ (2,430,802)	\$ 660,934	\$ 86,734

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2008

	Pension Trust Fund (as of December 31, 2007)	Private Purpose Trust Funds	Agency Fund
ASSETS			
Cash and cash equivalents.....	\$ 75,029,000	\$ 111,437	\$ 724,874
Investments:			
Corporate bonds.....	206,792	1,432,859	-
Equity securities.....	4,104	-	-
Equity mutual funds.....	7,076,220	-	-
Real estate and alternative investment mutual funds...	4,535,989	-	-
PRIT.....	10,540,611	-	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	3,526,014	-	34,681
TOTAL ASSETS	<u>100,918,730</u>	<u>1,544,296</u>	<u>759,555</u>
LIABILITIES			
Warrants payable.....	56,065	-	44,663
Liabilities due depositors.....	-	-	714,892
TOTAL LIABILITIES	<u>56,065</u>	<u>-</u>	<u>759,555</u>
NET ASSETS			
Held in trust for pension benefits and other purposes.....	<u>\$ 100,862,665</u>	<u>\$ 1,544,296</u>	<u>\$ -</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2008

	Pension Trust Fund (as of December 31, 2007)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer.....	\$ 9,176,126	\$ -
Plan member.....	2,929,739	-
Private donations.....	-	16,880
Total contributions.....	12,105,865	16,880
Net investment income (loss):		
Net change in fair value of investments.....	4,498,085	(22,177)
Interest.....	2,588,523	2,977
Total investment income (loss).....	7,086,608	(19,200)
Less: investment expense.....	(665,069)	-
Net investment income (loss).....	6,421,539	(19,200)
Intergovernmental.....	405,313	-
Transfers from other systems.....	496,546	-
TOTAL ADDITIONS.....	19,429,263	(2,320)
DEDUCTIONS:		
Administration.....	401,427	-
Transfers to other systems.....	185,997	-
Retirement benefits and refunds.....	11,656,975	-
Educational scholarships.....	-	14,736
Housing subsidies.....	-	39,834
TOTAL DEDUCTIONS.....	12,244,399	54,570
CHANGE IN NET ASSETS.....	7,184,864	(56,890)
NET ASSETS AT BEGINNING OF YEAR.....	93,677,801	1,601,186
NET ASSETS AT END OF YEAR.....	\$ 100,862,665	\$ 1,544,296

See notes to basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the City of Salem, Massachusetts (the City) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

A. Reporting Entity

The City is a Massachusetts municipal corporation with a Mayor-Council form of government. The Mayor is elected at large for a four-year term. The City Council is comprised of eleven members elected for two-year terms from seven wards and four at-large.

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and institutions. The City has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the City (the primary government) and its component units. One entity has been included as a component unit in the reporting entity, because of the significance of its operational and/or financial relationship.

Blended Component Units – Blended component units are entities that are legally separate from the City, but are so related that they are, in substance, the same as the City, or entities providing services entirely or almost entirely for the benefit of the City. The following component unit is blended within the Fiduciary Funds of the primary government:

The Salem Contributory Retirement System (the System) was established to provide retirement benefits to City employees, the Salem Housing Authority employees, the South Essex Sewerage District employees, the Salem-Beverly Water Supply Board employees, the North Shore Regional Vocational School employees and their beneficiaries. The System is governed by a five-member board comprised of the Finance Director (ex-officio), two members elected by the System's participants, one member appointed by the Mayor and one member appointed by the other board members. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

The City is a member of the South Essex Sewerage District (the District), a joint venture with the Cities of Salem and Beverly and the Towns of Danvers and Marblehead, for the operation of a septage disposal facility. The members share in overseeing the operations of the District. Each member is responsible for its proportionate share of the operational costs of the District, which are paid in the form of assessments. As of June 30, 2008, the City's equity interest in the operations of the District totaled \$1,113,183, which is recorded in the Sewer Enterprise Fund. Complete financial statements for the District can be obtained by contacting them at 50 Fort Avenue, Salem, MA 01970.

The City is a member of the Salem-Beverly Water Supply Board (Water Board), a joint venture with the City of Beverly for the operation of a water distribution system. The City does not have an equity interest in the Salem-Beverly Water Supply Board. The annual assessment from the Water Board for the fiscal year ended June 30, 2008 totaled approximately \$2,141,000. Complete financial information for the Water Board can be obtained by contacting them at 50 Arlington Avenue, Beverly, MA 01915.

Availability of Financial Information for Component Units

The System did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 20 Central Street, Suite 110, Salem, Massachusetts 01970.

B. Government-Wide and Fund Financial Statements*Government-Wide Financial Statements*

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Internal service funds and fiduciary funds are reported by fund type.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation*Government-Wide Financial Statements*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. However, the effect of interfund services provided and used between functions is not eliminated as the elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they are collected within 60 days after fiscal year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The *stabilization fund* is a special revenue fund used to account for the accumulation of resources to be used for general and/or capital purposes upon approval of City Council.

The *school capital projects fund* is used to account for the ongoing construction and renovations of the City's school buildings.

The nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than permanent funds or capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Enterprise Funds).

The *permanent fund* is used to account for financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following major proprietary funds are reported:

The *sewer enterprise fund* is used to account for the sewer activities.

The *water enterprise fund* is used to account for the water activities.

The *golf course enterprise fund* is used to account for the golf course activities.

The *parking activities enterprise fund* is used to account for parking activities.

The *trash enterprise fund* is used to account for the solid waste disposal activities.

Additionally, the following proprietary fund type is reported:

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to retirees' health insurance.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting excluding Agency Funds. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The *pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

The *private-purpose trust fund* is used to account for trust arrangements that exclusively benefit individuals, private organizations, or other governments. Some of these trusts have donor restrictions and trustee policies that do not allow the endowment portion and any unrealized appreciation to be spent. The donor restrictions and trustee policies only allow the trustees to authorize spending of the realized investment earnings. The City's educational scholarships and housing subsidy trust funds are accounted for in this fund.

The *agency fund* is used to account for assets held in a purely custodial capacity. The City's agency funds consist primarily of payroll withholdings, and police and fire special detail accounts.

Government-Wide and Fund Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

D. Cash and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition.

Investments are carried at fair value. The fair values were determined by the closing price for those securities traded on national stock exchanges and at the average bid-and-asked quotation for those securities traded in the over-the-counter market. Mortgages are valued on the basis of future plan principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based upon independent appraisals. Investments that do not have an established market are reported at estimated fair values.

E. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

Real Estate, Personal Property Taxes, Tax Liens and Tax Foreclosures

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year of the levy.

The City has the ability to process real estate tax liens on delinquent properties. Tax liens are processed once a year following the first quarter of the following fiscal year. Liens are recorded as receivables in the fiscal year they are processed.

Real estate receivables which have been secured via the tax lien process are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Motor Vehicle and Other Excise Taxes

Motor vehicle excise taxes are assessed annually for each vehicle registered and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value. Boat excise taxes are assessed annually for each boat registered and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of boats registered and the fair value of those boats. The tax calculation is the fair value of the boat multiplied by \$10 per \$1,000 of value.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

User Fees

Water and Sewer user fees are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Unbilled user fees are estimated at year-end and are recorded as revenue in the current period. The City abides by a strict policy for unpaid fees resulting in the discontinuation of service also known as a "shut off" policy. The water department provides strict guidelines as to the process of discontinuation of service.

Trash user fees are levied monthly based on the number of units located on the property. The monthly per unit fee collected is \$30 for commercial and \$20 for residential. Collection from any one property shall not exceed \$100. Unpaid trash fees are subject to interest and demand fees; any fees not paid within thirty (30) days may be lien to the property in the following fiscal years' real estate bill.

Since the receivables are secured via either a shut off or lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Departmental and Other

Departmental and other receivables consist primarily of grant proceeds and fire detail fees and investment funds of the retirement system received after year end that are recorded as receivables in the fiscal year accrued. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Intergovernmental

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Loans

Loan receivables are comprised of funds advanced to small businesses and developers under various Urban Development Action Grants (UDAG) and Community Development Block Grants (CDBG). The City loans funds to owners of commercial and residential properties for the purpose of rehabilitating these properties. The City receives funding for these loans from the U.S Department of Housing and Urban Development (HUD) under Community Development Block Grant (CDBG) programs for the City. These loans are repaid to the City under various terms and conditions stipulated by each loan agreement. The loan repayments may be used by the City for any eligible activity relevant to the community development program.

F. Inventories***Government-Wide and Fund Financial Statements***

Inventories are recorded as expenditures at the time of purchase. Inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

G. Capital Assets***Government-Wide and Proprietary Fund Financial Statements***

Capital assets, which include land, land improvements, buildings and improvements, machinery and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$25,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year. This excludes vehicles, which will all be capitalized.

Capital assets (excluding land and construction in progress) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	20-30
Buildings and improvements.....	40
Equipment.....	5-10
Vehicles.....	5-15
Infrastructure.....	15-80

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

H. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net assets as "internal balances".

Fund Financial Statements

Transactions of a buyer/seller nature between and within funds are *not* eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

I. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

Government-Wide Financial Statements

Transfers between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

Fund Financial Statements

Transfers between and within funds are *not* eliminated from the individual fund statements and are reported as transfers in and transfers out.

J. Deferred Revenue

Deferred revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

K. Net Assets and Fund Equity

Government-Wide Financial Statements (Net Assets)

Net assets reported as "invested in capital assets, net of related debt" includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital assets. Outstanding debt related to future reimbursements from the state's school building program is not considered to be capital related debt.

Net assets are reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been “restricted for” the following:

“Loans” represents community development outstanding loan receivable balances which are funded through the Community Development Block Grant program. The loan repayments are subject to various restrictions which are imposed by the grantors.

“Permanent funds - expendable” represents the amount of realized and unrealized investment earnings of donor restricted trusts. The donor restrictions and trustee policies only allow the trustees to approve spending of the realized investment earnings that support governmental programs.

“Permanent funds - nonexpendable” represents the endowment portion of donor restricted trusts that support governmental programs.

“Grants and gifts” represents assets that have restrictions placed on them from outside parties.

Fund Financial Statements (Fund Balances)

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balance represent tentative management plans that are subject to change.

Fund balances have been “reserved for” the following:

“Encumbrances and continuing appropriations” represents amounts obligated under purchase orders, contracts and other commitments for expenditures that are being carried over to the ensuing fiscal year.

“Perpetual permanent funds” represents amounts held in trust for which only investment earnings may be expended.

L. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

M. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL). Investment income of the enterprise funds is voluntarily assigned to the general fund.

N. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures.

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

Governmental Fund Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities upon maturity of the liability.

O. Fund Deficits and Appropriation Deficits

Individual fund deficits exist at June 30, 2008 in the School Capital Projects Fund; and in the School Grants, School Lunch, and Highway Grants nonmajor governmental funds; and in the internal service fund. These deficits will be funded by grants, departmental revenues, long-term borrowing and available fund balance.

Massachusetts General Laws require that any operating deficit within the internal service fund be funded by a general fund transfer. In addition any deficit created by recording the incurred but not reported liability must be funded through general fund contributions or other available funds.

Actual expenditures exceeded appropriations for snow and ice removal and group insurance. These over-expenditures will be funded through available funds during fiscal year 2009. In the snow and ice removal appropriation line, the general law allows deficits to occur and to be raised in the subsequent fiscal year.

P. Use of Estimates

Government-Wide and Fund Financial Statements

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

Q. Total Column*Government-Wide Financial Statements*

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

NOTE 2 – CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "cash and cash equivalents". The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment 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 (the Pool). The Treasurer and Trust Fund Commission may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth; provided, that not more than fifteen percent of any trust fund may be invested in bank stocks and insurance company stocks, and not more than one and one-half percent of any trust fund can be invested in the stock of any one bank or insurance company.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

The System participates in the Pension Reserve Investment Trust (PRIT), which meets the criteria of an external investment pool. PRIT is administered by the Pension Reserves Investment Management Board, which was established by the Treasurer of the Commonwealth of Massachusetts who serves as Trustee. The fair value of the position in the PRIT is the same as the value of the PRIT shares.

The System also has expanded investment powers which are governed by Chapter 32 of the general laws of the Commonwealth and by the regulations issued by the Public Employee Retirement Administration Commission (PERAC). The existing law provides that Systems will invest in securities other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At fiscal year-end, the carrying amount of deposits totaled \$1,748,132 and the bank balance totaled \$6,074,861. Of the bank balance, \$503,293 was covered by Federal Depository Insurance, \$809,322 was covered by the Depositors Insurance Fund, and \$4,762,246 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The System does not have a deposit policy for custodial credit risk. At fiscal year-end, the carrying amount of deposits totaled \$2,406,276 and the bank balance totaled \$2,474,150. The entire bank balance was covered by Federal Depository Insurance.

Investments

As of June 30, 2008, the City had the following investments:

Investment Type	Fair Value	Maturity	
		Under 1 Year	1-5 Years
<u>Debt Securities:</u>			
Federal Farm Credit Bank.....	\$ 102,688	\$ -	\$ 102,688
Federal Home Loan Bank.....	105,438	-	105,438
Corporate Bonds.....	1,986,359	375,925	1,610,434
Repurchase Agreements.....	7,684,365	7,684,365	-
Total Debt Securities.....	9,878,850	\$ 8,060,290	\$ 1,818,560
<u>Other Investments:</u>			
Equity Securities.....	3,168,418		
Equity Mutual Funds.....	327,750		
Money Market Mutual Funds.....	653,316		
MMDT.....	6,055,481		
Total Investments.....	\$ 20,083,815		

As of December 31, 2007, the System had the following investments:

Investment Type	Fair Value	Maturity	
		Under 1 Year	Over 10 Years
<u>Debt Securities:</u>			
*Corporate Bonds.....	\$ 206,792	\$ -	\$ 206,792
Repurchase Agreements.....	4,552,554	4,552,554	-
Total Debt Securities.....	4,759,346	\$ 4,552,554	\$ 206,792
<u>Other Investments:</u>			
*Equity Securities.....	4,104		
*Equity Mutual Funds.....	7,076,220		
*Government Short-term Investment Fund...	68,070,170		
*Alternative Investment Mutual Funds.....	2,851,901		
*Real Estate Mutual Funds.....	1,684,088		
*Pension Reserve Investment Trust (PRIT)..<	10,540,611		
Total Investments.....	\$ 94,986,440		

*Subsequent to fiscal year end the System transferred the corporate bonds, equity securities, equity mutual funds and government short-term investment fund investments to PRIT. Since December 31, 2007, the market value of the System's investments have declined by approximately (\$20) million. Please refer to Note 3 for further information on this matter.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Of the City's investments, \$102,688 in Federal Farm Credit Bank securities, \$105,438 in Federal Home Loan Bank securities, \$1,986,359 in corporate bonds, and \$3,168,418 in equity securities are exposed to custodial credit risk because the related securities are uninsured, unregistered and are held by the counterparty. The investment in MMDT and money market mutual funds are not exposed to custodial credit risk because the existence is not evidenced by securities that exist in physical or book entry form. The \$7,684,365 repurchase agreement is invested in collateralized Federal Home Loan Mortgage Corporation government backed securities. The City does not have an investment policy related to custodial credit risk.

The System's investments are not subject to custodial credit risk as all of the securities are insured or registered, and held by its agents in the name of the Salem Retirement System.

Interest Rate Risk

Neither the City nor the System have formal investment policies limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The City has not adopted a formal policy related to Credit Risk. Moody's Investors Service rated \$176,251 of corporate bonds AAA; and \$1,810,108, A. The federal farm credit bank investment of \$102,688 and the federal home loan bank investment of \$105,438 are both A rated. The repurchase agreements, equity mutual fund, money market mutual funds and MMDT investments are unrated.

The System has not adopted a formal policy related to Credit Risk. Moody's Investors Service rated \$76,753 of corporate bonds AA, and \$130,039 of corporate bonds A. The repurchase agreement, equity mutual fund securities, alternate investment mutual funds, real estate mutual fund investments and PRIT are unrated.

Concentration of Credit Risk

The City places no limit on the amount the government may invest in any one issuer. Through the City's repurchase agreement, more than 5 percent of the City's investments are in the following securities:

<u>Issuer</u>	<u>Percentage of Total Investments</u>
Federal Home Loan Mortgage Corporation.....	38%

The retirement system places no limit on the amount the government may invest in any one issuer. The System did not have more than 5 percent of its investments in any one individual security.

NOTE 3 – SUBSEQUENT EVENT

The Retirement System carries its investments at fair (market) value in accordance with Generally Accepted Accounting Principles (GAAP). Market value adjustments are recorded monthly. Subsequent to fiscal year end the System's investments of \$90,433,886 has declined in value by approximately (\$20) million. The market value decline is consistent with recent trends in the overall financial securities markets.

In accordance with GAAP, the System has not recorded the losses in its financial statements as the impairments were not known as of December 31, 2007. The System has recorded the losses associated with the investment during calendar year 2008.

NOTE 4 – RECEIVABLES

At June 30, 2008, receivables for the individual major governmental funds, non-major governmental funds and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 616,214	\$ -	\$ 616,214
Tax liens.....	1,292,211	-	1,292,211
Motor vehicle and other excise taxes.....	957,106	(327,900)	629,206
Trash Fees.....	170	-	170
Departmental and other.....	496,446	-	496,446
Intergovernmental.....	36,184,389	-	36,184,389
Loans.....	662,524	-	662,524
Total.....	<u>\$ 40,209,060</u>	<u>\$ (327,900)</u>	<u>\$ 39,881,160</u>

At June 30, 2008, receivables for the water, sewer and trash enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water user fees.....	\$ 965,250	\$ -	\$ 965,250
Sewer user fees.....	1,724,799	-	1,724,799
Trash fees.....	128,310	-	128,310
Total.....	<u>\$ 2,818,359</u>	<u>\$ -</u>	<u>\$ 2,818,359</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

COMPONENTS OF DEFERRED REVENUE

	General Fund	Other Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 488,587	\$ -	\$ 488,587
Tax liens.....	1,292,211	-	1,292,211
Motor vehicle and other excise.....	629,206	-	629,206
Trash fees.....	170	-	170
Intergovernmental.....	32,783,069	1,805,374	34,588,443
Loans.....	-	662,524	662,524
Total.....	<u>\$ 35,193,243</u>	<u>\$ 2,467,898</u>	<u>\$ 37,661,141</u>

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 4,684,753	\$ -	\$ -	\$ 4,684,753
Construction in progress.....	39,648,226	11,560,104	-	51,208,330
Total capital assets not being depreciated..	44,332,979	11,560,104	-	55,893,083
<u>Capital assets being depreciated:</u>				
Land improvements.....	2,625,803	424,499	-	3,050,302
Buildings and improvements.....	109,830,207	240,991	-	110,071,198
Equipment.....	7,417,492	154,927	(159,005)	7,413,414
Infrastructure.....	51,559,905	195,774	-	51,755,679
Vehicles.....	6,102,824	354,472	(404,235)	6,053,061
Total capital assets being depreciated.....	177,536,231	1,370,663	(563,240)	178,343,654
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(1,362,941)	(101,351)	-	(1,464,292)
Buildings and improvements.....	(35,943,625)	(2,801,677)	-	(38,745,302)
Equipment.....	(3,189,501)	(512,735)	159,005	(3,543,231)
Infrastructure.....	(23,524,497)	(1,371,470)	-	(24,895,967)
Vehicles.....	(4,246,848)	(351,660)	404,235	(4,194,273)
Total accumulated depreciation.....	(68,267,412)	(5,138,893)	563,240	(72,843,065)
Total capital assets being depreciated, net.....	109,268,819	(3,768,230)	-	105,500,589
Total governmental activities capital assets.....	<u>\$ 153,601,798</u>	<u>\$ 7,791,874</u>	<u>\$ -</u>	<u>\$ 161,393,672</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Water Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 10,589	\$ -	\$ -	\$ 10,589
<u>Capital assets being depreciated:</u>				
Land improvements.....	114,550	-	-	114,550
Equipment.....	91,290	205,000	-	296,290
Vehicles.....	-	48,794	-	48,794
Infrastructure.....	13,625,454	777,833	-	14,403,287
Total capital assets being depreciated.....	13,831,294	1,031,627	-	14,862,921
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(31,503)	(5,726)	-	(37,229)
Equipment.....	(4,564)	(19,379)	-	(23,943)
Vehicles.....	-	(4,879)	-	(4,879)
Infrastructure.....	(5,810,029)	(182,904)	-	(5,992,933)
Total accumulated depreciation.....	(5,846,096)	(212,888)	-	(6,058,984)
Total capital assets being depreciated, net.....	7,985,198	818,739	-	8,803,937
Total water activities capital assets.....	\$ 7,995,787	\$ 818,739	\$ -	\$ 8,814,526
Sewer Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 99,552	\$ -	\$ -	\$ 99,552
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	5,425	-	-	5,425
Vehicles.....	125,488	48,794	-	174,282
Infrastructure.....	1,483,317	300,000	-	1,783,317
Total capital assets being depreciated.....	1,614,230	348,794	-	1,963,024
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(5,087)	(135)	-	(5,222)
Vehicles.....	(125,486)	(4,880)	-	(130,366)
Infrastructure.....	(1,056,879)	(18,766)	-	(1,075,645)
Total accumulated depreciation.....	(1,187,452)	(23,781)	-	(1,211,233)
Total capital assets being depreciated, net.....	426,778	325,013	-	751,791
Total sewer activities capital assets.....	\$ 526,330	\$ 325,013	\$ -	\$ 851,343

	Beginning Balance	Increases	Decreases	Ending Balance
Golf Course Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 118,067	\$ -	\$ -	\$ 118,067
<u>Capital assets being depreciated:</u>				
Land improvements.....	312,852	-	-	312,852
Buildings and improvements.....	453,988	-	-	453,988
Equipment.....	330,409	-	(46,153)	284,256
Total capital assets being depreciated.....	1,097,249	-	(46,153)	1,051,096
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(300,240)	(1,203)	-	(301,443)
Buildings and improvements.....	(96,488)	(11,000)	-	(107,488)
Equipment.....	(247,900)	(13,406)	46,153	(215,153)
Total accumulated depreciation.....	(644,628)	(25,609)	46,153	(624,084)
Total capital assets being depreciated, net.....	452,621	(25,609)	-	427,012
Total golf course activities capital assets.....	\$ 570,688	\$ (25,609)	\$ -	\$ 545,079
Parking Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 48,214	\$ -	\$ -	\$ 48,214
<u>Capital assets being depreciated:</u>				
Land improvements.....	1,338,366	-	-	1,338,366
Buildings and improvements.....	7,625,100	-	-	7,625,100
Equipment.....	5,100	-	-	5,100
Total capital assets being depreciated.....	8,968,566	-	-	8,968,566
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(74,353)	(33,500)	-	(107,853)
Buildings and improvements.....	(3,548,138)	(191,067)	-	(3,739,205)
Equipment.....	(4,335)	(510)	-	(4,845)
Total accumulated depreciation.....	(3,626,826)	(225,077)	-	(3,851,903)
Total capital assets being depreciated, net.....	5,341,740	(225,077)	-	5,116,663
Total parking activities capital assets.....	\$ 5,389,954	\$ (225,077)	\$ -	\$ 5,164,877

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

Governmental Activities:

General government.....	\$	339,160
Public safety.....		410,422
Education.....		2,721,843
Public works.....		1,496,066
Health and human services.....		2,233
Culture and recreation.....		169,169

Total depreciation expense - governmental activities..... \$ 5,138,893

Business-Type Activities:

Water.....	\$	212,888
Sewer.....		23,781
Golf Course.....		25,609
Parking.....		225,077

Total depreciation expense - business-type activities..... \$ 487,355

NOTE 6 – INTERFUND TRANSFERS AND BALANCES

Interfund transfers for the fiscal year ended June 30, 2008, are summarized as follows:

Transfers Out:	Transfers In:					Total
	General Fund	Stabilization Fund	Golf Course Enterprise Fund	Trash Enterprise Fund	Nonmajor Governmental Funds	
General Fund.....	\$ -	\$ 138,230	\$ 353,301	\$ 2,425,186	\$ 125,000	\$ 3,041,717 (1)
Nonmajor Governmental Funds.....	1,439,217	-	-	-	53,308	1,492,525 (2)
Parking Enterprise Fund.....	960,836	-	-	-	-	960,836 (3)
Golf Course Enterprise Fund.....	551,730	-	-	-	-	551,730 (4)
Sewer Enterprise Fund.....	659,642	-	-	-	-	659,642 (5)
Water Enterprise Fund.....	580,266	-	-	-	-	580,266 (6)
Total.....	\$ <u>4,191,691</u>	\$ <u>138,230</u>	\$ <u>353,301</u>	\$ <u>2,425,186</u>	\$ <u>178,308</u>	\$ <u>7,286,716</u>

(1) Transfer from general fund to stabilization fund and golf course enterprise fund to reimburse for amounts raised by taxation.

Transfer from general fund to trash enterprise for the City's subsidized portion.

(2) Transfer from the nonmajor funds to the general fund for their share of indirect costs and transfers within nonmajor funds.

(3) Transfer from parking enterprise fund to general fund for their share of indirect costs.

(4) Transfer from golf course enterprise fund to general fund for indirect costs.

(5) Transfer from sewer enterprise fund to general fund for indirect costs.

(6) Transfer from water enterprise fund to general fund for indirect costs.

The City's interfund balances at June 30, 2008 consisted of \$188,779 due from the internal service fund to the general fund, \$5,616 due from the trash enterprise to the general fund, and \$788,715 in balances within the nonmajor governmental funds all representing interfund borrowings for cash flow purposes.

NOTE 7 – CAPITAL & OPERATING LEASES

The City has entered into lease agreements as lessee for financing the acquisition of a fire truck, police cruiser, a snow plow, a school bus, and computer hardware and software. These lease agreements qualify as capital leases for accounting purposes and therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

<u>Asset:</u>	<u>Governmental Activities</u>
Machinery and equipment.....	\$ 2,396,497
Vehicles.....	809,347
Less: accumulated depreciation.....	<u>(1,221,334)</u>
Total.....	<u>\$ 1,984,510</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2008, were as follows:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2009.....	\$ 321,845
2010.....	246,506
2011.....	57,264
2012.....	57,264
2013.....	57,264
2014.....	<u>57,264</u>
Total minimum lease payments.....	797,407
Less: amounts representing interest.....	<u>(121,453)</u>
Present value of minimum lease payments.....	<u>\$ 675,954</u>

The City leases office space for the City Hall Annex under an operating lease that expires on February 28, 2011. The cost of the lease for the fiscal year ended June 30, 2008, totaled \$360,000, and is reported as a general government expenditure in the general fund.

The future minimum lease payments for the City's operating lease are as follows:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2009.....	\$ 360,000
2010.....	360,000
2011.....	<u>240,000</u>
Total.....	\$ <u><u>960,000</u></u>

NOTE 8 – SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

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

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and enterprise funds, respectively.

Details related to the short-term debt activity for the fiscal year ended June 30, 2008, are as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2007	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2008
BAN	School Construction.....	4.00%	10/23/07	\$ 114,367	\$ -	\$ 114,367	\$ -
BAN	School Construction.....	4.00%	10/23/07	3,033,969	-	3,033,969	-
BAN	School Construction.....	4.00%	10/23/07	<u>966,031</u>	<u>-</u>	<u>966,031</u>	<u>-</u>
	Sub-total governmental-type notes....			<u>4,114,367</u>	<u>-</u>	<u>4,114,367</u>	<u>-</u>
BAN	Water System.....	4.00%	10/23/07	<u>57,633</u>	<u>-</u>	<u>57,633</u>	<u>-</u>
	Total notes payable.....			<u>\$ 4,172,000</u>	<u>\$ -</u>	<u>\$ 4,172,000</u>	<u>\$ -</u>

NOTE 9 – LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the outstanding indebtedness at June 30, 2008, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2007	Issued	Redeemed	Outstanding at June 30, 2008
School Construction.....	5.13-5.75%	\$ 3,760,000	\$ -	\$ 2,730,000	\$ 1,030,000
School Construction.....	5.13-5.75%	835,000	-	95,000	740,000
HUD Section 108.....	9.00%	245,000	-	35,000	210,000
School Construction.....	4.50-6.75%	8,525,000	-	445,000	8,080,000
Swimming Pool.....	4.50-6.75%	200,000	-	40,000	160,000
School Construction.....	3.50-4.00%	2,100,000	-	545,000	1,555,000
School Construction.....	3.50-4.00%	3,230,000	-	677,000	2,553,000
Police Station.....	3.50-4.00%	1,465,000	-	293,000	1,172,000
School Construction.....	3.00-5.00%	15,185,000	-	680,000	14,505,000
School Construction.....	3.00-5.00%	8,195,000	-	370,000	7,825,000
School Construction.....	3.00-5.00%	1,235,000	-	75,000	1,160,000
School Construction.....	2.25-4.50%	2,890,000	-	510,000	2,380,000
School Construction.....	3.00-5.00%	1,695,000	-	95,000	1,600,000
School Construction.....	3.00-5.00%	515,000	-	30,000	485,000
School Construction.....	3.00-5.00%	6,885,633	-	-	6,885,633
Police Equipment.....	3.00-5.00%	658,864	-	-	658,864
Ferry Boat.....	3.00-5.00%	775,000	-	-	775,000
School Deficit Funding Loan.....	3.75%	-	1,000,000	-	1,000,000
School Long-term BAN.....	3.60%	-	2,930,000	-	2,930,000
Total Governmental bonds payable.....		\$ 58,394,497	\$ 3,930,000	\$ 6,620,000	\$ 55,704,497

Debt service requirements for principal and interest for Governmental bonds payable in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009.....	\$ 4,594,497	\$ 2,442,783	\$ 7,037,280
2010.....	8,315,000	2,084,002	10,399,002
2011.....	4,580,000	1,849,470	6,429,470
2012.....	4,125,000	1,653,541	5,778,541
2013.....	3,270,000	1,474,969	4,744,969
2014.....	3,445,000	1,328,362	4,773,362
2015.....	2,925,000	1,205,677	4,130,677
2016.....	2,985,000	1,080,058	4,065,058
2017.....	2,925,000	953,117	3,878,117
2018.....	3,050,000	821,850	3,871,850
2019.....	3,170,000	683,656	3,853,656
2020.....	3,295,000	527,197	3,822,197
2021.....	2,320,000	389,578	2,709,578
2022.....	2,345,000	288,878	2,633,878
2023.....	2,420,000	183,646	2,603,646
2024.....	460,000	72,982	532,982
2025.....	460,000	54,079	514,079
2026.....	340,000	35,062	375,062
2027.....	340,000	21,038	361,038
2028.....	340,000	7,013	347,013
Totals.....	\$ <u>55,704,497</u>	\$ <u>17,156,958</u>	\$ <u>72,861,455</u>

The Commonwealth has approved school construction assistance to the City. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding along with direct capital grants. During fiscal year 2008, \$17,324,905 of such assistance was received. Approximately \$42,481,000 will be received in future fiscal years. Of this amount, approximately \$8,779,000 represents reimbursement of long-term interest costs, and approximately \$33,702,000 represents reimbursement of approved construction costs. Accordingly, a \$33,702,000 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental fund financial statements. The net change in deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

The City received long-term loan proceeds from the Massachusetts Water Pollution Abatement Trust (MWPAT). MWPAT makes subsidized loans available to local governments to finance the costs of eligible water pollution abatement projects. The stated interest rate on the MWPAT loan is 2%, and the interest has been recorded at an implied rate of 4%.

During fiscal year 2008, the City issued \$1,000,000 in State Qualified Bonds, pursuant to Chapter 15 of the Acts of 2008, and Order Number 282 passed by the Salem City Council, and subsequently approved by the Mayor for the purpose of funding a deficit incurred by the City's school department. The legislation provides that the City can amortize any deficit borrowings over a period not to exceed 7 years. Subsequent to year end, on October 23, 2008, the City retired \$145,000 of the bonds outstanding, and reissued the remaining \$855,000 State Qualified Bonds at a rate of 3.6%, which will mature on October 24, 2009.

will mature on October 23, 2009 and has an interest rate of 3.6%. The new proceeds relate to equipment, school projects, water system, sewer system and other capital projects.

Bonds and Notes Payable Schedule – Golf Course Enterprise Fund

ENTERPRISE FUND

Project	Interest Rate (%)	Outstanding at June 30, 2007	Issued	Redeemed	Outstanding at June 30, 2008
Golf Course.....	4.50-6.75%	\$ 290,000	\$ -	\$ 30,000	\$ 260,000

Debt service requirements for principal and interest for the golf course enterprise fund bonds payable in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2009.....	\$ 30,000	\$ 11,938	\$ 41,938
2010.....	30,000	10,401	40,401
2011.....	30,000	9,036	39,036
2012.....	30,000	7,641	37,641
2013.....	30,000	6,216	36,216
2014.....	30,000	4,761	34,761
2015.....	30,000	3,276	33,276
2016.....	30,000	1,776	31,776
2017.....	20,000	513	20,513
Totals.....	\$ 260,000	\$ 55,558	\$ 315,558

Bonds and Notes Payable Schedule – Parking Enterprise Fund

PARKING ENTERPRISE FUND

Project	Interest Rate (%)	Outstanding at June 30, 2007	Issued	Redeemed	Outstanding at June 30, 2008
Parking Garage Repairs.....	3.00-5.00%	\$ 950,000	\$ -	\$ 75,000	\$ 875,000

Debt service requirements for principal and interest for the parking enterprise fund bonds payable in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009.....	\$ 75,000	\$ 34,738	\$ 109,738
2010.....	75,000	32,488	107,488
2011.....	75,000	30,238	105,238
2012.....	75,000	27,800	102,800
2013.....	75,000	25,250	100,250
2014.....	75,000	21,500	96,500
2015.....	75,000	17,750	92,750
2016.....	75,000	14,000	89,000
2017.....	75,000	11,000	86,000
2018.....	75,000	8,000	83,000
2019.....	75,000	5,000	80,000
2020.....	50,000	2,000	52,000
Total.....	\$ <u>875,000</u>	\$ <u>229,764</u>	\$ <u>1,104,764</u>

Bonds and Notes Payable Schedule – Water Enterprise Fund

WATER ENTERPRISE FUND

<u>Project</u>	<u>Interest Rate (%)</u>	<u>Outstanding at June 30, 2007</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2008</u>
Water Project - MWPAT.....	2.00%	\$ 2,330,656	\$ -	\$ 91,918	\$ 2,238,738
Water Project.....	3.75-5.00%	3,250,503	-	-	3,250,503
Water System Long-term BAN.....	3.60%	-	1,000,000	-	1,000,000

Debt service requirements for principal and interest for the water enterprise fund bonds payable in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009.....	\$ 268,333	\$ 247,603	\$ 515,936
2010.....	1,264,806	203,882	1,468,688
2011.....	266,822	157,615	424,437
2012.....	268,880	147,309	416,189
2013.....	270,978	136,961	407,939
2014.....	273,119	127,395	400,514
2015.....	275,303	118,611	393,914
2016.....	277,532	109,989	387,521
2017.....	279,805	101,322	381,127
2018.....	277,124	92,502	369,626
2019.....	279,490	83,735	363,225
2020.....	281,904	74,921	356,825
2021.....	284,367	66,059	350,426
2022.....	286,880	57,147	344,027
2023.....	289,443	48,184	337,627
2024.....	292,058	39,169	331,227
2025.....	294,726	30,001	324,727
2026.....	297,447	20,679	318,126
2027.....	300,224	11,302	311,526
2028.....	160,000	3,300	163,300
Total.....	\$ <u>6,489,241</u>	\$ <u>1,877,686</u>	\$ <u>8,366,927</u>

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2008, the City had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
School Construction.....	\$ 11,792,450
Water Systems Improvements.....	6,328,208
Capital Projects.....	12,985,000
School Defecit Bond.....	1,000,000
Refund GOB of 2000.....	<u>9,500,000</u>
Total.....	\$ <u>41,605,658</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2008, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Capital leases.....	\$ 779,906	\$ 394,779	\$ (498,731)	\$ 675,954	\$ 289,374
Long-term bonds and notes.....	58,394,497	3,930,000	(6,620,000)	55,704,497	4,594,497
Compensated absences.....	6,543,346	1,820,057	(1,383,000)	6,980,403	1,502,065
Workers' compensation.....	405,303	220,662	(85,950)	540,015	114,354
Total governmental activity long-term liabilities.....	<u>\$ 66,123,052</u>	<u>\$ 6,365,498</u>	<u>\$ (8,587,681)</u>	<u>\$ 63,900,869</u>	<u>\$ 6,500,290</u>
Business-Type Activities:					
Long-term bonds and notes.....	6,821,159	1,000,000	(196,918)	7,624,241	373,333
Compensated absences.....	123,000	34,000	(39,000)	118,000	52,110
Total business-type activity long-term liabilities.....	<u>\$ 6,944,159</u>	<u>\$ 1,034,000</u>	<u>\$ (235,918)</u>	<u>\$ 7,742,241</u>	<u>\$ 425,443</u>

Compensated absence and workers' compensation liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures, which consist of the general fund and the sewer, water, golf and parking enterprise funds.

NOTE 10 – RISK FINANCING

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. In addition, the City is self-insured for damages not covered by commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

The City is self-insured for Medex coverage for certain retirees which is accounted for in the City's internal service fund where revenues are recorded when earned and expenses are recorded when the liability is incurred. The City is also self-insured for its workers' compensation and unemployment compensation activities which are accounted for in the funds incurring the expenditures.

Medex

Medex claims are administered by a third party administrator and are funded on an as needed basis from the City's internal service fund. The estimate of Incurred But Not Reported (IBNR) claims is based on 1 month of the annual claims. At June 30, 2008, the City's estimated future liability for unreported claims is \$136,011. This liability is the best estimate based on available information.

Changes in the City's liability since July 1, 2006 when the City was fully self-insured for health insurance through June 30, 2008, when the City was self-insured for Medex coverage only, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claim Payments	Balance at Fiscal Year-End	Current Portion
Fiscal Year 2007..... \$	978,000	\$ 7,709,418	\$ (8,569,207)	\$ 118,211	\$ 118,211
Fiscal Year 2008.....	118,211	1,656,892	(1,639,092)	136,011	136,011

Workers' Compensation

Workers' compensation claims are administered by the City and are funded on a pay-as-you-go basis from annual appropriations. The estimated future workers' compensation liability is based on history and injury type. At June 30, 2008, the amount of the liability for workers' compensation claims totaled \$540,015.

Changes in the reported liability since July 1, 2006, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claim Payments	Balance at Fiscal Year-End	Current Portion
Fiscal Year 2007..... \$	430,092	\$ 224,682	\$ (249,471)	\$ 405,303	\$ 85,950
Fiscal Year 2008.....	405,303	397,088	(262,376)	540,015	114,354

NOTE 11 – PENSION PLAN

Plan Description - The City contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Salem Contributory Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$7,511,889 for the fiscal year ended June 30, 2008, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Salem Contributory Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at 20 Central Street, Salem, Massachusetts 01970.

At December 31, 2007, the System's membership consists of the following:

Active members.....	867
Inactive members.....	159
Retirees and beneficiaries currently receiving benefits.....	<u>625</u>
Total.....	<u><u>1,651</u></u>

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The City is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The current and two preceding fiscal years apportionment of the annual pension cost between the employers required the City to contribute 90% of the total. Chapter 32 of the MGL governs the contributions of plan members and the City.

Annual Pension Cost - The City's contributions to the System for the fiscal years ended June 30, 2008, 2007, and 2006, were \$7,693,291, \$7,209,359, and \$6,957,102, respectively, which equaled its required contribution for each fiscal year. At June 30, 2008, the City did not have a net pension obligation. The required contribution was determined as part of the January 1, 2008, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included an inflation rate of 3.5%, 8.25% investment rate of return and projected salary increases of 5.5% per year. The actuarial value of the System's assets was determined using the fair value of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining open amortization period at January 1, 2008 was 17 years.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/08	\$ 99,988,471	\$ 179,382,299	\$ 79,393,828	55.7%	\$ 34,410,002	230.7%
01/01/06	84,796,044	166,958,606	82,162,562	50.8%	32,824,144	250.3%
01/01/05	81,801,377	156,479,479	74,678,102	52.3%	31,328,083	238.4%
01/01/04	80,659,012	142,499,185	61,840,173	56.6%	29,355,291	210.7%
01/01/03	76,438,885	137,111,559	60,672,674	55.7%	31,089,195	195.2%
01/01/01	73,727,923	117,334,727	43,606,804	62.8%	29,072,197	150.0%
01/01/99	68,563,143	111,294,953	42,731,810	61.6%	25,411,629	168.2%

Funding progress is reported based on the biennial actuarial valuation performed by the System, and is being accumulated on a biennial basis. The City is responsible for approximately 90% of the unfunded liability.

Noncontributory Retirement Allowance – The City pays the entire retirement allowance for certain retirees who are eligible for noncontributory benefits and are not members of the System. The general fund expenditure for fiscal year 2008 totaled approximately \$130,113.

NOTE 12 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Fiscal year 2008 is the initial year that the City has implemented GASB Statement 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions (GASB 45). As allowed by GASB 45, the City has established the net OPEB obligation at zero at the beginning of the transition year and has applied the measurement and recognition requirements of GASB 45 on a prospective basis.

Plan Description – The City of Salem administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the City’s group health insurance plan, which covers both active and retired members. Chapter 32b of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the City and the unions representing City employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report. Additionally, retired teachers and their spouses receive health insurance through the Group Insurance Commission of the Commonwealth of Massachusetts (GIC). Each participating municipality is assessed for the governmental share of health and life insurance premiums paid on behalf of its teacher retirees by the state. The employer’s share is 90% of the total premium; the retiree’s co-payment is 10% of the total premium as well as full payment for catastrophic illness coverage. The City’s assessment of the employer’s share by the GIC, for retired teachers, for fiscal year 2008, totaled \$2,018,333.

Funding Policy – Contribution requirements are also negotiated between the City and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The City contributes 79% of the cost of current-year premiums for retirees in active plans and 65% for those in senior plans. The City contributes 50% for surviving spouses. The City will contribute 75% in fiscal year 2009, 70% in fiscal year 2010 and 65% in fiscal year 2011, for retirees in active plans. Plan members receiving benefits contribute the remainder of their premium costs. For fiscal year 2008, the City contributed \$1,424,941 to the plan, and total member contributions totaled \$716,396.

Annual OPEB Cost and Net OPEB Obligation – The City’s annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation are summarized in the following table:

Normal cost.....	\$ 4,473,713
Amortization of unfunded actuarial accrued liability.....	5,970,489
Adjustment for timing.....	110,478
Annual OPEB cost (expense).....	<u>10,554,680</u>
Contributions made (including retired teachers).....	<u>(3,443,274)</u>
Increase in net OPEB obligation.....	7,111,406
Net OPEB obligation--beginning of year.....	<u>-</u>
Net OPEB obligation--end of year.....	<u>\$ 7,111,406</u>

*Adjustment for timing assumes payment in the middle of the year.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2008 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2008	\$ 10,554,680	33%	\$ 7,111,406

Funded Status and Funding Progress – As of December 31, 2007, the most recent actuarial valuation date, the actuarial accrued liability for benefits totaled \$160 million, all of which was unfunded. The covered payroll was \$50,103,473 and the ratio of UAAL to covered payroll was 319.2%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2007, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 5 percent investment return assumption, which is based on the expected yield on the assets of the City, calculated based on the funded level of the plan at the valuation date, and an annual medical/drug cost trend rate of 10 percent initially, graded to 5 percent over 5 years. Both rates included a 4.0 percent inflation assumption. The UAAL is being amortized over a 30 year period, with amortization payments increasing at 4% per year.

NOTE 13 – MAJOR TAXPAYER

The City receives a significant portion of its real estate and personal property tax revenue from one taxpayer under a Real and Personal Property Tax Appeal Settlement Agreement (the Agreement). The Agreement was entered into in July 1997 and covers fiscal years 1997 through 2007. The City and the taxpayer agreed on a real and personal property tax assessment amount for fiscal years 1997 through 2004. For fiscal years 2005 through 2007, the City and the taxpayer agreed that a portion of the property would be assessed at fair market value as calculated by the City and that, in the absence of an agreement by the parties, the remaining property will be assessed at fair market value of the existing facilities as determined in binding arbitration, resulting in tax revenue not to exceed \$4.5 million in each fiscal year. The parties further agreed if additional facilities are constructed during this period, the total assessment would be based on the fair market value of the new facilities and existing facilities, resulting in a tax revenue not to exceed \$4.5 million plus 50% of any such taxes in excess of \$4.5 million resulting from the aggregate assessed valuation of any new facilities. On December 14, 2007, the City and the taxpayer signed an agreement stipulating that the taxpayer would make a tax payment for fiscal year 2008 in the

amount of \$3,500,000, 7% of total real estate and personal property tax revenue, and an additional agreement was signed stipulating that the taxpayer would make an additional contribution to the City of \$1,250,000, to be used exclusively for public purposes. Subsequent to year end, the City and the taxpayer have entered into a three-year agreement that mirrors the agreement signed in December 2007, which would provide total payments of \$4,750,000 in fiscal years 2009, 2010, and 2011, in the form of annual tax payments of \$3,000,000, and annual additional contributions of \$1,750,000.

NOTE 14 – COMMITMENTS

The City is in the process of completing school construction projects and improvements to its water system. The City has entered into or is planning to enter into contracts totaling approximately \$13,400,000, and \$6,600,000, respectively to complete these projects.

NOTE 15 – CONTINGENCIES

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2008, 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 it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. 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, 2008, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2008.

NOTE 16 – RESTATEMENT OF BEGINNING BALANCES

During fiscal year 2008, the City made identified adjustments to the beginning balance of accumulated depreciation. Accordingly, the capital assets of the Governmental Activities previously reported as \$157,019,282 have been restated to \$153,601,798. The capital assets of Enterprise Activities previously reported as \$14,665,096 have since been restated to \$14,482,759. In addition, compensated absences of the Governmental Activities were understated by approximately \$885 thousand and have been restated as of June 30, 2007.

NOTE 17 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2008, the following GASB pronouncements were implemented:

The GASB issued Statement #45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions. This pronouncement required additional disclosure and has impacted the basic financial statements.

The GASB issued Statement #50, Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27. The standards in this statement did not change the disclosure related to pensions.

The GASB issued Statement #53, Accounting and Financial Reporting for Derivative Instruments, which is required to be implemented in fiscal year 2010. The standards requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources

measurement focus and the accrual basis of accounting. Management elected to implement this standard early and this standard did not impact the basic financial statements.

The GASB issued Statement #52, *Land and Other Real Estate Held as Investments by Endowments*, which is required to be implemented in fiscal year 2009. The standards in this statement require all investments in land and real estate in permanent and similar funds to be reported at fair value. Management elected to implement this standard early and this standard did not impact the basic financial statements.

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Required Supplementary Information

General Fund Budgetary Comparison Schedule

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

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2008

	Budgeted Amounts							
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget	
REVENUES:								
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 64,742,428	\$ 64,742,428	\$ 63,806,437	\$ 63,298,226	\$ -	\$ (508,211)	
Tax liens.....	-	-	-	-	306,948	-	306,948	
Motor vehicle and other excise taxes.....	-	3,350,000	3,350,000	3,350,000	3,427,889	-	77,889	
Hotel/motel tax.....	-	315,000	315,000	315,000	373,655	-	58,655	
Charges for services.....	-	1,475,000	1,475,000	1,475,000	1,537,631	-	62,631	
Penalties and interest on taxes.....	-	275,000	275,000	275,000	353,952	-	78,952	
Payments in lieu of taxes.....	-	1,280,000	1,280,000	1,280,000	1,229,435	-	(50,565)	
Licenses and permits.....	-	525,000	525,000	525,000	510,120	-	(14,880)	
Fines and forfeitures.....	-	1,281,000	1,281,000	1,281,000	1,222,170	-	(58,830)	
Intergovernmental.....	-	29,494,319	29,494,319	29,494,319	29,689,049	-	194,730	
Departmental and other.....	-	3,400,000	3,400,000	3,400,000	3,251,717	-	(148,283)	
Investment income.....	-	200,000	200,000	200,000	355,841	-	155,841	
TOTAL REVENUES.....	-	106,337,747	106,337,747	105,401,756	105,556,633	-	154,877	
EXPENDITURES:								
Current:								
General government								
City Council								
Personnel.....	-	119,700	119,700	119,700	119,543	-	157	
Non - Personnel.....	-	30,850	30,850	30,850	28,130	2,642	78	
Total.....	-	150,550	150,550	150,550	147,673	2,642	235	
Mayor								
Personnel.....	-	235,220	235,220	235,540	235,537	-	3	
Non - Personnel.....	3,700	127,050	130,750	106,810	72,676	27,665	6,469	
Total.....	3,700	362,270	365,970	342,350	308,213	27,665	6,472	
Finance/Auditing								
Personnel.....	-	220,398	220,398	221,279	211,346	-	9,933	
Non - Personnel.....	1,000	27,600	28,600	33,900	24,061	9,608	231	
Total.....	1,000	247,998	248,998	255,179	235,407	9,608	10,164	
Purchasing								
Personnel.....	-	97,378	97,378	98,268	98,267	-	1	
Non - Personnel.....	-	18,700	18,700	20,691	15,577	-	5,114	
Fixed Costs.....	-	62,393	62,393	62,393	62,393	-	-	
Total.....	-	178,471	178,471	181,352	176,237	-	5,115	
Assessors								
Personnel.....	-	233,767	233,767	235,390	226,407	-	8,983	
Non - Personnel.....	-	34,000	34,000	34,000	27,677	-	6,323	
Total.....	-	267,767	267,767	269,390	254,084	-	15,306	
Treasurer								
Personnel.....	-	136,199	136,199	137,868	135,089	-	2,779	
Non - Personnel.....	8,800	53,550	62,350	62,350	60,520	1,580	250	
Total.....	8,800	189,749	198,549	200,218	195,609	1,580	3,029	
Collector								
Personnel.....	-	177,340	177,340	180,944	180,190	-	754	
Non - Personnel.....	-	17,625	17,625	16,525	15,938	-	587	
Total.....	-	194,965	194,965	197,469	196,128	-	1,341	
Solicitor								
Personnel.....	-	149,284	149,284	149,293	149,292	-	1	
Non - Personnel.....	-	91,000	91,000	90,991	72,949	-	18,042	
Total.....	-	240,284	240,284	240,284	222,241	-	18,043	

(continued)

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2008

	Budgeted Amounts				Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget			
Human Resources							
Personnel.....	-	394,926	394,926	394,926	369,532	-	25,394
Non - Personnel.....	-	49,650	49,650	49,650	36,803	4,822	8,025
Total.....	-	444,576	444,576	444,576	406,335	4,822	33,419
Data Processing							
Personnel.....	-	151,829	151,829	151,859	151,858	-	1
Non - Personnel.....	250	17,516	17,766	17,766	17,178	588	-
Fixed Costs.....	-	225,016	225,016	228,377	227,796	581	-
GIS Expenses.....	-	25,000	25,000	25,000	24,944	-	56
GIS Personal.....	-	31,320	31,320	27,929	27,929	-	-
Total.....	250	450,681	450,931	450,931	449,705	1,169	57
City Clerk Record Maintenance							
Personnel.....	-	154,829	154,829	155,710	155,016	-	694
Non - Personnel.....	-	6,550	6,550	6,550	6,482	-	68
Total.....	-	161,379	161,379	162,260	161,498	-	762
Elections & Registrations							
Personnel.....	-	172,420	172,420	175,063	174,611	-	452
Non - Personnel.....	-	51,850	51,850	51,850	45,799	5,673	378
Total.....	-	224,270	224,270	226,913	220,410	5,673	830
Licensing							
Personnel.....	-	46,808	46,808	47,689	41,291	2,000	4,398
Non - Personnel.....	-	1,540	1,540	1,540	1,395	-	145
Total.....	-	48,348	48,348	49,229	42,686	2,000	4,543
Conservation Commission							
Personnel.....	-	22,569	22,569	22,569	22,178	-	391
Non - Personnel.....	-	425	425	425	306	-	119
Total.....	-	22,994	22,994	22,994	22,484	-	510
Subdivision, Planning, and Zoning Board							
Personnel.....	-	23,439	23,439	22,899	22,135	-	764
Non - Personnel.....	-	3,500	3,500	3,500	2,528	-	972
Total.....	-	26,939	26,939	26,399	24,663	-	1,736
Board of Appeals							
Personnel.....	-	3,000	3,000	3,000	2,750	-	250
Non - Personnel.....	-	900	900	900	740	-	160
Total.....	-	3,900	3,900	3,900	3,490	-	410
Planning Department							
Personnel.....	-	184,193	184,193	184,733	184,731	-	2
Non - Personnel.....	-	32,275	32,275	32,275	31,415	-	860
Total.....	-	216,468	216,468	217,008	216,146	-	862
Public Property/Building Maintenance							
Personnel.....	-	44,061	44,061	44,993	43,781	-	1,212
Non - Personnel.....	-	129,660	129,660	158,660	148,887	-	9,773
Fixed Costs.....	-	508,500	508,500	525,200	518,170	-	7,030
Total.....	-	682,221	682,221	728,853	710,838	-	18,015
Market and Tourism.....	-	73,000	73,000	73,000	72,991	-	9
Total General Government.....	13,750	4,186,830	4,200,580	4,242,855	4,066,838	55,159	120,858

(continued)

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2008

	Budgeted Amounts				Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget			
Public safety							
Police							
Personnel.....	-	7,070,002	7,070,002	7,047,747	7,008,463	-	39,284
Non - Personnel.....	20,000	503,263	523,263	548,263	543,049	-	5,214
Total.....	20,000	7,573,265	7,593,265	7,596,010	7,551,512	-	44,498
Fire							
Personnel.....	-	6,049,696	6,049,696	6,055,498	6,020,742	-	34,756
Non - Personnel.....	-	406,407	406,407	406,407	391,073	-	15,334
Total.....	-	6,456,103	6,456,103	6,461,905	6,411,815	-	50,090
Building, Plumbing, Gas Inspections							
Personnel.....	-	306,638	306,638	315,737	307,956	-	7,781
Non - Personnel.....	-	15,000	15,000	3,000	2,213	-	787
Total.....	-	321,638	321,638	318,737	310,169	-	8,568
Electrical Inspection and Maintenance							
Personnel.....	-	252,935	252,935	274,375	274,374	-	1
Non - Personnel.....	-	664,032	664,032	652,394	647,470	-	4,924
Total.....	-	916,967	916,967	926,769	921,844	-	4,925
Harbormaster							
Personnel.....	-	204,332	204,332	204,332	202,459	-	1,873
Non - Personnel.....	-	39,300	39,300	40,300	37,598	-	2,702
Total.....	-	243,632	243,632	244,632	240,057	-	4,575
Total Public Safety.....	20,000	15,511,605	15,531,605	15,548,053	15,435,397	-	112,656
Education							
School.....	-	44,850,174	44,850,174	46,480,469	43,769,802	-	2,710,667
NSRS/Charter/Choice.....	-	1,656,821	1,656,821	1,608,768	1,608,768	-	-
Total Education.....	-	46,506,995	46,506,995	48,089,237	45,378,570	-	2,710,667
Public Works							
Public Services							
Personnel.....	-	1,437,494	1,437,494	1,429,193	1,382,817	-	46,376
Non - Personnel.....	14,430	540,077	554,507	650,586	568,113	40,938	41,535
Total.....	14,430	1,977,571	1,992,001	2,079,779	1,950,930	40,938	87,911
Engineering							
Personnel.....	-	76,225	76,225	76,225	75,834	-	391
Non - Personnel.....	-	13,100	13,100	13,100	10,842	-	2,258
Total.....	-	89,325	89,325	89,325	86,676	-	2,649
Snow and Ice							
Personnel.....	-	50,000	50,000	50,000	71,210	-	(21,210)
Non - Personnel.....	-	344,560	344,560	344,560	919,531	-	(574,971)
Total.....	-	394,560	394,560	394,560	990,741	-	(596,181)
Parking Garage							
Personnel.....	-	464,780	464,780	469,615	442,164	-	27,451
Non - Personnel.....	1,068	148,200	149,268	149,268	138,300	5,451	5,517
Total.....	1,068	612,980	614,048	618,883	580,464	5,451	32,968
Total Public Works.....	15,498	3,074,436	3,089,934	3,182,547	3,608,811	46,389	(472,653)

(continued)

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2008

	Budgeted Amounts				Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget			
Health and Human Services							
Board of Health							
Personnel.....	-	362,571	362,571	345,095	342,428	-	2,667
Non - Personnel.....	-	17,650	17,650	16,650	15,021	-	1,629
Total.....	-	380,221	380,221	361,745	357,449	-	4,296
Council on Aging							
Personnel.....	-	276,791	276,791	278,487	269,888	-	8,599
Non - Personnel.....	-	31,100	31,100	31,100	28,457	-	2,643
Total.....	-	307,891	307,891	309,587	298,345	-	11,242
Veterans Services							
Personnel.....	-	68,678	68,678	68,678	68,218	-	460
Non - Personnel.....	-	81,200	81,200	106,200	88,377	16,740	1,083
Total.....	-	149,878	149,878	174,878	156,595	16,740	1,543
Total Health and Human Services.....	-	837,990	837,990	846,210	812,389	16,740	17,081
Culture and Recreation							
Library							
Personnel.....	-	805,711	805,711	806,581	779,178	-	27,403
Non - Personnel.....	-	271,857	271,857	271,857	271,845	-	12
Total.....	-	1,077,568	1,077,568	1,078,438	1,051,023	-	27,415
Parks and Recreation							
Personnel.....	-	326,168	326,168	327,049	301,928	-	25,121
Non - Personnel.....	-	116,210	116,210	116,210	112,271	1,036	2,903
Total.....	-	442,378	442,378	443,259	414,199	1,036	28,024
Golf Course							
Personnel.....	-	223,040	223,040	224,786	213,101	-	11,685
Non - Personnel.....	20,383	94,850	115,233	124,233	114,097	2,554	7,582
Total.....	20,383	317,890	338,273	349,019	327,198	2,554	19,267
Witch House							
Personnel.....	-	74,066	74,066	74,066	64,875	-	9,191
Non - Personnel.....	-	63,280	63,280	63,280	56,480	1,514	5,286
Total.....	-	137,346	137,346	137,346	121,355	1,514	14,477
Historical Commission							
Personnel.....	-	6,958	6,958	6,958	6,871	-	87
Non - Personnel.....	-	1,609	1,609	1,609	494	-	1,115
Total.....	-	8,567	8,567	8,567	7,365	-	1,202
Winter Island							
Personnel.....	-	94,076	94,076	94,076	94,011	-	65
Non - Personnel.....	-	50,000	50,000	50,000	48,753	253	994
Total.....	-	144,076	144,076	144,076	142,764	253	1,059
Total Culture and Recreation.....	20,383	2,127,825	2,148,208	2,160,705	2,063,904	5,357	91,444
Debt service:							
Principal.....	-	4,405,000	4,405,000	4,405,000	4,405,000	-	-
Interest.....	-	2,166,422	2,166,422	2,067,335	2,067,334	-	1
Short Term Interest.....	-	578,933	578,933	578,933	571,312	7,600	21
Total.....	-	7,150,355	7,150,355	7,051,268	7,043,646	7,600	22
State and county charges.....	-	6,214,013	6,214,013	6,133,053	5,933,670	-	199,383
Pension benefits							
Contributory Retirement.....	-	7,521,529	7,521,529	7,539,074	7,538,983	-	91
Non-Contributory Retirement.....	-	143,047	143,047	130,147	130,113	-	34
Total.....	-	7,664,576	7,664,576	7,669,221	7,669,096	-	125

(continued)

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2008

	Budgeted Amounts				Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget			
Workmen's Compensation.....	-	305,000	305,000	305,000	262,376	41,000	1,624
Unemployment Compensation.....	-	260,000	260,000	195,000	182,155	12,000	845
Group Insurance.....	-	10,275,797	10,275,797	10,370,502	10,436,039	-	(65,537)
Medicare.....	-	655,000	655,000	690,840	689,517	-	1,323
Municipal Insurance.....	-	326,300	326,300	326,300	289,937	36,363	-
TOTAL EXPENDITURES.....	69,631	105,096,722	105,166,353	106,810,791	103,872,345	220,608	2,717,838
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(69,631)	1,241,025	1,171,394	(1,409,035)	1,684,288	(220,608)	2,872,715
OTHER FINANCING SOURCES (USES):							
Premium from issuance of bonds.....	-	80,917	80,917	80,917	84,840	-	3,923
Transfers in.....	-	1,239,908	1,239,908	3,221,219	3,230,855	-	9,636
Transfers out.....	-	(2,550,186)	(2,550,186)	(2,688,416)	(2,688,416)	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	-	(1,229,361)	(1,229,361)	613,720	627,279	-	13,559
NET CHANGE IN FUND BALANCE.....	(69,631)	11,664	(57,967)	(795,315)	2,311,567	(220,608)	2,886,274
BUDGETARY FUND BALANCE, Beginning of year.	(645,934)	(645,934)	(645,934)	(645,934)	(645,934)	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ (715,565)	\$ (634,270)	\$ (703,901)	\$ (1,441,249)	\$ 1,665,633	\$ (220,608)	\$ 2,886,274

(concluded)

See notes to required supplementary information.

Other Post-Employment Benefit Plan Schedules

The Schedule of Funding Progress compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

OTHER POST-EMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS

JUNE 30, 2008

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
12/31/2007	\$ -	\$ 159,945,511	\$ 159,945,511	0%	\$ 50,103,473	319.2%

The City implemented GASB Statement No. 45 for the fiscal year ended June 30, 2008.
Information for prior years is not available.

See notes to required supplementary information.

OTHER POST-EMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

FISCAL YEAR ENDED JUNE 30, 2008

Actuarial Methods:

Valuation date	December 31, 2007
Actuarial cost method	Projected Unit Credit
Amortization method	Amortization payments increasing at 4.0%
Remaining amortization period	30 years as of July 1, 2007

Actuarial Assumptions:

Investment rate of return	5.0%, pay-as-you-go scenario
Medical/drug cost trend rate	10.0% graded to 5.0% over 5 years

Plan Membership:

Current retirees, beneficiaries, and dependents	928
Current active members	<u>919</u>
Total	<u><u>1,847</u></u>

See notes to required supplementary information.

NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**1. Budgetary Information**

Within 170 days after the annual organization of the City government (which is ordinarily in early January), the Mayor is required to submit a budget of proposed expenditures for the fiscal year beginning on the next July 1. The City Council may make appropriations for the recommended purposes and may reduce or reject any item. Without a recommendation of the Mayor, the Council may not make any appropriation for a purpose not included in the proposed budget, except by a two-thirds vote in the case of the failure of the Mayor to recommend an appropriation for such a purpose within 7 days after a request from the Council. The Council may not increase any item without the recommendation of the Mayor (except as provided by legislation, recommendation of the school committee or regional district school committee and by two-thirds vote of the Council, provided that such increase does not cause the total annual budget to exceed the property tax limitations). If the Council fails to act on any item of the proposed budget within 45 days, that item takes effect.

City department heads are generally required to submit their budget requests to the Mayor between January 1, March 1, and December 1. This does not apply to the school department, which must submit its request in time for the Mayor to include them in the submission to the council.

If the Mayor does not make a timely budget submission, provision is made for preparation of a budget by the Council. Provision is also made for supplementary appropriations upon recommendation of the Mayor. Water and sewer department expenditures are included in the budgets adopted by City Council.

Under recent legislation, the City Council on the recommendation of the Mayor may transfer within the last 2 months of the fiscal year, any amount appropriated for the use of any department to the appropriation for any other department, provided that no such transfer may be made from any appropriation for a school department, regional school district, or municipal light department.

The majority of appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year. These carry forwards are included as part of the subsequent fiscal year's original budget.

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by two-thirds majority vote of the City Council.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2008 approved budget authorized approximately \$107.6 million in appropriations and other amounts to be raised. During the fiscal year, increases to the original budget were approved totaling approximately \$1.8 million.

The Finance Department has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

2. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A

reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2008, is presented below:

Net change in fund balance - budgetary basis.....	\$ 2,311,567
<u>Basis of accounting differences:</u>	
Net change in revenues in recording tax refunds payable.....	78,488
Net change in short-term debt service interest accrual.....	5,496
Recognition of revenue for on-behalf payments.....	7,511,889
Recognition of expenditures for on-behalf payments.....	(7,511,889)
Reclassification of enterprise fund revenue budgeted in the general fund.....	2,004,333
Reclassification of enterprise fund expenditures budgeted in the general fund...	(2,004,333)
Net difference in recognition of expenditures.....	<u>157,118</u>
Net change in fund balances - GAAP basis.....	\$ <u><u>2,552,669</u></u>

3. Appropriation Deficits

During fiscal year 2008, expenditures exceeded budgeted appropriations for snow and ice and group insurance. These deficits will be funded through the tax levy in fiscal year 2009.

NOTE B - OTHER POST-EMPLOYMENT BENEFITS

The City administers a single-employer defined benefit healthcare plan ("The Retiree Health Plan"). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the City's group health insurance plan, which covers both active and retired members. Additionally, retired teachers and their spouses receive health insurance through the Group Insurance Commission of the Commonwealth of Massachusetts (GIC). Each participating municipality is assessed for the governmental share of health and life insurance premiums paid on behalf of its teacher retirees by the state.

The City currently finances its other post-employment benefits (OPEB) on a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0%. In accordance with Governmental Accounting Standards, the City has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets. Since this is the City's initial year of implementation of GASB Statement 45, information for prior years is not available.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

Combining Statements

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

City Grants Fund – This fund is used to account for non-school related activity specifically financed by federal, state, and other grants which are designated for specific programs.

School Grants Fund – This fund is used to account for the educational programs specifically financed by federal, state, and other grants which are designated for specific programs.

Community Development Grants Fund – This fund is used to account for community development activity specifically financed by federal, state, and other grants which are designated for specific programs.

School Lunch Fund – This fund is used to account for all cafeteria activities and is funded by user charges, federal and state grants and commodities received.

Highway Grants Fund – This fund is used to account for construction, reconstruction and improvements to roadways, streets and sidewalks. Funding is provided primarily by grants.

Donations & Gifts Fund – This fund is used to account for gifts which have been accepted by the City to be used for the purpose specified by the donor.

Receipts Reserved Fund – This fund is used to account for receipts reserved for appropriation.

City Revolving Accounts Fund – This fund is used to account for non school related revolving funds specifically allowed by the laws of the Commonwealth of Massachusetts. These funds are expended for purposes specified by the enabling statute.

School Revolving Accounts Fund – This fund is used to account for school related revolving funds specifically allowed by the laws of the Commonwealth of Massachusetts. These funds are expended for purposes specified by the enabling statutes.

Capital Project Funds

Police Station Equipment Fund – This fund is used to account for the purchase of equipment for the Police Station which is being financed through the issuance of capital leases.

Salem Ferry – This fund is used to account for the purchase of the Salem Ferry, a high-speed catamaran purchased by the City to provide seasonal ferry service between Salem and Boston.

Telephone System – This fund is used to account for the purchase of a new telephone system for the City.

Permanent Funds

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support governmental programs.

Cemetery Funds – This fund is used to account for cemetery perpetual care contributions and expenditures.

Human Service Funds – This fund is used to account for various contributions associated with human service activities.

Other Funds – This fund is used to account for various contributions associated with governmental programs.

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2008

	Special Revenue Funds						
	City Grants	School Grants	Community Development Grants	School Lunch	Highway Grants	Donations & Gifts	Receipts Reserved
ASSETS							
Cash and cash equivalents.....	\$ 528,968	\$ -	\$ 180,674	\$ -	\$ -	\$ 498,842	\$ 341,290
Investments.....	-	-	-	-	-	-	-
Receivables, net of uncollectibles:							
Departmental and other.....	-	-	-	21,217	-	-	-
Intergovernmental.....	-	-	-	68,145	1,805,374	-	-
Loans.....	-	-	-	-	-	-	-
Due from other funds.....	788,715	-	-	-	-	-	-
TOTAL ASSETS.....	\$ 1,317,683	\$ -	\$ 180,674	\$ 89,362	\$ 1,805,374	\$ 498,842	\$ 341,290
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Warrants payable.....	\$ 199,567	\$ -	\$ -	\$ -	\$ 16,499	\$ -	\$ -
Accrued payroll.....	35,959	88,181	8,548	17,962	-	2,301	-
Deferred revenues.....	-	-	-	-	1,805,374	-	-
Due to other funds.....	-	265,281	-	486,777	36,657	-	-
TOTAL LIABILITIES.....	235,526	353,462	8,548	504,739	1,858,530	2,301	-
FUND BALANCES:							
Reserved for:							
Perpetual permanent funds.....	-	-	-	-	-	-	-
Unreserved:							
Undesignated, reported in:							
Special revenue funds.....	1,082,157	(353,462)	172,126	(415,377)	(53,156)	496,541	341,290
Capital projects funds.....	-	-	-	-	-	-	-
Permanent funds.....	-	-	-	-	-	-	-
TOTAL FUND BALANCES.....	1,082,157	(353,462)	172,126	(415,377)	(53,156)	496,541	341,290
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 1,317,683	\$ -	\$ 180,674	\$ 89,362	\$ 1,805,374	\$ 498,842	\$ 341,290

(Continued)

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

JUNE 30, 2008

	Special Revenue Funds			Capital Project Funds		
	City Revolving Accounts	School Revolving Accounts	Subtotal	Police Station Equipment	Salem Ferry	Subtotal
ASSETS						
Cash and cash equivalents.....	\$ 1,669,457	\$ 199,494	\$ 3,418,725	\$ 38,615	\$ 38,086	\$ 76,701
Investments.....	-	-	-	-	-	-
Receivables, net of uncollectibles:						
Departmental and other.....	-	-	21,217	-	-	-
Intergovernmental.....	-	-	1,873,519	-	-	-
Loans.....	662,524	-	662,524	-	-	-
Due from other funds.....	-	-	788,715	-	-	-
TOTAL ASSETS.....	\$ 2,331,981	\$ 199,494	\$ 6,764,700	\$ 38,615	\$ 38,086	\$ 76,701
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Warrants payable.....	\$ 14,798	\$ -	\$ 230,864	\$ -	\$ -	\$ -
Accrued payroll.....	1,009	3,887	157,847	-	-	-
Deferred revenues.....	662,524	-	2,467,898	-	-	-
Due to other funds.....	-	-	788,715	-	-	-
TOTAL LIABILITIES.....	678,331	3,887	3,645,324	-	-	-
FUND BALANCES:						
Reserved for:						
Perpetual permanent funds.....	-	-	-	-	-	-
Unreserved:						
Undesignated, reported in:						
Special revenue funds.....	1,653,650	195,607	3,119,376	-	-	-
Capital projects funds.....	-	-	-	38,615	38,086	76,701
Permanent funds.....	-	-	-	-	-	-
TOTAL FUND BALANCES.....	1,653,650	195,607	3,119,376	38,615	38,086	76,701
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 2,331,981	\$ 199,494	\$ 6,764,700	\$ 38,615	\$ 38,086	\$ 76,701

(Continued)

Permanent Funds				Total Nonmajor Governmental Funds
Cemetery Funds	Human Service Funds	Other	Subtotal	
\$ 290,956	\$ 138,756	\$ 254,603	\$ 684,315	\$ 4,179,741
2,340,040	1,208,625	709,129	4,257,794	4,257,794
-	-	-	-	21,217
-	-	-	-	1,873,519
-	-	-	-	662,524
-	-	-	-	788,715
<u>\$ 2,630,996</u>	<u>\$ 1,347,381</u>	<u>\$ 963,732</u>	<u>\$ 4,942,109</u>	<u>\$ 11,783,510</u>
\$ -	\$ -	\$ -	\$ -	230,864
-	-	-	-	157,847
-	-	-	-	2,467,898
-	-	-	-	788,715
-	-	-	-	3,645,324
961,509	221,174	467,914	1,650,597	1,650,597
-	-	-	-	3,119,376
-	-	-	-	76,701
<u>1,669,487</u>	<u>1,126,207</u>	<u>495,818</u>	<u>3,291,512</u>	<u>3,291,512</u>
<u>2,630,996</u>	<u>1,347,381</u>	<u>963,732</u>	<u>4,942,109</u>	<u>8,138,186</u>
<u>\$ 2,630,996</u>	<u>\$ 1,347,381</u>	<u>\$ 963,732</u>	<u>\$ 4,942,109</u>	<u>\$ 11,783,510</u>

(Concluded)

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2008

	Special Revenue Funds						
	City Grants	School Grants	Community Development Grants	School Lunch	Highway Grants	Donations & Gifts	Receipts Reserved
REVENUES:							
Charges for services.....	\$ 3,613	\$ 7,180	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental.....	4,838,569	7,414,770	1,641,728	1,519,632	120,637	-	-
Departmental and other.....	209,547	62,431	56,070	18,600	-	-	415,032
Contributions.....	3,252	130,769	-	-	-	230,700	-
Investment income (loss).....	3,068	-	2,767	-	-	-	-
TOTAL REVENUES.....	5,058,049	7,615,150	1,700,565	1,538,232	120,637	230,700	415,032
EXPENDITURES:							
Current:							
General government.....	331,693	-	-	-	-	96,968	75,796
Public safety.....	527,052	-	-	-	-	49,575	-
Education.....	-	6,843,517	-	1,529,722	-	8,435	-
Public works.....	142,054	-	-	-	159,213	18,514	-
Community development.....	-	-	1,485,453	-	-	-	-
Human services.....	4,369,665	-	-	-	-	24,424	-
Culture and recreation.....	197,922	-	169,945	-	-	15,359	-
Debt service:							
Principal.....	-	2,285,000	35,000	-	-	-	-
Interest.....	-	99,087	11,519	-	-	-	-
TOTAL EXPENDITURES.....	5,568,386	9,227,604	1,701,917	1,529,722	159,213	213,275	75,796
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(510,337)	(1,612,454)	(1,352)	8,510	(38,576)	17,425	339,236
OTHER FINANCING SOURCES (USES):							
Proceeds from bonds and notes.....	1,000,000	-	-	-	-	-	-
Transfers in.....	153,376	787	7,130	-	-	-	-
Transfers out.....	(1,035,697)	(9,971)	-	-	-	-	(429,056)
TOTAL OTHER FINANCING SOURCES (USES).....	117,679	(9,184)	7,130	-	-	-	(429,056)
NET CHANGE IN FUND BALANCES.....	(392,658)	(1,621,638)	5,778	8,510	(38,576)	17,425	(89,820)
FUND BALANCES AT BEGINNING OF YEAR.....	1,474,815	1,268,176	166,348	(423,887)	(14,580)	479,116	431,110
FUND BALANCES AT END OF YEAR.....	\$ 1,082,157	\$ (353,462)	\$ 172,126	\$ (415,377)	\$ (53,156)	\$ 496,541	\$ 341,290

(Continued)

Special Revenue Funds			Capital Project Funds		
City Revolving Accounts	School Revolving Accounts	Subtotal	Police Station Equipment	Salem Ferry	Subtotal
\$ 33,700	\$ -	\$ 44,493	\$ -	\$ -	\$ -
65,000	-	15,600,336	-	-	-
410,237	909,707	2,081,624	-	-	-
1,200	53,472	419,393	-	-	-
47,654	3,741	57,230	-	-	-
557,791	966,920	18,203,076	-	-	-
84,280	-	588,737	-	-	-
-	-	576,627	36,671	-	36,671
-	840,099	9,221,773	-	-	-
70,985	-	390,766	-	-	-
81,928	-	1,567,381	-	-	-
-	-	4,394,089	-	-	-
205,434	-	588,660	-	-	-
-	-	2,320,000	-	-	-
-	-	110,606	-	-	-
442,627	840,099	19,758,639	36,671	-	36,671
115,164	126,821	(1,555,563)	(36,671)	-	(36,671)
-	-	1,000,000	-	-	-
-	17,015	178,308	-	-	-
-	(17,801)	(1,492,525)	-	-	-
-	(786)	(314,217)	-	-	-
115,164	126,035	(1,869,780)	(36,671)	-	(36,671)
1,538,486	69,572	4,989,156	75,286	38,086	113,372
\$ 1,653,650	\$ 195,607	\$ 3,119,376	\$ 38,615	\$ 38,086	\$ 76,701

(Continued)

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2008

	Permanent Funds				Total Nonmajor Governmental Funds
	Cemetery Funds	Human Service Funds	Other	Subtotal	
REVENUES:					
Charges for services.....	\$ -	\$ -	\$ -	\$ -	\$ 44,493
Intergovernmental.....	-	-	2,218	2,218	15,602,554
Departmental and other.....	-	-	6,128	6,128	2,087,752
Contributions.....	17,000	-	383,338	400,338	819,731
Investment income (loss).....	19,945	(19,635)	26,467	26,777	84,007
TOTAL REVENUES.....	36,945	(19,635)	418,151	435,461	18,638,537
EXPENDITURES:					
Current:					
General government.....	-	-	-	-	588,737
Public safety.....	-	-	8,672	8,672	621,970
Education.....	-	-	385,252	385,252	9,607,025
Public works.....	129,852	-	55,267	185,119	575,885
Community development.....	-	-	-	-	1,567,381
Human services.....	-	99,966	-	99,966	4,494,055
Culture and recreation.....	-	-	-	-	588,660
Debt service:					
Principal.....	-	-	-	-	2,320,000
Interest.....	-	-	-	-	110,606
TOTAL EXPENDITURES.....	129,852	99,966	449,191	679,009	20,474,319
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(92,907)	(119,601)	(31,040)	(243,548)	(1,835,782)
OTHER FINANCING SOURCES (USES):					
Proceeds from bonds and notes.....	-	-	-	-	1,000,000
Transfers in.....	-	-	-	-	178,308
Transfers out.....	-	-	-	-	(1,492,525)
TOTAL OTHER FINANCING SOURCES (USES).....	-	-	-	-	(314,217)
NET CHANGE IN FUND BALANCES.....	(92,907)	(119,601)	(31,040)	(243,548)	(2,149,999)
FUND BALANCES AT BEGINNING OF YEAR.....	2,723,903	1,466,982	994,772	5,185,657	10,288,185
FUND BALANCES AT END OF YEAR.....	\$ 2,630,996	\$ 1,347,381	\$ 963,732	\$ 4,942,109	\$ 8,138,186

(Concluded)

Private Purpose Trust Funds

Trust Fund Commissioners – This fund is used to account for trusts held by the City to benefit individuals and administered by the City's Board of Trust Fund Commissioners..

Scholarship Funds – This fund is used to account for scholarships held by the City to benefit individuals.

PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF PRIVATE PURPOSE TRUST FUNDS NET ASSETS

JUNE 30, 2008

		Private Purpose Trust Funds		
		Trust Fund Commissioners	Scholarship Funds	Total
ASSETS				
Cash and cash equivalents.....	\$	17,084	\$ 94,353	\$ 111,437
Investments.....		1,432,859	-	1,432,859
TOTAL ASSETS.....		1,449,943	94,353	1,544,296
NET ASSETS				
Held in trust for other purposes.....	\$	1,449,943	\$ 94,353	\$ 1,544,296

PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN PRIVATE PURPOSE TRUST FUNDS NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2008

	Private Purpose Trust Funds		
	Trust Fund Commissioners	Scholarship Funds	Total
ADDITIONS:			
Contributions:			
Private donations.....	\$ 1,930	\$ 14,950	\$ 16,880
Net investment income (loss):			
Net change in fair value of investments.....	(22,177)	-	(22,177)
Interest.....	177	2,800	2,977
TOTAL ADDITIONS.....	(20,070)	17,750	(2,320)
DEDUCTIONS:			
Educational scholarships.....	13,836	900	14,736
Housing subsidies.....	39,834	-	39,834
TOTAL DEDUCTIONS.....	53,670	900	54,570
CHANGE IN NET ASSETS.....	(73,740)	16,850	(56,890)
NET ASSETS AT BEGINNING OF YEAR.....	1,523,683	77,503	1,601,186
NET ASSETS AT END OF YEAR.....	\$ 1,449,943	\$ 94,353	\$ 1,544,296

Agency Fund

This fund is used primarily to account for payroll withholdings, police and fire details, and unclaimed property.

AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FISCAL YEAR ENDED JUNE 30, 2008

	Beginning of Year		Additions		Deletions		End of Year
ASSETS							
CURRENT:							
Cash and cash equivalents.....	\$ 404,548	\$	6,030,389	\$	(5,710,063)	\$	724,874
Receivables, net of allowance for uncollectibles:							
Departmental and other.....	21,851		34,681		(21,851)		34,681
TOTAL ASSETS.....	\$ 426,399	\$	6,065,070	\$	(5,731,914)	\$	759,555
LIABILITIES							
Warrants payable.....	\$ 36,409	\$	44,661	\$	(36,407)	\$	44,663
Liabilities due depositors.....	389,990		6,020,409		(5,695,507)		714,892
TOTAL LIABILITIES.....	\$ 426,399	\$	6,065,070	\$	(5,731,914)	\$	759,555

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Statistical Section



Winter Island

During the 1930's, the United States Coast Guard created a Search & Rescue Base here on Winter Island Park. The Frigate USS Essex was built and launched in 1799 from this location. It served General George Washington in the U.S. Navy. The three bunkers located in historic Fort Pickering once stored ammunition as early as the Civil War. Winter Island had Salem's first tavern and first shipyard. A fort was erected as early as 1643. In 1867, the War department "turned over" to the City "for public use" the part of the island not occupied by the fort. On December 28, 1928, Salem's Park Department took formal possession of the island. The fort was renamed Fort Pickering, after Colonel Timothy Pickering, Secretary of State and War in Washington's Cabinet.

Winter Island is located at 50 Winter Island Road in Salem, Massachusetts. It offers RV and Tent Camping May 1 to Nov 1, a public boat ramp that is open year round, a public beach with lifeguards, seasonal dinghy rack spaces, and a camp and gift store. Picnic areas can be rented May 1 through Nov 1. Winter Island offers a walking tour where you can see the historic Fort Pickering Lighthouse and is a stop along the Salem Trolley Tour. A function hall is available for year round rentals and is a great place for weddings and more! Go to www.salem.com Recreation Department for more information.

Statistical Section

This part of the comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Financial Trends

- These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity

- These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

Debt Capacity

- These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information

- These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information

- These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

SOURCES: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information beginning in that year.

Net Assets By Component

Last Seven Fiscal Years

		Fiscal Year						
		2002	2003	2004	2005	2006	2007	2008
Governmental activities								
Invested in capital assets, net of related debt.....	\$	82,253,876	\$ 83,045,604	\$ 79,729,492	\$ 112,740,510	\$ 109,183,737	\$ 132,787,853	\$ 139,683,360
Restricted.....		5,755,817	5,237,908	8,759,761	9,734,998	8,649,700	8,868,048	6,948,839
Unrestricted.....		<u>4,546,625</u>	<u>9,656,396</u>	<u>6,519,783</u>	<u>(3,667,364)</u>	<u>(371,947)</u>	<u>(2,189,821)</u>	<u>(6,668,493)</u>
Total governmental activities net assets.....	\$	<u>92,556,318</u>	<u>\$ 97,939,908</u>	<u>\$ 95,009,036</u>	<u>\$ 118,808,144</u>	<u>\$ 117,461,490</u>	<u>\$ 139,466,080</u>	<u>\$ 139,963,706</u>
Business-type activities								
Invested in capital assets, net of related debt.....		8,782,331	8,319,902	8,147,378	9,212,891	9,018,231	9,138,929	8,836,475
Unrestricted.....		<u>7,754,552</u>	<u>6,649,222</u>	<u>7,538,395</u>	<u>4,492,692</u>	<u>4,722,252</u>	<u>5,609,406</u>	<u>5,647,967</u>
Total business-type activities net assets.....	\$	<u>16,536,883</u>	<u>\$ 14,969,124</u>	<u>\$ 15,685,773</u>	<u>\$ 13,705,583</u>	<u>\$ 13,740,483</u>	<u>\$ 14,748,335</u>	<u>\$ 14,484,442</u>
Primary government								
Invested in capital assets, net of related debt.....		91,036,207	91,365,506	87,876,870	121,953,401	118,201,968	141,926,782	148,519,835
Restricted.....		5,755,817	5,237,908	8,759,761	9,734,998	8,649,700	8,868,048	6,948,839
Unrestricted.....		<u>12,301,177</u>	<u>16,305,618</u>	<u>14,058,178</u>	<u>825,328</u>	<u>4,350,305</u>	<u>3,419,585</u>	<u>(1,020,526)</u>
Total primary government net assets.....	\$	<u>109,093,201</u>	<u>\$ 112,909,032</u>	<u>\$ 110,694,809</u>	<u>\$ 132,513,727</u>	<u>\$ 131,201,973</u>	<u>\$ 154,214,415</u>	<u>\$ 154,448,148</u>

Note: As allowed by GASB#34 , the City reported retroactive general infrastructure, acquired prior to fiscal 2002, beginning in fiscal 2006. Fiscal years 2002-2004 have not been restated to reflect this change.

Changes in Net Assets

Last Seven Fiscal Years

	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
Expenses							
Governmental activities:							
General government.....	\$ 8,640,622	\$ 8,514,423	\$ 9,454,148	\$ 9,373,119	\$ 9,867,573	\$ 9,641,318	\$ 10,598,174
Public safety.....	20,770,322	20,884,198	22,235,461	22,058,002	23,481,525	24,433,343	28,262,847
Education.....	59,420,837	59,386,206	61,775,760	67,483,676	67,258,196	75,513,149	75,874,227
Public works.....	5,397,486	6,464,257	6,517,047	8,421,997	7,991,774	9,229,479	6,846,006
Community development.....	5,856,034	4,954,608	5,767,362	2,066,749	1,891,386	1,804,554	1,567,381
Health and human services.....	1,416,802	1,388,761	1,410,712	4,856,306	5,016,513	4,675,688	5,904,063
Culture and recreation.....	3,694,420	4,022,880	4,186,622	3,689,992	3,718,183	2,448,265	3,293,415
Interest.....	3,046,692	3,366,107	3,136,763	2,689,312	2,889,116	2,604,390	2,503,461
Total government activities expenses.....	108,243,215	108,981,440	114,483,875	120,639,153	122,114,266	130,350,186	134,849,574
Business-type activities:							
Water services.....	10,967,114	10,196,489	9,619,356	3,186,840	3,197,864	3,562,372	3,895,551
Sewer services.....	(A)	(A)	(A)	6,616,318	5,686,595	5,612,230	5,894,870
Golf course.....	387,935	333,512	320,632	292,187	279,981	363,651	386,099
Parking.....	719,042	679,171	665,458	664,686	800,506	792,903	936,826
Trash.....	(C)	(C)	(C)	(C)	(C)	(C)	3,230,500
Total business type activities expenses.....	12,074,091	11,209,172	10,605,446	10,760,031	9,964,946	10,331,156	14,343,846
Total primary government expenses.....	\$ 120,317,306	\$ 120,190,612	\$ 125,089,321	\$ 131,399,184	\$ 132,079,212	\$ 140,681,342	\$ 149,193,420
Program Revenues							
Governmental activities:							
Education charges for services.....	\$ 1,216,334	\$ 1,097,764	\$ 1,141,196	\$ 1,023,839	\$ 831,579	\$ 1,659,544	\$ 1,586,525
Public Safety charges for services.....	1,323,642	1,804,781	1,865,270	1,923,845	2,003,791	2,217,287	2,378,961
Other charges for services.....	1,489,223	1,197,196	2,055,497	1,481,467	1,825,898	2,561,814	1,602,847
Operating grants and contributions.....	40,717,414	39,127,290	35,305,349	34,087,248	37,934,300	37,957,703	41,168,760
Capital grant and contributions.....	17,467,468	7,019,891	2,129,821	2,090,467	3,312,346	30,118,572	9,615,336
Total government activities program revenues.....	62,214,081	50,246,922	42,497,133	40,606,866	45,907,914	74,514,920	56,352,429
Business-type activities:							
Charges for services - Water.....	9,794,892	10,415,528	11,708,715	3,853,505	4,319,560	4,822,041	4,318,889
Charges for services - Sewer.....	(A)	(A)	(A)	5,512,922	6,233,883	6,694,172	6,555,593
Charges for services - Golf.....	615,878	549,091	543,467	502,770	525,404	546,841	570,142
Charges for services - Parking.....	1,270,928	1,364,076	1,536,390	1,453,088	1,549,833	1,713,649	1,651,032
Charges for services - Trash.....	(C)	(C)	(C)	(C)	(C)	(C)	908,577
Total business-type activities program revenues.....	11,681,698	12,328,695	13,788,572	11,322,285	12,628,680	13,776,703	14,004,233
Total primary government program revenues.....	\$ 73,895,779	\$ 62,575,617	\$ 56,285,705	\$ 51,929,151	\$ 58,536,594	\$ 88,291,623	\$ 70,356,662
Net (Expense)/Revenue							
Governmental activities.....	\$ (46,029,134)	\$ (58,734,518)	\$ (71,986,742)	\$ (78,692,287)	\$ (76,206,352)	\$ (55,835,266)	\$ (78,497,145)
Business-type activities.....	(392,393)	1,119,523	3,183,126	562,254	2,663,734	3,445,547	(289,906)
Total primary government net expense.....	\$ (46,421,527)	\$ (57,614,995)	\$ (68,803,616)	\$ (78,130,033)	\$ (73,542,618)	\$ (52,389,719)	\$ (78,787,051)
General Revenues and other Changes in Net Assets							
Governmental activities:							
Real estate and personal property taxes, net of tax refunds payable.....	\$ 49,486,747	\$ 52,118,338	\$ 54,855,784	\$ 55,915,767	\$ 58,379,505	\$ 60,991,003	\$ 63,230,976
Tax liens.....	(B)	(B)	(B)	690,557	635,624	182,650	752,178
Motor vehicle excise taxes.....	3,626,065	3,793,044	3,478,999	3,489,584	3,452,569	3,357,765	3,286,119
Hotel/motel tax.....	(B)	(B)	(B)	219,628	263,962	282,324	373,655
Penalties and interest on taxes.....	330,035	391,429	322,003	288,874	350,651	266,246	353,952
Payments in lieu of taxes.....	(B)	(B)	(B)	1,073,539	1,088,754	1,235,083	1,229,435
Grants and contributions not restricted to specific programs.....	3,931,117	3,774,422	6,932,546	8,097,351	7,661,752	8,971,625	9,163,777
Unrestricted investment income.....	125,481	816,614	568,503	521,585	183,980	965,694	462,275
Miscellaneous.....	504,968	536,979	431,558	77,454	214,067	248,905	168,417
Transfers.....	2,274,567	2,687,282	2,466,477	2,542,444	2,628,834	2,437,695	(26,013)
Total governmental activities.....	60,278,980	64,118,108	69,055,870	72,916,783	74,859,698	78,938,990	78,994,771
Business-type activities:							
Transfers.....	(2,274,567)	(2,687,282)	(2,466,477)	(2,542,444)	(2,628,834)	(2,437,695)	26,013
Total primary government.....	\$ 58,004,413	\$ 61,430,826	\$ 66,589,393	\$ 70,374,339	\$ 72,230,864	\$ 76,501,295	\$ 79,020,784
Changes in Net Assets							
Governmental activities.....	\$ 14,249,846	\$ 5,383,590	\$ (2,930,872)	\$ (5,775,504)	\$ (1,346,654)	\$ 23,103,724	\$ 497,626
Business-type activities.....	(2,666,960)	(1,567,759)	716,649	(1,980,190)	34,900	1,007,852	(263,893)
Total primary government.....	\$ 11,582,886	\$ 3,815,831	\$ (2,214,223)	\$ (7,755,694)	\$ (1,311,754)	\$ 24,111,576	\$ 233,733

(A) In fiscal years 2002 - 2004 the City reported a joint water/sewer enterprise fund.

(B) In fiscal years 2002 - 2004 the City included in real estate and personal property taxes, net of tax refunds payable.

(C) In fiscal years 2002-2007 the City reported Trash in the governmental funds.

Fund Balances, Governmental Funds

Last Ten Fiscal Years

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Fund										
Reserved.....	\$ 978,075	\$ 966,088	\$ 1,432,723	\$ 1,442,182	\$ 1,382,756	\$ 1,153,872	\$ 68,524	\$ 197,581	\$ 69,631	\$ 220,608
Unreserved.....	4,738,658	5,764,170	5,901,496	4,633,278	3,980,693	3,398,534	335,643	1,162,714	(1,151,199)	1,321,397
Total general fund.....	<u>\$ 5,716,733</u>	<u>\$ 6,730,258</u>	<u>\$ 7,334,219</u>	<u>\$ 6,075,460</u>	<u>\$ 5,363,449</u>	<u>\$ 4,552,406</u>	<u>\$ 404,167</u>	<u>\$ 1,360,295</u>	<u>\$ (1,081,568)</u>	<u>\$ 1,542,005</u>
All Other Governmental Funds										
Reserved.....	\$ -	\$ -	\$ -	\$ 1,430,279	\$ 1,481,549	\$ 1,844,725	\$ 1,591,750	\$ 1,606,904	\$ 1,629,202	\$ 1,650,597
Unreserved, reported in:										
Special revenue funds.....	4,477,410	5,738,091	6,910,085	8,289,823	8,920,508	6,618,566	7,763,007	5,474,128	5,477,136	3,768,323
Capital projects funds.....	(3,404,797)	(14,076,153)	(17,882,945)	(26,709,082)	(14,050,593)	(24,963,657)	(10,513,270)	(1,859,435)	(197,270)	2,806,105
Permanent funds.....	-	-	-	3,137,655	2,801,999	2,555,014	2,897,589	3,018,952	3,556,455	3,291,512
Total all other governmental funds....	<u>\$ 1,072,613</u>	<u>\$ (8,338,062)</u>	<u>\$ (10,972,860)</u>	<u>\$ (13,851,325)</u>	<u>\$ (846,537)</u>	<u>\$ (13,945,352)</u>	<u>\$ 1,739,076</u>	<u>\$ 8,240,549</u>	<u>\$ 10,465,523</u>	<u>\$ 11,516,537</u>

Notes:

Fiscal years 1999 through 2001 exclude Expendable and Nonexpendable Trust Funds which were reported under the pre-GASB 34 format.

Changes in Fund Balances, Governmental Funds

Last Ten Fiscal Years

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenues:										
Real estate and personal property taxes,										
net of tax refunds.....	\$ 45,299,037	\$ 45,824,415	\$ 48,802,188	\$ 50,152,793	\$ 52,448,384	\$ 55,603,719	\$ 55,866,348	\$ 58,601,934	\$ 60,638,180	\$ 63,376,714
Motor vehicle and excise taxes.....	2,658,847	2,686,784	3,178,682	3,156,366	3,875,265	3,387,266	3,531,673	3,577,544	3,215,438	3,427,889
Intergovernmental.....	29,619,516	32,053,323	37,284,876	39,949,863	37,949,147	37,305,545	40,601,143	40,386,321	38,496,892	39,569,976
Departmental and other.....	7,383,713	8,793,381	8,473,063	8,122,563	8,628,161	9,324,193	7,539,138	8,496,446	9,017,710	10,086,572
Investment income.....	392,136	736,266	1,024,892	127,462	816,821	568,503	828,933	927,302	925,771	462,585
Commonwealth school construction grants.....	-	-	-	-	-	- (B)	12,739,570	16,559,515	35,025,316	17,324,905
On-behalf pension payments by Commonwealth.....	-	- (C)	4,505,009	4,301,287	4,275,669	5,345,441	5,890,261	6,376,140	7,044,987	7,511,889
Total Revenue.....	85,353,249	90,094,169	103,268,710	105,810,334	107,993,447	111,534,667	126,997,066	134,925,202	154,364,294	141,760,530
Expenditures:										
General government.....	4,281,803	4,287,021	5,801,716	4,866,231	4,463,397	4,627,702	4,863,297	5,112,025	4,733,168	4,512,126
Public safety.....	14,328,164	14,074,132	14,589,271	15,738,798	15,368,476	14,999,915	14,417,276	14,547,596	14,969,952	15,945,719
Education.....	37,518,451	40,101,425	45,852,552	47,250,529	48,449,552	47,729,470	46,260,838	47,719,326	47,719,326	47,293,548
Public works.....	4,490,661	5,044,735	6,004,568	4,652,745	5,232,421	5,209,599	6,663,143	5,427,108	6,137,334	3,338,981
Community development.....	1,700,155	3,118,010	2,462,534	1,936,213	2,348,162	2,085,553	2,066,749	1,891,386	1,804,554	1,567,381
Health and human services.....	2,053,609	920,083	927,024	960,817	901,407	855,553 (A)	4,348,098	4,475,413	4,730,161	5,306,444
Culture and recreation.....	2,824,761	2,963,811	3,338,502	2,728,470	2,981,769	2,756,066	2,278,899	2,339,600	1,865,609	2,135,563
Pension.....	3,474,477	3,813,000	4,610,788	4,204,226	4,340,575	6,565,806	11,926,982	13,388,893	14,375,924	15,180,985
Massachusetts teachers' retirement.....	-	- (C)	4,505,009	4,301,287	4,275,669	5,345,441	5,890,261	6,376,140	7,044,987	7,511,889
Employee benefits.....	5,374,227	5,499,340	5,550,602	9,853,473	10,529,297	10,580,395	10,433,140	9,964,302	10,889,249	11,570,087
State and district assessments.....	1,970,865	3,495,301	2,183,362	3,770,566	3,911,644	4,212,549	4,028,333	5,047,971	5,589,986	5,933,670
Capital outlay.....	3,198,871	10,684,440	17,106,792	12,975,601	18,550,903	15,793,932	1,422,955	7,581,652	38,018,740	12,930,767
Debt service										
Principal.....	2,980,702	2,835,050	3,220,000	2,605,000	2,795,000	3,890,000	4,105,000	4,385,000	4,310,000	6,620,000
Interest.....	2,010,471	2,482,071	2,482,795	3,111,786	2,854,502	3,259,021	2,919,668	2,958,101	2,513,575	2,622,389
Total Expenditures.....	86,607,217	99,318,419	118,635,515	118,955,742	127,002,774	127,911,002	121,624,639	131,143,054	164,702,565	142,469,549
Excess of revenues over (under) expenditures.....	(1,253,968)	(9,224,250)	(15,366,805)	(13,145,408)	(19,009,327)	(16,376,335)	5,372,427	3,782,148	(10,338,271)	(709,019)
Other Financing Sources (Uses)										
Issuance of debt.....	400,000	-	13,300,000	-	28,670,000	-	2,465,000	-	8,319,497	3,930,000
Premium from issuance of bonds.....	-	-	-	-	-	-	232,856	-	85,169	84,840
Capital lease financing.....	-	-	-	-	-	-	807,283	1,046,619	378,169	394,779
Transfers in.....	2,131,143	2,187,421	1,813,102	9,045,003	9,051,161	10,693,915	3,597,240	5,320,517	3,558,845	4,508,229
Transfers out.....	(1,733,369)	(1,360,322)	(1,435,512)	(6,770,436)	(6,719,057)	(8,227,438)	(1,054,796)	(2,691,683)	(1,121,150)	(4,534,242)
Total other financing sources (uses).....	797,774	827,099	13,677,590	2,274,567	31,302,104	2,466,477	6,047,583	3,675,453	11,220,530	4,383,606
Net change in fund balance.....	\$ (456,194)	\$ (8,397,151)	\$ (1,689,215)	\$ (10,870,841)	\$ 12,292,777	\$ (13,909,858)	\$ 11,420,010	\$ 7,457,601	\$ 882,259	\$ 3,674,587
Debt service as a percentage of noncapital expenditures.....	5.84%	5.43%	4.87%	4.87%	4.51%	6.16%	5.95%	5.94%	5.39%	5.27%

(A) In fiscal year 2005 certain grants were reclassified to Human Services to better reflect the purpose

(B) Prior to fiscal year 2005 any receipts from the Commonwealth for school construction projects were included in intergovernmental revenue.

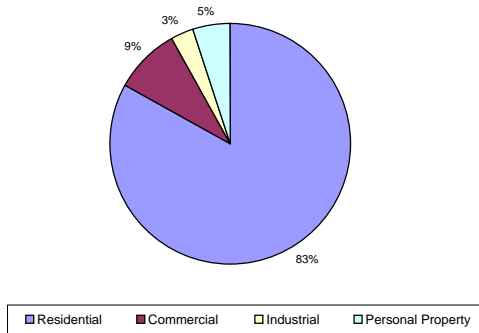
(C) The Commonwealth is legally obligated to fund the Salem teachers retirement. Therefore the revenue and expenditure has been recorded in accordance with GASB 24.

Assessed Value and Actual Value of Taxable Property by Classification and Tax Rates

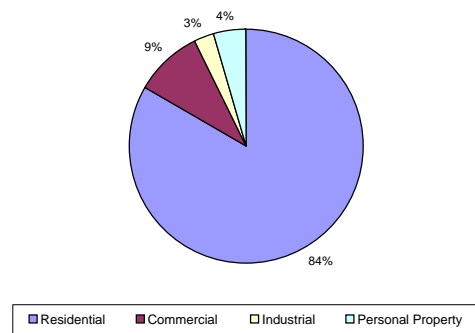
Last Ten Fiscal Years

Fiscal Year	Assessed and Actual Values and Tax Rates								
	Residential Value	Residential Tax Rate	Commercial Value	Industrial Value	Personal Property	Total Commercial Value	Commercial Tax Rate	Total Direct Rate	Total Town Value
1999	\$ 1,552,242,000	\$ 15.17	\$ 254,271,400	\$ 112,399,300	\$ 240,804,300	\$ 607,475,000	\$ 33.96	\$ 20.46	\$ 2,159,717,000
2000	1,705,349,600	14.23	266,300,300	141,171,100	247,511,700	654,983,100	31.65	\$ 19.06	2,360,332,700
2001	(1) 1,963,462,114	13.42	315,485,948	168,301,665	254,604,294	738,391,907	29.63	\$ 17.85	2,701,854,021
2002	2,135,490,544	13.53	324,729,500	136,077,225	261,760,050	722,566,775	28.62	\$ 17.35	2,858,057,319
2003	2,575,202,432	12.87	341,154,055	135,580,725	254,704,340	731,439,120	26.05	\$ 15.79	3,306,641,552
2004	(1) 3,247,929,862	11.71	369,848,655	140,122,325	213,400,595	723,371,575	22.59	\$ 13.69	3,971,301,437
2005	3,536,283,952	11.38	383,694,522	142,371,000	234,191,813	760,257,335	21.83	\$ 13.23	4,296,541,287
2006	3,807,396,999	11.21	393,448,700	143,388,000	241,940,480	778,777,180	21.33	\$ 12.93	4,586,174,179
2007	(1) 4,137,021,751	10.77	435,740,235	150,255,420	255,302,680	841,298,335	20.48	\$ 12.41	4,978,320,086
2008	4,008,575,509	11.67	449,128,612	134,872,400	212,904,820	796,905,832	22.11	\$ 13.40	4,805,481,341

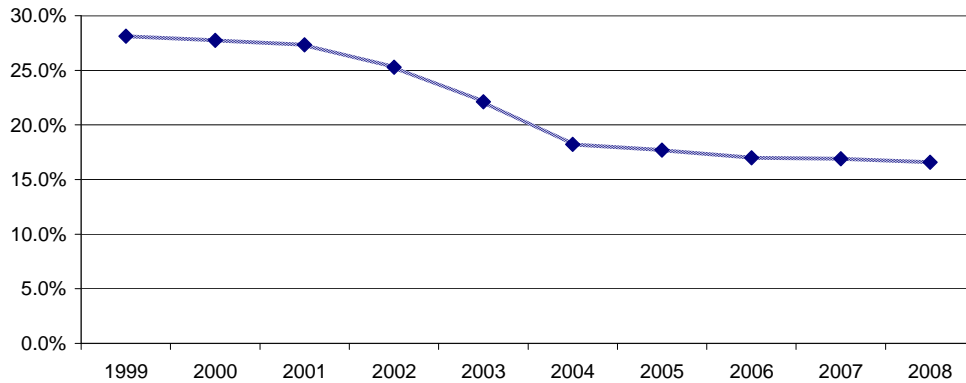
Total Assessed Value by Classification Fiscal Year Ended June 30, 2007



Total Assessed Value by Classification Fiscal Year Ended June 30, 2008



Commercial Value as % of Total Value



(1) Revaluation year.

Source: Assessor's Department, City of Salem

All property in the Commonwealth of Massachusetts is assessed at 100% of fair cash value.

Note: Chapter 59, Section 21C of the Massachusetts General Laws, known as "Proposition 2 1/2", imposes 2 separate limits on the annual tax levy of the Town. The primary limitation is that the tax levy cannot exceed 2 1/2 percent of the full and fair cash value. The secondary limitation is that the tax levy cannot exceed the maximum levy limit for the preceding fiscal year as determined by the State Commissioner of Revenue by more than 2 1/2 percent, subject to an exception for property added to the tax rolls and for certain substantial valuation increases other than as part of a general revaluation. The secondary limit may be exceeded in any year by a majority vote of the voters, however it cannot exceed the primary limitation.

Principal Taxpayers
Current Year and Nine Years Ago

Name	Nature of Business	2008			1999		
		Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value	Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value
Dominion	Personal & Industrial Property	\$158,305,850	1	3.3%	-	-	-
Shetland Properties	Industrial & Commercial	\$29,315,600	2	0.6%	\$15,114,000	2	0.7%
New England Power Co.	Personal & Industrial Property	\$24,520,050	3	0.5%	\$256,219,800	1	12.4%
Massachusetts Electric	Personal Property	\$21,899,450	4	0.5%	\$13,459,100	6	0.7%
Highlander Plaza	Commercial Property	\$21,728,900	5	0.5%	\$14,419,400	5	0.7%
Salem Station LLC	Apartments	\$40,027,860	6	0.8%	-	-	-
Keyspan PP	Personal Property & Real Estate	\$18,849,020	7	0.4%	-	-	-
Princeton Crossing Apts.	Apartments	\$30,981,000	8	0.6%	\$12,713,400	7	0.6%
Hawthorne Commons	Apartments	\$28,417,500	9	0.6%	\$6,261,900	9	0.3%
Second Pickwick Trust	Commercial Property	\$14,542,500	10	0.3%	-	-	-
NYNEX	Personal & Industrial Property	-	-	-	\$14,943,800	3	0.7%
Boston Gas	Personal & Industrial Property	-	-	-	\$14,614,900	4	0.7%
Applied Extrusions Technologies	Electronics	-	-	-	\$6,306,700	8	0.3%
Lagonakis/Crete/Minoan RT	Commercial Property	-	-	-	\$6,053,400	10	0.3%
Totals		<u>\$388,587,730</u>		<u>8.1%</u>	<u>\$360,106,400</u>		<u>17%</u>

Source: Board of Assessors

Property Tax Levies and Collections

Last Ten Years

Fiscal Year		Total Tax Levy	Less Abatements & Exemptions	Net Tax Levy	First Year Current Tax Collections	Percent of Net Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Net Tax Levy
1999	\$	44,177,362	\$ 379,865	\$ 43,797,497	\$ 43,723,214	99.8%	\$ 73,228	\$ 43,796,442	100%
2000		44,997,340	549,334	44,448,006	43,623,904	98.1%	820,868	44,444,772	100%
2001	(1)	48,228,214	654,519	47,573,695	47,565,588	99.9%	6,113	47,571,701	100%
2002		49,789,935	484,373	49,305,562	49,199,288	99.8%	105,089	49,304,377	100%
2003		52,210,909	508,719	51,702,190	51,303,297	99.2%	398,826	51,702,123	100%
2004	(1)	54,374,223	564,486	53,809,737	53,259,047	99.0%	550,063	53,809,110	100%
2005		56,839,329	418,415	56,420,914	55,554,023	98.5%	866,450	56,420,473	100%
2006		59,292,238	414,204	58,878,034	58,010,805	98.5%	865,215	58,876,020	100%
2007	(1)	61,785,514	532,920	61,252,594	60,318,905	98.5%	931,024	61,249,929	100%
2008		64,399,664	529,244	63,870,420	63,261,175	99.0%	-	63,261,175	99%

(1) Revaluation Year

Source: Massachusetts Department of Revenue; Board of Assessors

Ratios of Outstanding Debt and General Bonded Debt

Last Ten Fiscal Years

Fiscal Year	Governmental Activities Debt								
	U. S. Census Population	Personal Income	Assessed Value	General Obligation Bonds	Capital Leases	Per Capita	Percentage of Personal Income	Percentage of Assessed Value	
1999	38,341	\$ 896,407,212	\$ 2,159,717,000	\$ 33,460,698	\$ 494,359	\$ 886	3.79%	1.57%	
2000	40,564	967,735,348	2,360,332,700	30,716,400	2,517,607	819	3.43%	1.41%	
2001	41,130	1,000,863,178	2,701,854,021	40,700,000	1,929,115	1,036	4.26%	1.58%	
2002	42,179	1,046,917,485	2,858,057,319	37,625,000	1,103,986	918	3.70%	1.36%	
2003	42,067	1,065,020,304	3,307,181,452	63,730,000	441,217	1,525	6.03%	1.94%	
2004	41,912	1,082,318,054	3,971,301,437	59,840,000	307,360	1,435	5.56%	1.51%	
2005	41,976	1,105,650,179	4,296,541,287	58,770,000	723,214	1,417	5.38%	1.38%	
2006	40,407	1,085,609,084	4,586,174,179	54,385,000	1,172,651	1,375	5.12%	1.21%	
2007	40,407	1,107,321,266	4,978,320,086	50,040,000	779,906	1,258	4.59%	1.02%	
2008	40,407	1,129,467,691	4,805,481,341	55,704,497	675,954	1,395	4.99%	1.17%	

Year	Business-type Activities		Total Primary Government			
	General Bonds	Leases	Total Outstanding	Capita	Percentage Income	Percentage Value
1999	\$ 1,880,000	\$ 0	\$ 35,835,057	\$ 935	4.00%	1.66%
2000	1,600,000	0	34,834,007	859	3.60%	1.48%
2001	1,345,000	0	43,974,115	1,069	4.39%	1.63%
2002	650,000	0	39,378,986	934	3.76%	1.38%
2003	515,000	0	64,686,217	1,538	6.07%	1.96%
2004	380,000	0	60,527,360	1,444	5.59%	1.52%
2005	1,450,000	0	60,943,214	1,452	5.51%	1.42%
2006	1,345,000	0	56,902,651	1,408	5.24%	1.24%
2007	3,570,656	0	54,390,562	1,346	4.91%	1.09%
2008	7,624,241	0	64,004,692	1,584	5.67%	1.33%

Source: Audited Financial Statements, U. S. Census

Direct and Overlapping Governmental Activities Debt

As of June 30, 2008

	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
North Shore Regional Vocational School District.....	\$ 1,905,000	27.60%	\$ <u>525,780</u>
City direct debt.....			<u>55,704,497</u>
Total direct and overlapping debt.....			\$ <u><u>56,230,277</u></u>

Source: Treasurer and North Shore Regional Vocational School District

Computation of Legal Debt Margin

Last Ten Fiscal Years

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Equalized Valuation.....	\$ 2,174,217,600	\$ 2,174,217,600	\$ 2,472,012,500	\$ 2,472,012,500	\$ 3,148,016,400	\$ 3,148,016,400	\$ 4,184,128,700	\$ 4,223,735,800	\$ 4,923,330,400	\$ 4,923,330,400
Debt Limit -5% of Equalized Valuation.....	\$ 108,710,880	\$ 108,710,880	\$ 123,600,625	\$ 123,600,625	\$ 157,400,820	\$ 157,400,820	\$ 209,206,435	\$ 211,186,790	\$ 246,166,520	\$ 246,166,520
Less:										
Outstanding debt applicable to limit.....	3,785,000	3,475,000	5,080,000	5,625,000	4,646,000	4,167,000	6,695,447	6,064,000	5,435,000	13,126,497
Authorized and unissued debt.....	72,050,000	63,950,000	82,537,000	83,033,130	69,000,988	70,336,913	39,296,218	48,682,895	54,169,239	41,605,658
Legal debt margin.....	\$ 32,875,880	\$ 41,285,880	\$ 35,983,625	\$ 34,942,495	\$ 83,753,832	\$ 82,896,907	\$ 163,214,770	\$ 156,439,895	\$ 186,562,281	\$ 191,434,365
Total debt applicable to the limit as a percentage of debt limit.....	69.76%	62.02%	70.89%	71.73%	46.79%	47.33%	21.98%	25.92%	24.21%	22.23%

Source: Audited Financial Statements; Statement of Indebtedness

Demographic and Economic Statistics

Last Ten Fiscal Years

Fiscal Year	Population Estimates	Personal Income	Per Capita Personal Income	Median Age	School Enrollment	Unemployment Rate
1999	38,341	\$ 896,407,212	\$ 23,380	33.5	5,059	3.3%
2000	40,564	967,735,348	23,857	36.4	5,007	2.5%
2001	41,130	1,000,863,178	24,334	36.4	5,107	3.9%
2002	42,179	1,046,917,485	24,821	36.4	5,064	5.6%
2003	42,067	1,065,020,304	25,317	36.4	5,016	6.2%
2004	41,912	1,082,318,054	25,824	36.4	4,727	5.3%
2005	41,976	1,105,650,179	26,340	36.4	4,676	4.9%
2006	40,407	1,085,609,084	26,867	36.4	4,714	4.1%
2007	40,407	1,107,321,266	27,404	36.4	4,573	4.5%
2008	40,407	1,129,467,691	27,952	36.4	4,404	4.9%

Note: Per Capita Personal Income and Median Age based on 1990 and 2000 U.S Censuses

Source: Massachusetts Department of Revenue, Division of Local Services; U.S. Census Bureau

Principal Employers (excluding City)

Current Year and Nine Years Ago

Employer	Nature of Business	2008			1999		
		Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
North Shore Medical Center	Healthcare	2,875	1	12.1%	2,500	1	11.7%
Salem State College	Higher Education	1,500	2	6.3%	750	2	3.5%
Commonwealth of Massachusetts Offices	State Government	520	3	2.2%	-	-	-
Market Basket	Food Market	325	4	1.4%	-	-	-
Peabody Essex Museum	Cultural/Tourism	290	5	1.2%	-	-	-
Salem Five Savings Bank	Banking	236	6	1.0%	-	-	-
Hawthorne Hotel	Lodging	210	7	0.9%	-	-	-
Grosvenor Park Nursing Center	Health Care	202	8	0.8%	-	-	-
Home Depot	Retail	187	9	0.8%	-	-	-
Salem YMCA	Social Service Agency	185	10	0.8%	-	-	-
Sears Boston Credit Central	Public Utility	-	-	-	600	3	2.8%
New England Power Company	Public Utility	-	-	-	476	4	2.2%
North Shore Children's Hospital	Children's Health Care	-	-	-	400	5	1.9%
EG & G Inc.	Diabetic Supplies	-	-	-	281	6	1.3%
Atwood & Morrill Co. Inc.	Valve Manufacturing	-	-	-	189	7	0.9%
Crosby's Market Place	Food Market	-	-	-	176	8	0.8%
Van Waters & Rogers	Chemical Distribution	-	-	-	162	9	0.8%
Harbor Sweets	Candy & Confection Wholesale	-	-	-	101	10	0.5%
		<u>6,530</u>		<u>27.5%</u>	<u>5,635</u>		<u>26.5%</u>

Source: The City Planning Department

City of Salem, Massachusetts

Full-time Equivalent City Employees by Function

Last Nine Fiscal Years

	Fiscal Year								
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Function									
General government.....	82	59	62	68	62	64	40	34	36
Public safety.....	198	183	183	185	180	190	181	190	185
Education.....	755	755	755	755	756	756	752	752	753
Public works.....	67	50	59	47	45	55	35	38	40
Engineering.....	-	-	-	-	-	-	-	1	3
Health and human services.....	23	20	22	22	21	21	21	20	17
Culture and recreation.....	36	36	35	34	31	31	34	23	21
Total	<u>1,161</u>	<u>1,103</u>	<u>1,116</u>	<u>1,111</u>	<u>1,095</u>	<u>1,117</u>	<u>1,063</u>	<u>1,058</u>	<u>1,054</u>

Source: Various City Departments

Information not available on years prior to FY2000.

Operating Indicators by Function/Program

Last Ten Fiscal Years

<u>Function/Program</u>	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General government										
Marriage recordings.....	317	292	328	362	327	330	327	375	322	306
Birth recordings.....	1,726	1,777	1,680	1,708	1,804	1,839	1,761	2,044	2,043	1,712
Death recordings.....	765	764	865	848	823	935	847	737	755	520
Police										
Physical arrests.....	1,131	975	1,039	1,057	984	965	685	2,792	2,793	2,569
Motor vehicle violations.....	2,791	3,066	3,967	4,872	5,489	5,238	4,334	6,477	8,672	7,838
Police personnel and officers.....	94	94	103	105	94	85	85	81	84	85
Fire										
Inspections.....	3,417	3,226	3,004	2,950	1,972	3,231	2,789	1,187	1,562	1,562
Emergency responses.....	3,433	3,717	3,917	3,993	3,911	4,281	4,572	6,235	6,719	6,663
Fire personnel and officers.....	89	90	92	96	85	78	78	75	76	78
Education										
Number of students.....	5,059	5,007	5,107	5,064	5,016	4,727	4,676	4,744	4,573	4,404
Number of graduates.....	187	213	220	237	218	257	246	255	269	254
Number of teachers.....	369	370	369	397	406	415	409	477	484	479
Water										
Service connections.....	9,627	9,720	9,812	9,842	9,898	10,516	10,568	11,000	11,811	11,701
Consumption in gallons.....	1,853	1,985	2,107	2,064	2,090	2,111	2,136	2,000	2,056	2,089
Daily consumption (MG).....	5.10	5.44	5.77	5.66	5.73	5.78	6.43	6.84	6.74	977.79
Sewer										
Service connections.....	9,627	9,720	9,812	9,842	9,898	10,516	10,568	11,000	11,811	11,701
Health and human services										
Number of persons using COA transportation.....	54,620	44,326	45,523	47,220	44,804	44,500	45,976	37,497	39,052	18,678
Libraries										
Volumes in circulation.....	127,923	126,526	130,510	128,626	124,435	125,516	128,569	141,595	143,052	148,752
Total volumes borrowed.....	379,511	379,534	395,311	453,548	470,192	464,453	490,116	508,728	500,907	514,708

Source: Various City Departments; Massachusetts Department of Education

Capital Asset Statistics by Function/Program

Last Ten Fiscal Years

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
General government										
Number of buildings.....	2	2	2	2	2	2	2	2	2	2
Police										
Number of stations.....	1	1	1	1	1	1	1	1	1	1
Fire										
Number of stations.....	4	4	4	4	4	4	4	4	4	4
Education										
Number of elementary schools.....	7	7	7	7	7	7	7	7	7	7
Number of middle schools.....	1	1	1	1	1	1	1	1	1	1
Number of high schools.....	1	1	1	1	1	1	1	1	1	1
Public Works										
Water mains (miles).....	103	103	103	103	108	108	108	108	108	108
Health and human services										
Number of personnel.....	20	19	18	18	17	17	17	17	17	17
Culture and recreation										
Parks and playgrounds.....	35	35	35	35	35	35	35	35	35	35
Park and playground (acreage).....	219	230	230	230	230	230	230	230	230	230
Conservation land (acreage).....	114	114	114	114	114	128	128	128	128	128
Railroad right of way (acreage).....	89	89	89	89	89	89	89	89	89	89
Public beaches.....	7	7	7	7	7	7	7	7	7	7
Ball fields.....	13	13	13	13	13	13	13	13	13	13
Tennis courts.....	10	10	10	10	10	10	10	10	10	10

Source: Various City Departments, Manual of the City Government

Free Cash & Stabilization Fund Balances

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Free Cash</u>	<u>Stabilization Fund</u>
FY2008.....	\$ 1,114,950	\$ 648,947
FY2007.....	\$ 691,149	\$ 487,980
FY2006.....	\$ 538,372	\$ 277,759
FY2005.....	\$ 2,732,090	\$ 1,021,351
FY2004.....	\$ 1,867,737	\$ 1,297,417
FY2003.....	\$ 3,212,194	\$ 2,278,823
FY2002.....	\$ 4,010,382	\$ 2,248,337
FY2001.....	\$ 4,965,894	\$ 1,713,814
FY2000.....	\$ 4,425,158	\$ 1,149,864
FY1999.....	\$ 4,313,929	\$ 1,087,575

Source: City Records