

CITY OF SALEM

MASSACHUSETTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT



For the Fiscal Year Ended June 30, 2012

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

Prepared by the City of Salem Finance Department

On the Cover – Salem Harbor view from Salem Willows

The Salem Willows offers beautiful shaded seaside grounds, scenic ocean views, public pier, band-stand 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, beaches, the arcade and the park's ample picnic grounds and recreational facilities.



Pickering Wharf Light House

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JUNE 30, 2012

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Introductory Section



Salem Willows Park

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Annual Read Picnic and Science Fair-Salem Willows for All Salem School children



Introductory Section

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City of Salem, Massachusetts

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Letter of Transmittal

Richard Viscay, Finance Director

December 10, 2012

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) 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, 2012 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, 2012, are fairly presented in conformity with GAAP.

The City of Salem's financial statements have been audited by Powers & Sullivan, LLC, 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, 2012, 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 principles 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, 2012 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 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 41,340 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 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 instances, 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% of the City is connected to the sewerage system; the entire area of the City is served by the municipal water system. Both the Salem and Beverly Water Supply Board and the South Essex Sewerage District qualify as joint ventures. Accordingly, the City's equity interest in both entities has been included in the City's basic financial statements. 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 Salem Housing Authority does not meet the criteria to be considered a component unit of the City. 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.

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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 amount raised on the tax recapitulation sheet approved by the Department of Revenue for fiscal year 2012 totaled approximately \$133 million, which includes Real & Personal Property tax revenue, State Revenues, MSBA Revenue, local revenues, transfers in of \$997,042 from Receipts Reserved Harbormaster, Witch House and Golf Course (to reduce tax rate), \$3,328,566 from free cash supplemental appropriations (\$1,000,000 to reduce the tax rate), other receipts reserved transfers, and \$1,477,074 of indirect costs from the Water & Sewer Enterprise funds. These revenues cover general fund budgeted expenses and deficits raised including snow and ice, school lunch, health insurance trust, and to fund the Retirement Anticipation Fund and Capital Improvement Projects Fund. These also include enterprise fund expenses.

The City includes the Salem Contributory Retirement System (the System) in its financial reporting since the City represents approximately 85% of the members of the System. The System was established to provide retirement benefits to its members, including employees and beneficiaries of the City of Salem, the Salem-Beverly Water Supply Board, the Salem Housing Authority, the South Essex Sewerage District, and the North Shore Regional Vocational School System. Per the Public Employee Retirement Administration Commission (PERAC) 2011 annual report, the market value of the System's assets totaled \$95 million with 89% of the funds invested in the State's Pension Reserve Investment Trust's (PRIT) Core Fund.

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 University, 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 also 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, including a proposed development that would

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replace the existing Wal-Mart with a new development that would include an expanded Wal-Mart and Meineke store, a new city water tower and roadway improvements. Additionally, downtown Salem continues to thrive as a vibrant center of commerce and activity. The construction is complete on the new \$106 million J. Michael Ruane Judicial Center. Also, the MBTA will be building a new \$135 million commuter rail garage and other infrastructure improvements at the Washington/Bridge Street location. The expected completion of this project is Fall 2014. These projects, as well as the \$200 million expansion of the Peabody Essex Museum, the 14th largest museum in the world, will ensure long term vibrancy to Downtown Salem.

The Salem waterfront is also experiencing a great deal of investment from the addition of the Waterfront Hotel at Pickering Wharf to the South River Harborwalk waterfront development, which will include seawall and bulkhead improvements from Derby Street to Congress Street. The City received a \$3 million grant from the Governor's Seaport Council for Phase I of this project, which included the acquisition of land at the Blaney Street Wharf and for design, engineering, and permitting of the site. Phase II of the project, which will be funded by \$4.1 million in federal and state grants, will be used to construct a seawall, install utilities, and construct the parking lot and to begin construction of the new concrete pier. In addition, the City has received an additional \$1 million of grant dollars to begin dredging the Salem Harbor. Once the Blaney Street wharf expansion is completed, the City expects to attract the large cruise liners, which is projected to have a significant impact on the local economy.

The City also has a partnership with Destination Salem, who markets the City as one of Massachusetts' best destinations for families, couples, domestic, and international travelers. Visitation to Salem increased an estimated 5% in 2011 over 2010, and generated nearly \$104 million in tourism spending in 2011. This infusion of dollars and visitors not only helps keep the current businesses thriving, but also encourages new businesses to open in Salem. In 2011, twenty-three (23) new businesses opened in downtown Salem, including new restaurants and retail establishments. These new businesses generated approximately 83 new jobs in 2011.

With the passage of House Bill 4560, Senate Bill 4864 and the approval of Massachusetts Governor Deval Patrick, Salem State College obtained University status. Salem State University is the largest institution of higher education on the North Shore of Massachusetts. Recent expansion at the University includes the construction of the college's newest campus on the former GTE Sylvania site. Central Campus, as it is currently known, houses the Bertolon School of Business, a recital hall, a 'green' and sustainable residence hall, and a small business incubator for the region. Expansion of the college continues currently, including the recent completion of a new 525 bed residence hall and dining facility, as well as the ongoing construction of a new Library and Learning Commons, scheduled to be completed in late 2012. The new library will be a four-level, 124,000-square-foot complex on Salem State's North Campus.

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 23,717, of whom 22,008 were employed and 1,709, or 7.2% were unemployed. The Commonwealth, for the same period, had an unemployment rate of 7.4%.

Financial Planning and Forecasting

In fiscal year 2009, the City modified its budget format to improve upon its content and layout. The goal was to have a comprehensive budget that would allow an average person to read and comprehend the budget and budget process of the City. It also was modeled after several budgets that were submitted and approved for the Government Financial Officer's Association (GFOA) "Distinguished Budget Presentation Award". The new model included more narrative, including goals and objectives of each department, financial forecasts, policies and

glossary of financial terms. It required a significant amount of work for all department heads and especially the finance division, who had to ensure all the materials were pulled together timely for submission to both the City Council and the GFOA. As a result of our efforts, the City has been awarded the GFOA's "Distinguished Budget Presentation Award" for fiscal years 2009 through 2012.

Included in the budget was the City's Five Year Financial Forecast. This is the sixth 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. Also included in the budget was the City's Five Year Capital Improvement Plan (CIP) for the purpose of planning and maintaining the City's capital and infrastructure. The CIP includes policies on debt service and capital improvement budgeting.

As part of the fiscal year 2012 CIP, the City will use \$254,217 of one time revenues for capital improvements, including various repairs at the police and fire departments, as well as infrastructure repairs of playground equipment and the Salem Common Fence. Other highlights of the fiscal year 2012 CIP include the investment of over \$56.5 million in repairs to the Collins School and Saltonstall School, of which 78.26% of all eligible costs will be reimbursed to the City through the Massachusetts School Building Authority's Green Repairs Program. Other highlights of the FY2012 CIP are over \$870,000 in neighborhood roadway improvements, \$2,000,000 for repairs to City Hall envelope, and \$200,000 for parking equipment and infrastructure.

Fixed Costs ~ Health Insurance and Pension Assessment

Health Insurance

The City continues to explore options to contain the rising cost of health care for City employees/retirees. 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.

The City has used many different approaches to keep the cost of health insurance affordable as it relates to the overall budget of the City, including the procurement of new health care providers, modifications of existing plans, and collective bargaining to modify the employee/employer apportionment of costs. However, the most significant approach was enacted in FY2012 with the City Council's adoption of the Municipal Health Care Reform Act (the Act).

As part of the Act, the City was allowed to enter into the State's Group Insurance Commission (GIC), which resulted in significant short term savings (\$1.5 million in FY13), and long term savings for the City. In fact, the City was able to reduce its long term liability, also known as "other postemployment benefits" (OPEB) by \$26 million dollars, from \$171 million in 2010 to \$145 million in 2012, per the City's OPEB liability report performed by the Segal Company, the City's contracted actuary.

While there were significant savings for the City, the employees and retirees of the City will also receive financial savings of approximately \$1.5 million for FY2013, as well as the long term stability of being a member of the State's GIC plan. The savings to the City employees and retirees come from lower premiums, an increase in City's contribution to PPO plans from 65% to 70%, and the establishment of a "mitigation fund" of \$220,000 that will pay for 100% of the copayments for inpatient and outpatient visits, as well as 50% of the copayments for all high tech imaging. The City also has agreed to pay all administrative fees for any person who wishes to enroll in a flexible spending account, which allows for pre-tax payments for certain medical costs, prescriptions, and some over the counter medications.

Pension Assessment

In fiscal year 2007, the Mayor appointed herself to the Salem Retirement Board. By doing so, 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. During fiscal year 2009, the Retirement Board 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.

The Salem Contributory Retirement Board completed its most recent actuarial valuation summary for January 1, 2012. The study was performed by the Segal Company and was delivered to the Retirement Board in September of 2012. The study reported the actuarial assets of the system as of January 1, 2012 of \$106.8 million and an unfunded liability of \$107.5 million. The unfunded liability increased from January 1, 2010 by \$14 million, partially due to the net investment losses of calendar year 2011, in which market value rate of return was -0.25%, while the assumed rate of return was 8.25%. However, the market rate of return in calendar year 2010 was 12.03%, which helped offset some of the 2011 losses.

As a result of the increased unfunded liability, and the lower than expected return on investment, the Board adopted a funding schedule which will fully amortize the existing unfunded liability plus the expected increases in unfunded liability due to the deferred investment losses by June 30, 2032 with amortization payments that increase 4.5% per year. The total fiscal 2013 appropriation for the system is \$10,911,932, with the City's share of 85.6% amounting to \$9,337,442.

Other Significant Financial Matters

The Salem Harbor Power Station is the City's largest taxpayer. The power plant, in August of 2012, changed ownership from Dominion Energy to Footprint Power LLC. The new owners plan to run the plant through June 30, 2014 which is when Dominion filed to decommission all four of its power generating units prior to the change in ownership.

Immediately after June 2014, Footprint Power plans to demolish all existing structures and undertake any necessary environmental remediation. Footprint plans to construct a state-of-the-art 630 megawatt gas-fired plant on a portion of the site and will open the remaining two-thirds of the 63 –acre waterfront property to private and public development opportunities.

From a revenue perspective, at the end of FY2011, the City's tax agreement with Dominion expired. Prior to this date, the City received a total payment from Dominion Energy in the amount of \$4.75 million for FY2011, \$3 million in tax dollars within the tax levy and \$1.75 million dollars designated as a "host fee" accounted for as miscellaneous non-recurring revenues.

In FY2011, Dominion announced major operational changes shutting down two of their power generating units due to market conditions and regulatory challenges at the state level. Due to the implementation of state regulations impacting its operations, during the FY2012 budget process, the Massachusetts Legislature adopted a proposal to ensure that Salem taxpayers will not be overly burdened by lost revenues from the power plant through 2016. Chapter 68 of the Acts of 2011, Section 33 states that "...the municipality shall be entitled to reimbursement for the difference between the amount called for....prior to the full or partial decommissioning or the change in operating status of the facility." This legislation postpones the financial impact of the loss of a major taxpayer. More importantly, it allows the City to work toward replacing the lost revenues and planning for an appropriate reuse of the site.

In FY2012, the City entered into a one year agreement with Dominion that called for a \$1.49 million payment of tax dollars and a \$260,000 "host fee", which triggered a \$3 million dollar payment from the Commonwealth, bringing total revenues for FY12 to \$4.75 million. The City and Footprint are currently working on a tax agreement for FY2013.

Financial Policy

The City has set a goal to fund the Stabilization fund in the amount of 5% of the City's current operating budget, or \$6.4 million. As of June 30, 2012, the balance in the City's Stabilization fund is \$3.5 million. The target date to have the Stabilization Fund fully funded is projected to occur by fiscal year 2016. The Stabilization fund shall be funded by appropriations from free cash (available funds), operating budget appropriations when available, and other one-time non-recurring revenues that become available for appropriation per Massachusetts General Law.

In fiscal 2008, the City established a second Stabilization fund (Retirement Stabilization Fund) for the funding of retirement buyouts for both City and School employees. As of June 30, 2012, the balance of this account was \$130,000. During the fiscal 2013 budget process, all department heads were asked if they anticipated any retirements and to calculate the estimated cost of each person's buyout for fiscal 2013. As part of the fiscal 2013 budget process, the City Council appropriated an additional \$580,000 to the fund. The goal of the Retirement Stabilization Fund is to pay for any unanticipated retirements from this Fund instead of using general fund appropriations. This will allow the departments to backfill vacancies in a timely manner without having to request a supplemental appropriation by the Council.

In fiscal 2011, the City adopted Massachusetts General Law Chapter 32B, Section 20, establishing the "Other Postemployment Benefits (OPEB) Liability Trust Fund" as a local option. This fund gives communities a mechanism to reduce the unfunded actuarial liability of health care and other post-employment benefits. The City has designated \$381,000 to this fund as of June 30, 2012. Future appropriations will be made to this fund in accordance to financial policies of the Finance Department of the City.

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 30th, 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. The balance for free cash was certified for fiscal year 2012 in the amount of \$2.53 million.

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 carry forward to the next fiscal year (July 1st). The 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. Once free cash is certified by the Director of Accounts, any drawdown of the Stabilization Fund from the prior fiscal year shall be replenished from the certified free cash if the free cash exceeds such drawdown. Once any drawdown of Stabilization funds are replenished, allocation of the remaining free cash shall be as follows;

- 20% 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.

- 20% 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 and
- 10% of any free cash available after funding any drawdown will be allocated to the OPEB Liability Trust Fund (beginning in FY2012).

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 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, 2011. This was the seventh 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 GFOA also awarded a Distinguished Budget Presentation Award to the City of Salem for its budget document for the fiscal year beginning July 1, 2012. The GFOA established the Distinguished Budget Award in 1984 to encourage and assist state and local governments to prepare budget documents of the very highest quality that reflect both the guidelines established by the National Advisory Council on State and Local Budgeting and the GFOA's recommended practices on budgeting and then to recognize individual governments that succeed in achieving that goal.

Documents submitted to the Budget Awards Program are reviewed by selected members of the GFOA professional staff and by outside reviewers with experience in public-sector budgeting.

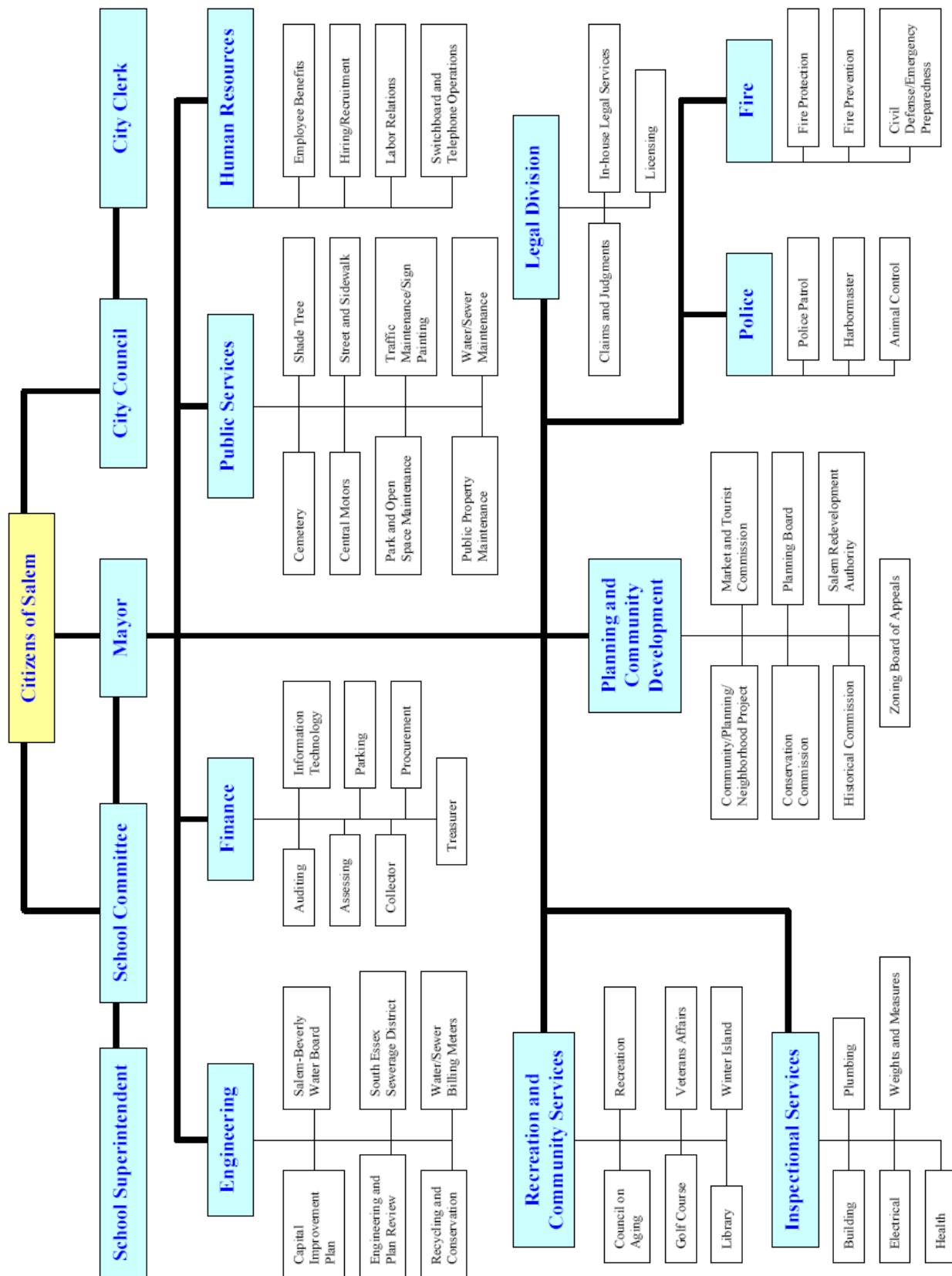
It should be noted that the Distinguished Budget Award was awarded to only nine of the 351 communities in the Commonwealth for the fiscal period beginning 2009 and that only five entities in the entire Commonwealth received both the Certificate of Achievement of Excellence in Financial Reporting and the Distinguished Budget Presentation Award in 2007.

The preparation of both the CAFR and the Distinguished Budget Presentation Award 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



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 TELEPHONE: 978-745-9595 EXT. 5626 - FAX: 978-741-3348

Principal Executive Officers

TITLE	NAME	FIRST TOOK OFFICE	TERM EXPIRES
Mayor	Kimberley L. Driscoll	1/2/2006	12/31/2013
President, City Council	Joan B. Lovely	1/1/2012	12/31/2012
Finance Director	Richard Viscay	3/6/2006	1/31/2014
Treasurer	Kathleen McMahon	12/27/2010	1/31/2013
Collector	Bonnie Celi	3/11/2004	1/31/2013
City Clerk	Cheryl LaPointe	7/15/2004	11/9/2015
City Solicitor	Elizabeth Rennard	1/10/2006	Indefinite
Assistant Finance Director	Nina Bridgman	1/22/2004	1/31/2014

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, 2011

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.



Christopher P. Moynell

President

Jeffrey R. Enen

Executive Director



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

City of Salem

Massachusetts

For the Fiscal Year Beginning

July 1, 2011

Linda C. Davidson Jeffrey R. Enos

President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the City of Salem, Massachusetts for the Annual Budget beginning July 1, 2011. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operational guide, as a financial plan, and as a communication device.

Financial Section



Salem Police Station

October Halloween Parade



Helicopter Rescue Operation



Salem Fire Department Ladder 1



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, 2012 (except for the Salem Contributory Retirement System which is as of and for the year ended December 31, 2011), 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, 2012 (except for the Salem Contributory Retirement System which is as of December 31, 2011), 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2012 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, grant 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.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Salem's basic financial statements. The combining statements and schedules, as listed in the table of contents, are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our

opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, and historical context. We have applied certain limited procedures, to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The introductory section and statistical tables, as listed in the table of contents, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly we do not express an opinion or provide any assurance on it.

Powers & Sullivan LLC

December 10, 2012

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, 2012. 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 principles (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. The basic financial statements consist of 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, 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 to demonstrate compliance with this budget.

Proprietary funds. The City maintains two types of proprietary 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. The internal service fund is now used to account for funds set aside by the side to help offset health insurance costs of employees that were highly impacted from the switch to the GIC (Group Insurance Commission).

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 statements 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 proprietary 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 \$137 million at the close of fiscal year 2012. This represents a decrease of \$184,000 from the prior fiscal year.

Net assets of \$147.7 million reflects the City's 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. Invested in capital assets net of related debt increased by approximately \$2.8 million during fiscal year 2012. This was mainly the result of the acquisition of new capital assets of approximately \$11.8 million, net of \$7 million in depreciation recorded against capital assets and the \$2 million net decrease in related outstanding debt.

An additional portion of the governmental net assets, \$11.2 million, represents resources that are subject to external restrictions on how they may be used. This balance was up by approximately \$636,000 due to the timing of grant and gift receipts. The balance of *unrestricted net assets* has a year-end deficit of \$21.6 million. The primary reason for this deficit balance is the recognition of other postemployment benefit liabilities totaling \$27.1 million, in accordance with the requirements of Governmental Auditing Standards Board (GASB) Statement 45. The statement requires the City to obtain a biannual actuarial valuation of the City's liability to pay other postemployment benefits to current employees and retirees. The City is allowed to amortize the liability, which is currently estimated to be approximately \$145 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 the majority of its other postemployment 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 plus interest on any prior unfunded liability as an expense in the full accrual financial statements. This difference totaled \$5.1 million for governmental activities for fiscal year 2012. The City began the process of pre-funding a portion of the liability in fiscal year 2011 by establishing an irrevocable trust which, as of June 30, 2012, has a balance of \$381,000 and is reported within the Fiduciary Funds in the City's financial statements. The City also recorded a decrease in its estimated landfill liability of \$1.8 million, as two sites were remediated during fiscal year 2012 at a cost of approximately \$1.4 million. Additionally, the City's General Fund reported expenditures less than appropriations by approximately \$1.2 million and higher than budgeted collection of revenues of approximately \$1.8 million which had a positive impact on net assets. The most significant revenues that came in higher than anticipated related to tax liens, charges for services for building permits, and fines and forfeitures. The \$1.2 million of expenditures less appropriations relates to modest turn-backs in most departments, the most significant being public safety and education.

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

	Governmental Activities	
	Fiscal 2012	Fiscal 2011
Assets:		
Current assets.....	\$ 40,433,740	\$ 38,183,620
Noncurrent assets (excluding capital).....	18,326,546	20,008,795
Capital assets.....	172,195,580	167,439,062
Total assets.....	230,955,866	225,631,477
Liabilities:		
Current liabilities (excluding debt).....	11,810,228	8,925,422
Noncurrent liabilities (excluding debt).....	35,447,909	30,668,729
Current debt.....	6,755,366	8,716,062
Noncurrent debt.....	39,669,302	39,864,526
Total liabilities.....	93,682,805	88,174,739
Net Assets:		
Invested in capital assets, net of related debt.....	147,692,495	144,887,020
Restricted.....	11,197,635	10,562,103
Unrestricted.....	(21,617,069)	(17,992,385)
Total net assets.....	\$ 137,273,061	\$ 137,456,738

	Governmental Activities	
	Fiscal 2012	Fiscal 2011
Program revenues:		
Charges for services.....	\$ 5,356,226	\$ 5,137,753
Operating grants and contributions.....	47,872,700	49,607,540
Capital grants and contributions.....	5,699,571	5,197,515
General Revenues:		
Real estate and personal property taxes.....	72,073,381	71,828,412
Motor vehicle and other excise taxes.....	3,131,334	3,181,247
Nonrestricted grants.....	8,220,908	8,155,366
Unrestricted investment income.....	103,015	1,095,518
Other revenues.....	4,340,294	3,582,351
Total revenues.....	146,797,429	147,785,702
Expenses:		
General government.....	11,904,711	11,702,186
Public safety.....	26,551,919	24,917,897
Education.....	91,261,655	90,009,718
Public works.....	5,952,380	8,894,659
Community development.....	1,530,786	1,845,141
Health and human services.....	6,001,130	5,930,089
Culture and recreation.....	3,219,315	2,997,090
Interest.....	1,544,887	1,582,033
Total expenses.....	147,966,783	147,878,813
Excess (Deficiency) before transfers.....	(1,169,354)	(93,111)
Transfers.....	985,677	1,251,059
Change in net assets.....	\$ (183,677)	\$ 1,157,948

The governmental expenses totaled \$148 million of which \$57 million (38%) was directly supported by program revenues consisting of charges for services, operating and capital grants, and contributions. Public safety and education expenses increased by \$1.6 million and \$1.3 million, respectively, both are primarily related to budgetary increases as well as increases in health insurance and pension costs. The large decrease in public works expenses relates to a fiscal year 2011 increase in the City's estimated landfill remediation liability and a fiscal year 2012 decrease in costs related to snow and ice removal. In fiscal year 2011, the City increased the estimated landfill remediation liability by \$1.9 million related to clean-up needed at two City owned properties. Actual costs totaled approximately \$1.3 million and were paid in fiscal year 2012. Decreased community development expenses related to activities in the City's planning department. General revenues totaled \$87.9 million, primarily coming from property taxes, motor vehicle and other excise, and non-restricted state aid. Payments from the City's largest taxpayer decreased in fiscal year 2012 related to the decommissioning of the Power Plant run by the taxpayer. However, the State reimbursed the City for the difference between the actual payments received and the prior year's payment, making the City whole. Capital grants and contributions increased in fiscal year 2012. In fiscal year 2011 the City received a one-time grant of \$3 million for the Seaport wharf project while in fiscal year 2012 the Massachusetts School Building Authority (MSBA) provided capital grants of \$5 million for their 78% share of school construction.

Business-type Activities

For the City's business-type activities, assets exceeded liabilities by \$12.7 million at the close of fiscal year 2012.

	Business-type Activities	
	<u>Fiscal 2012</u>	<u>Fiscal 2011</u>
Assets:		
Current assets.....	\$ 9,520,269	\$ 10,333,632
Capital assets.....	<u>21,677,433</u>	<u>19,742,463</u>
Total assets.....	<u>31,197,702</u>	<u>30,076,095</u>
Liabilities:		
Current liabilities (excluding debt).....	515,058	589,893
Noncurrent liabilities (excluding debt).....	1,228,817	996,504
Current debt.....	1,017,520	1,234,880
Noncurrent debt.....	<u>15,745,824</u>	<u>14,640,400</u>
Total liabilities.....	<u>18,507,219</u>	<u>17,461,677</u>
Net Assets:		
Invested in capital assets, net of related debt.....	8,605,165	8,248,186
Unrestricted.....	<u>4,085,318</u>	<u>4,366,232</u>
Total net assets.....	<u>\$ 12,690,483</u>	<u>\$ 12,614,418</u>

Business-type net assets of \$8.6 million (68%) represent investments in capital assets net of related debt. The remaining \$4 million (32%) is available to be used for the ongoing operation of the City's water, sewer, parking, trash and municipal golf course activities. There was an overall increase of \$76,000 in net assets reported in connection with the enterprise funds.

The water enterprise fund's net assets of \$3.9 million (88%) represent the investment in capital assets net of related debt, while \$538,000 (12%) is unrestricted. The water department experienced a net decrease of \$175,000 in net assets from the prior year. This is consistent with prior years. The decrease is partially the result of accruing an additional \$53,000 in OPEB liabilities. The water fund pays an annual assessment to the Salem Beverly Water Supply Board, which totaled \$2.4 million or 64% of the fund's operating expenses for fiscal year 2012.

The sewer enterprise fund's net assets of \$587,000 (14%) represent the investment in capital assets net of related debt, and \$3.6 million (86%) is unrestricted. The unrestricted balance includes the City's \$1.1 million equity interest in the South Essex Sewerage District which increased by approximately \$443,000 during fiscal year 2012. The sewer department operations experienced an overall net increase of \$477,000 during the current fiscal year. Approximately 85% of the expenses in the sewer fund consist of the annual assessments paid to the South Essex Sewerage District.

The golf course enterprise fund's net assets of \$359,000 (63%) represent the investment in capital assets, net of related debt, while \$208,000 (37%) is unrestricted. Overall, revenues and expenses both increased by approximately 19% at the golf course during fiscal year 2012 as a result, net assets remained substantially unchanged.

The parking enterprise fund's net assets of \$3.8 million represent the investment in capital assets net of related debt while a deficit balance of \$412,000 is reported as unrestricted. The parking operations experienced a net decrease of \$253,000 during fiscal year 2012 which is consistent with prior years, and is mostly attributable to recording depreciation on previously purchased capital assets totaling approximately \$236,000. The City reports this fee-for-service activity as an enterprise fund however any cash based surplus generated is transferred back to the general fund to support City programs. In fiscal year 2012, \$1.5 million was transferred back to the general fund. Consequently, the amounts 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.

The City's trash enterprise fund operates on a trash fee that 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 estimated cash basis deficit in the fund at year end. At fiscal year-end a \$2.1 million transfer was made from the general fund to subsidize for the budgeted deficit. As of June 30, 2012 the trash fund had unrestricted net assets totaling \$147,000.

	Business-type Activities	
	Fiscal 2012	Fiscal 2011
Program revenues:		
Charges for services.....	\$ 16,209,028	\$ 16,384,403
Operating grants and contributions.....	-	39,804
Total revenues.....	16,209,028	16,424,207
Expenses:		
Cost of service and administration.....	5,822,797	5,668,504
District assessment.....	8,100,740	7,985,222
Depreciation.....	718,324	650,974
Interest.....	505,425	420,756
Total expenses.....	15,147,286	14,725,456
Excess (Deficiency) before transfers.....	1,061,742	1,698,751
Transfers.....	(985,677)	(1,251,059)
Change in net assets.....	\$ 76,065	\$ 447,692

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 the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

In accordance with generally accepted accounting standards, the City reports the components of fund balance as nonspendable, restricted, committed, assigned and unassigned, based on restrictions on spending. Additionally, the City's stabilization funds are reported within the general fund as unassigned.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$22.8 million of which \$10.5 million is reported in the general fund, a deficit of \$1.3 million is reported in the school capital projects major fund, and \$13.6 million is reported in the nonmajor governmental funds. Cumulatively there was an increase of \$1.5 million in fund balances from the prior year.

The general fund is the City's chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund totaled \$9.6 million, while total fund balance was \$10.5 million. The general fund balance increased by \$1.5 million in fiscal year 2012. The increase primarily resulted from positive budgetary results.

The school capital projects fund is used to account for the City's ongoing major school construction projects. The fund decreased by \$2.7 million in fiscal year 2012 as the City began incurring costs for the improvements to the Saltonstall and Collins schools. The major fund ended the fiscal year with a deficit balance of \$1.3 million. Expenditures incurred to date have been partially financed with bond proceeds and partially funded with reimbursements received from the Massachusetts School Building Authority for the state's share of eligible costs. Bond proceeds totaling \$2.5 million were recognized in this fund in fiscal year 2012.

Cumulatively, nonmajor governmental funds had a net increase of \$582,000. This represents the activity of other nonmajor capital projects, grants, and permanent trust funds. The fiscal year 2012 increase was almost entirely the result of the timing of funding and recognizing expenditures on capital projects, such as the wharf improvement project, net of a decrease in federal stimulus grant funds compared to the prior year. Bond proceeds in this fund totaled \$1.4 million in fiscal year 2012.

General Fund Budgetary Highlights

The \$2.9 million increase between the original budget and the final amended budget was due to several council orders issued throughout the fiscal year to appropriate available funds. The most notable components of this increase include an additional \$2.3 million in available funds (free cash) appropriated to fund stabilization reserves, veteran's benefits, capital improvements, and various additional appropriations.

The actual general fund revenues came in \$1.8 million more than budgeted. The City does not budget revenue for tax liens which totaled \$647,000. Additionally, fines and forfeitures reported a budgetary surplus of \$306,000 which was the result of an increase in estimated receipts during the budget process. Charges for services reported a surplus of \$345,000 mainly due to conservative budgetary estimates.

State and county assessments were lower than anticipated by \$382,000, which mainly related to the charter school tuition. Overall, expenditures came in under appropriations by approximately \$1.2 million.

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, 2012, amounts to \$194 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and land improvements, equipment, vehicles and infrastructure related to governmental and business-type activities. The City's total investment in capital assets for the current year totaled \$11.8 million for governmental activities and \$2.7 million for business-type activities. The City also transferred \$1.8 million, mostly relating water reconstruction projects, from construction in progress to depreciable assets as projects were completed.

Debt Administration. Outstanding long-term debt of the governmental activities, as of June 30, 2012, totaled \$43.6 million.

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, 2012 the City has recorded a receivable from the MSBA totaling \$19.6 million, which is equal to 90% of approved construction and interest costs incurred by the City on the eligible projects, less amounts that have been reimbursed by the MSBA.

Outstanding debt of the water, sewer, golf and parking enterprise funds totaled \$13.8 million, \$2.3 million, \$140,000 and \$575,000, respectively, and funded various repairs, maintenance and infrastructure projects.

Please refer to notes 4, 6, 7 and 8 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, 2012

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 22,208,730	\$ 4,878,858	\$ 27,087,588
Investments.....	8,136,549	-	8,136,549
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	1,046,979	-	1,046,979
Tax liens.....	1,499,755	-	1,499,755
Motor vehicle and other excise taxes.....	467,200	-	467,200
User fees.....	-	3,418,192	3,418,192
Trash fees.....	-	93,103	93,103
Departmental and other.....	67,162	-	67,162
Intergovernmental.....	5,768,986	-	5,768,986
Loans.....	150,753	-	150,753
Investment in joint venture.....	-	1,130,116	1,130,116
Prepaid expenses.....	1,087,626	-	1,087,626
Total current assets.....	<u>40,433,740</u>	<u>9,520,269</u>	<u>49,954,009</u>
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	18,038,829	-	18,038,829
Loans.....	287,717	-	287,717
Capital assets, non depreciable.....	14,920,276	1,187,329	16,107,605
Capital assets, net of accumulated depreciation.....	<u>157,275,304</u>	<u>20,490,104</u>	<u>177,765,408</u>
Total noncurrent assets.....	<u>190,522,126</u>	<u>21,677,433</u>	<u>212,199,559</u>
TOTAL ASSETS.....	<u>230,955,866</u>	<u>31,197,702</u>	<u>262,153,568</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	4,062,420	25,539	4,087,959
Accrued liabilities.....	1,144,383	356,162	1,500,545
Accrued payroll.....	3,931,879	16,478	3,948,357
Tax refunds payable.....	298,930	-	298,930
Accrued interest.....	636,004	70,112	706,116
Capital lease obligations.....	126,554	-	126,554
Compensated absences.....	1,508,154	46,767	1,554,921
Workers' compensation.....	101,904	-	101,904
Notes payable.....	2,794,739	542	2,795,281
Bonds payable.....	<u>3,960,627</u>	<u>1,016,978</u>	<u>4,977,605</u>
Total current liabilities.....	<u>18,565,594</u>	<u>1,532,578</u>	<u>20,098,172</u>
NONCURRENT:			
Capital lease obligations.....	119,149	-	119,149
Landfill closure.....	600,000	-	600,000
Compensated absences.....	5,944,915	110,510	6,055,425
Other postemployment benefits.....	27,050,790	1,118,307	28,169,097
Workers' compensation.....	1,733,055	-	1,733,055
Bonds payable.....	<u>39,669,302</u>	<u>15,745,824</u>	<u>55,415,126</u>
Total noncurrent liabilities.....	<u>75,117,211</u>	<u>16,974,641</u>	<u>92,091,852</u>
TOTAL LIABILITIES.....	<u>93,682,805</u>	<u>18,507,219</u>	<u>112,190,024</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	147,692,495	8,605,165	156,297,660
Restricted for:			
Loans.....	438,470	-	438,470
Perr			
Expendable.....	3,149,668	-	3,149,668
Nonexpendable.....	2,074,097	-	2,074,097
Grants and gifts.....	5,535,400	-	5,535,400
Unrestricted.....	<u>(21,617,069)</u>	<u>4,085,318</u>	<u>(17,531,751)</u>
TOTAL NET ASSETS.....	<u>\$ 137,273,061</u>	<u>\$ 12,690,483</u>	<u>\$ 149,963,544</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2012

		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 11,904,711	\$ 783,345	\$ 448,834	\$ 7,544	\$ (10,664,988)
Public safety.....	26,551,919	2,212,295	1,329,909	-	(23,009,715)
Education.....	91,261,655	1,271,626	36,934,270	5,033,128	(48,022,631)
Public works.....	5,952,380	174,820	225,462	613,695	(4,938,403)
Community development.....	1,530,786	8,997	2,815,167	45,204	1,338,582
Health and human services.....	6,001,130	126,694	4,954,421	-	(920,015)
Culture and recreation.....	3,219,315	778,449	115,390	-	(2,325,476)
Interest.....	1,544,887	-	1,049,247	-	(495,640)
Total Governmental Activities...	147,966,783	5,356,226	47,872,700	5,699,571	(89,038,286)
<i>Business-Type Activities:</i>					
Water.....	4,188,083	4,623,340	-	-	435,257
Sewer.....	6,733,017	7,986,386	-	-	1,253,369
Golf Course.....	438,613	648,916	-	-	210,303
Parking.....	1,042,610	2,274,470	-	-	1,231,860
Trash.....	2,744,963	675,916	-	-	(2,069,047)
Total Business-Type Activities..	15,147,286	16,209,028	-	-	1,061,742
Total Primary Government.....	\$ 163,114,069	\$ 21,565,254	\$ 47,872,700	\$ 5,699,571	\$ (87,976,544)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (89,038,286)	\$ 1,061,742	\$ (87,976,544)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	72,073,381	-	72,073,381
Tax liens.....	795,443	-	795,443
Motor vehicle and other excise taxes.....	3,131,334	-	3,131,334
Hotel/motel and meals taxes.....	1,161,007	-	1,161,007
Penalties and interest on taxes.....	490,242	-	490,242
Payments in lieu of taxes.....	1,440,186	-	1,440,186
Grants and contributions not restricted to specific programs.....	8,220,908	-	8,220,908
Unrestricted investment income.....	103,015	-	103,015
Miscellaneous.....	453,416	-	453,416
<i>Transfers, net</i>	985,677	(985,677)	-
Total general revenues and transfers.....	88,854,609	(985,677)	87,868,932
Change in net assets.....	(183,677)	76,065	(107,612)
<i>Net Assets:</i>			
Beginning of year.....	137,456,738	12,614,418	150,071,156
End of year.....	\$ <u>137,273,061</u>	\$ <u>12,690,483</u>	\$ <u>149,963,544</u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2012

	General	School Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents.....	\$ 11,547,131	\$ 1,009,070	\$ 9,550,319	\$ 22,106,520
Investments.....	2,713,584	-	5,422,965	8,136,549
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	1,046,979	-	-	1,046,979
Tax liens.....	1,499,755	-	-	1,499,755
Motor vehicle and other excise taxes.....	467,200	-	-	467,200
Departmental and other.....	-	-	67,162	67,162
Intergovernmental.....	19,637,379	2,086,688	2,083,748	23,807,815
Loans.....	-	-	438,470	438,470
Due from other funds.....	-	-	315,113	315,113
Prepaid expenses.....	1,087,626	-	-	1,087,626
TOTAL ASSETS.....	\$ 37,999,654	\$ 3,095,758	\$ 17,877,777	\$ 58,973,189
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable.....	\$ -	\$ 3,387,106	\$ 675,314	\$ 4,062,420
Accrued liabilities.....	1,144,383	-	-	1,144,383
Accrued payroll.....	3,749,861	-	182,018	3,931,879
Tax refunds payable.....	298,930	-	-	298,930
Deferred revenues.....	22,270,481	-	1,301,958	23,572,439
Due to other funds.....	-	-	315,113	315,113
Notes payable.....	-	999,062	1,795,677	2,794,739
TOTAL LIABILITIES.....	27,463,655	4,386,168	4,270,080	36,119,903
FUND BALANCES:				
Nonspendable.....	-	-	2,074,097	2,074,097
Restricted.....	-	10,970	14,333,448	14,344,418
Assigned.....	985,737	-	-	985,737
Unassigned.....	9,550,262	(1,301,380)	(2,799,848)	5,449,034
TOTAL FUND BALANCES.....	10,535,999	(1,290,410)	13,607,697	22,853,286
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 37,999,654	\$ 3,095,758	\$ 17,877,777	\$ 58,973,189

See notes to basic financial statements.

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

JUNE 30, 2012

Total governmental fund balances.....	\$ 22,853,286
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....	172,195,580
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....	23,572,439
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.....	102,210
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....	(636,004)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds payable.....	(43,629,929)
Landfill closure.....	(600,000)
Workers' compensation.....	(1,834,959)
Capital leases.....	(245,703)
Compensated absences.....	(7,453,069)
Other postemployment benefits.....	<u>(27,050,790)</u>
Net effect of reporting long-term liabilities.....	<u>(80,814,450)</u>
Net assets of governmental activities.....	<u>\$ 137,273,061</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

	General	School Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ 72,202,064	\$ -	\$ -	\$ 72,202,064
Tax liens.....	647,045	-	-	647,045
Motor vehicle and other excise taxes.....	3,203,122	-	-	3,203,122
Hotel/motel and meals taxes.....	1,161,007	-	-	1,161,007
Charges for services.....	1,394,844	-	123,625	1,518,469
Penalties and interest on taxes.....	487,842	-	2,400	490,242
Payments in lieu of taxes.....	1,440,186	-	-	1,440,186
Licenses and permits.....	499,046	-	-	499,046
Fines and forfeitures.....	1,255,894	-	-	1,255,894
Intergovernmental.....	41,181,730	5,033,128	17,839,514	64,054,372
Departmental and other.....	41,783	-	2,971,012	3,012,795
Contributions.....	-	-	341,804	341,804
Investment income.....	87,389	-	42,384	129,773
TOTAL REVENUES.....	123,601,952	5,033,128	21,320,739	149,955,819
EXPENDITURES:				
Current:				
General government.....	5,204,851	-	988,304	6,193,155
Public safety.....	16,800,348	-	1,525,760	18,326,108
Education.....	50,678,452	8,170,151	9,322,804	68,171,407
Public works.....	2,580,477	-	1,644,011	4,224,488
Community development.....	-	-	3,008,739	3,008,739
Health and human services.....	882,583	-	4,656,038	5,538,621
Culture and recreation.....	1,915,941	-	1,486,880	3,402,821
Pension benefits.....	18,538,274	-	-	18,538,274
Employee benefits.....	13,122,992	-	-	13,122,992
State and county charges.....	6,390,908	-	-	6,390,908
Debt service:				
Principal.....	4,682,000	-	35,000	4,717,000
Interest.....	1,757,638	-	3,913	1,761,551
TOTAL EXPENDITURES.....	122,554,464	8,170,151	22,671,449	153,396,064
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	1,047,488	(3,137,023)	(1,350,710)	(3,440,245)
OTHER FINANCING SOURCES (USES):				
Issuance of bonds and notes.....	-	2,500,938	1,400,000	3,900,938
Premium from issuance of bonds.....	1,059	-	-	1,059
Capital lease financing.....	38,765	-	-	38,765
Transfers in.....	4,081,333	-	1,103,561	5,184,894
Transfers out.....	(3,628,125)	-	(571,092)	(4,199,217)
TOTAL OTHER FINANCING SOURCES (USES).....	493,032	2,500,938	1,932,469	4,926,439
NET CHANGE IN FUND BALANCES.....	1,540,520	(636,085)	581,759	1,486,194
FUND BALANCES AT BEGINNING OF YEAR.....	8,995,479	(654,325)	13,025,938	21,367,092
FUND BALANCES AT END OF YEAR.....	\$ 10,535,999	\$ (1,290,410)	\$ 13,607,697	\$ 22,853,286

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, 2012

Net change in fund balances - total governmental funds.....	\$	1,486,194
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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.

Capital outlay.....	11,752,488	
Depreciation expense.....	<u>(6,995,970)</u>	
Net effect of reporting capital assets.....		4,756,518

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..... (3,268,782)

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.

Capital lease principal payments.....	178,027	
Capital lease issuance.....	(38,765)	
Issuance of bonds and notes.....	(3,900,938)	
Debt service principal payments.....	<u>4,717,000</u>	
Net effect of reporting long-term debt.....		955,324

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.

Net change in compensated absences accrual.....	(405,050)	
Net change in landfill liability accrual.....	1,800,000	
Net change in workers' compensation.....	(660,006)	
Net change in accrued interest on long-term debt.....	80,070	
Net change in other postemployment benefits.....	(5,132,068)	
Amortization of premium from issuance of bonds and notes payable.....	<u>135,535</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		(4,181,519)

Internal service funds are used by management to account for health insurance activities.

The net activity of internal service funds is reported with Governmental Activities.....		<u>68,588</u>
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Change in net assets of governmental activities.....	\$	<u><u>(183,677)</u></u>
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See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2012

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Parking	Trash	Total	
ASSETS							
CURRENT:							
Cash and cash equivalents.....	\$ 3,504,704	\$ 618,607	\$ 369,495	\$ -	\$ 386,052	\$ 4,878,858	\$ 102,210
Receivables, net of allowance for uncollectibles:							
User fees.....	1,138,578	2,279,614	-	-	-	3,418,192	-
Trash fees.....	-	-	-	-	93,103	93,103	-
Investment in joint venture.....	-	1,130,116	-	-	-	1,130,116	-
Total current assets.....	4,643,282	4,028,337	369,495	-	479,155	9,520,269	102,210
NONCURRENT:							
Capital assets, non depreciable.....	921,496	99,552	118,067	48,214	-	1,187,329	-
Capital assets, net of accumulated depreciation	13,053,646	2,773,651	380,656	4,282,151	-	20,490,104	-
Total noncurrent assets.....	13,975,142	2,873,203	498,723	4,330,365	-	21,677,433	-
TOTAL ASSETS.....	18,618,424	6,901,540	868,218	4,330,365	479,155	31,197,702	102,210
LIABILITIES							
CURRENT:							
Warrants payable.....	-	25,539	-	-	-	25,539	-
Accrued liabilities.....	33,888	47,255	-	-	275,019	356,162	-
Accrued payroll.....	7,419	8,132	-	-	927	16,478	-
Accrued interest.....	56,364	-	1,123	12,625	-	70,112	-
Compensated absences.....	8,977	8,977	6,563	22,250	-	46,767	-
Notes payable.....	542	-	-	-	-	542	-
Bonds payable.....	810,978	100,000	31,000	75,000	-	1,016,978	-
Total current liabilities.....	918,168	189,903	38,686	109,875	275,946	1,532,578	-
NONCURRENT:							
Compensated absences.....	28,438	28,438	13,333	40,301	-	110,510	-
Other postemployment benefits obligation.....	288,265	296,861	140,163	336,980	56,038	1,118,307	-
Bonds payable.....	12,941,824	2,195,000	109,000	500,000	-	15,745,824	-
Total noncurrent liabilities.....	13,258,527	2,520,299	262,496	877,281	56,038	16,974,641	-
TOTAL LIABILITIES.....	14,176,695	2,710,202	301,182	987,156	331,984	18,507,219	-
NET ASSETS							
Invested in capital assets, net of related debt.....	3,903,931	587,146	358,723	3,755,365	-	8,605,165	-
Unrestricted.....	537,798	3,604,192	208,313	(412,156)	147,171	4,085,318	102,210
TOTAL NET ASSETS.....	\$ 4,441,729	\$ 4,191,338	\$ 567,036	\$ 3,343,209	\$ 147,171	\$ 12,690,483	\$ 102,210

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Parking	Trash	Total	
OPERATING REVENUES:							
Charges for services	\$ 4,623,340	\$ 7,986,386	\$ 648,916	\$ 2,274,470	\$ 675,916	\$ 16,209,028	\$ -
Other.....	-	-	-	-	-	-	110,392
TOTAL OPERATING REVENUES	4,623,340	7,986,386	648,916	2,274,470	675,916	16,209,028	110,392
OPERATING EXPENSES:							
Cost of services and administration	1,035,168	867,192	395,815	779,659	2,744,963	5,822,797	-
District Assessment.....	2,403,095	5,697,645	-	-	-	8,100,740	-
Depreciation.....	336,695	107,055	38,148	236,426	-	718,324	-
Employee benefits	-	-	-	-	-	-	41,804
TOTAL OPERATING EXPENSES	3,774,958	6,671,892	433,963	1,016,085	2,744,963	14,641,861	41,804
OPERATING INCOME (LOSS).....	848,382	1,314,494	214,953	1,258,385	(2,069,047)	1,567,167	68,588
NONOPERATING REVENUES (EXPENSES):							
Interest expense.....	(413,125)	(61,125)	(4,650)	(26,525)	-	(505,425)	-
INCOME (LOSS) BEFORE TRANSFERS..	435,257	1,253,369	210,303	1,231,860	(2,069,047)	1,061,742	68,588
TRANSFERS:							
Transfers in.....	100,000	-	403,269	-	2,089,981	2,593,250	-
Transfers out.....	(710,471)	(776,463)	(607,158)	(1,484,835)	-	(3,578,927)	-
TOTAL TRANSFERS.....	(610,471)	(776,463)	(203,889)	(1,484,835)	2,089,981	(985,677)	-
CHANGE IN NET ASSETS.....	(175,214)	476,906	6,414	(252,975)	20,934	76,065	68,588
NET ASSETS AT BEGINNING OF YEAR.....	4,616,943	3,714,432	560,622	3,596,184	126,237	12,614,418	33,622
NET ASSETS AT END OF YEAR.....	\$ 4,441,729	\$ 4,191,338	\$ 567,036	\$ 3,343,209	\$ 147,171	\$ 12,690,483	\$ 102,210

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2012

	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.....	\$ 4,574,152	\$ 7,941,521	\$ 648,916	\$ 2,274,470	\$ 686,833	\$ 16,125,892	\$ -
Receipts from interfund services provided.....	-	-	-	-	-	-	110,392
Payments to vendors.....	(3,008,194)	(6,571,571)	(172,975)	(219,748)	(2,659,628)	(12,632,116)	-
Payments to employees.....	(386,934)	(356,286)	(193,484)	(467,087)	(18,775)	(1,422,566)	-
Payments for interfund services used.....	-	-	-	-	-	-	(41,804)
NET CASH FROM OPERATING ACTIVITIES.....	1,179,024	1,013,664	282,457	1,587,635	(1,991,570)	2,071,210	68,588
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:							
Transfers in.....	100,000	-	403,269	-	2,089,981	2,593,250	-
Transfers out.....	(710,471)	(776,463)	(607,158)	(1,484,835)	-	(3,578,927)	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(610,471)	(776,463)	(203,889)	(1,484,835)	2,089,981	(985,677)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Proceeds from the issuance of bonds and notes.....	1,412,944	710,000	-	-	-	2,122,944	-
Acquisition and construction of capital assets.....	(2,202,340)	(600,195)	-	-	-	(2,802,535)	-
Principal payments on bonds and notes.....	(812,880)	(315,000)	(32,000)	(75,000)	-	(1,234,880)	-
Interest expense.....	(417,170)	(61,125)	(4,810)	(27,800)	-	(510,905)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(2,019,446)	(266,320)	(36,810)	(102,800)	-	(2,425,376)	-
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(1,450,893)	(29,119)	41,758	-	98,411	(1,339,843)	68,588
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	4,955,597	647,726	327,737	-	287,641	6,218,701	33,622
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 3,504,704	\$ 618,607	\$ 369,495	\$ -	\$ 386,052	\$ 4,878,858	\$ 102,210
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:							
Operating income (loss).....	\$ 848,382	\$ 1,314,494	\$ 214,953	\$ 1,258,385	\$ (2,069,047)	\$ 1,567,167	\$ 68,588
Adjustments to reconcile operating income (loss) to net cash from operating activities:							
Depreciation.....	336,695	107,055	38,148	236,426	-	718,324	-
Changes in assets and liabilities:							
User fees.....	(49,188)	(44,865)	-	-	-	(94,053)	-
Trash fees.....	-	-	-	-	10,917	10,917	-
Investment in joint venture.....	-	(443,344)	-	-	-	(443,344)	-
Accrued liabilities.....	(10,339)	17,213	-	-	54,363	61,237	-
Accrued payroll.....	1,120	1,869	-	-	556	3,545	-
Other postemployment benefits.....	53,343	62,231	26,345	63,227	11,641	216,787	-
Accrued compensated absences.....	(989)	(989)	3,011	29,597	-	30,630	-
Total adjustments.....	330,642	(300,830)	67,504	329,250	77,477	504,043	-
NET CASH FROM OPERATING ACTIVITIES.....	\$ 1,179,024	\$ 1,013,664	\$ 282,457	\$ 1,587,635	\$ (1,991,570)	\$ 2,071,210	\$ 68,588

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

	Pension and Other Employee Benefit Trust Funds (1)	Private Purpose Trust Funds	Agency Fund
ASSETS			
Cash and cash equivalents.....	\$ 8,354,320	\$ 251,271	\$ 1,391,068
Investments:			
Corporate bonds.....	362,242	1,037,999	-
Real estate and alternative investment mutual funds.....	756,270	-	-
PRIT.....	85,018,605	-	-
Receivables, net of allowance for uncollectibles:			
Other.....	425,604	-	-
NONCURRENT:			
Capital assets, net of accumulated depreciation.....	103,906	-	-
TOTAL ASSETS.....	95,020,947	1,289,270	1,391,068
LIABILITIES			
Warrants payable.....	5,533	-	56,752
Liabilities due depositors.....	-	-	1,334,316
TOTAL LIABILITIES.....	5,533	-	1,391,068
NET ASSETS			
Held in trust for:			
Retirement.....	94,634,402	-	-
OPEB.....	381,012	-	-
Other purposes.....	-	1,289,270	-
Held in trust for pension, OPEB benefits, and other purposes.....	\$ 95,015,414	\$ 1,289,270	\$ -

(1) The Pension Trust Fund is as of December 31, 2011.

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2012

	Pension and Other Employee Benefit Trust Funds (1)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer.....	\$ 10,822,403	\$ -
Plan member.....	3,353,392	-
Private donations.....	-	16,052
Total contributions.....	14,175,795	16,052
Net investment income:		
Net change in fair value of investments.....	(2,442,424)	(12,450)
Interest.....	2,702,897	1,020
Total investment income.....	260,473	(11,430)
Less: investment expense.....	(473,299)	-
Net investment income.....	(212,826)	(11,430)
Intergovernmental.....	381,906	-
Transfers from other systems.....	385,154	-
TOTAL ADDITIONS.....	14,730,029	4,622
DEDUCTIONS:		
Administration.....	306,474	-
Transfers to other systems.....	304,484	-
Retirement benefits and refunds.....	13,206,874	-
Educational scholarships.....	-	16,518
Housing subsidies.....	-	89,683
Depreciation.....	3,125	-
TOTAL DEDUCTIONS.....	13,820,957	106,201
CHANGE IN NET ASSETS.....	909,072	(101,579)
NET ASSETS AT BEGINNING OF YEAR.....	94,106,342	1,390,849
NET ASSETS AT END OF YEAR.....	\$ 95,015,414	\$ 1,289,270

(1) The Pension Trust Fund is as of December 31, 2011.

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 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.

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, 2012, the City's equity interest in the operations of the District totaled \$1,130,116, 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,

2012 totaled approximately \$2.4 million. Complete financial information for the Water Board can be obtained by contacting them at 50 Arlington Avenue, Beverly, MA 01915.

The City operates a Horace Mann Charter School to address the needs of the City's high school dropouts and at-risk youth. The Salem Community Charter School opened during fiscal year 2012. The Charter School will be managed independently by an appointed Board of Trustees and not by the School Committee and Superintendent. Ongoing funding for the school's operations will be provided by the City based upon a negotiated amount between the School Committee and Board of Trustees within the guidelines established by the authorizing legislation of the Commonwealth of Massachusetts. The activity will be included within the City's basic financial statements and will be audited independently.

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% 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% 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., when 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 and 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 *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 and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

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

The *sewer enterprise fund* is used to account for the sewer 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 except for the Agency Fund, which has no measurement focus. 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 *other postemployment benefit trust fund* is used to accumulate resources to provide funding for future other postemployment benefits (OPEB) liabilities.

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, police and fire details, escrow deposits and unclaimed property.

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. 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 user fees which includes lienning any unpaid balance plus interest to the corresponding real estate tax bills.

Trash user fees are levied monthly based on the number of units located on the property. The monthly per unit fee collected is \$24 for commercial and \$16 for residential. Collection from any one property shall not exceed \$100 per month. 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, 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 and Prepaid Items***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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

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 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)

Governmental fund equity is classified as fund balance. Fund balance is further classified as follows:

“Nonspendable” fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

“Restricted” fund balance includes amounts subject to constraints placed on the use of resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority. A vote of the City Council is the highest level of decision making authority that can commit funds for a specific purpose. Once voted, the limitation imposed by the vote remains in place until the funds are used for their intended purpose or a vote is taken to rescind the commitment.

“Assigned” fund balance includes amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. The City Finance Director has the authority to assign fund balance. Funds are assigned when the City has an obligation to purchase goods or services from the current years’ appropriation.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

Sometimes the City will fund outlays for a particular purpose from different components of fund balance. In order to calculate the amounts to report as restricted, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. When different components of fund balance can be used for the same purpose, it is the City’s policy to consider restricted fund balance to have been depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

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

An individual fund deficit existed at June 30, 2012 in the school capital projects major fund. This deficit will be funded through long-term borrowing and capital grants.

Actual expenditures exceeded appropriations for snow and ice by under \$10,000. This over-expenditures will be funded with available funds during fiscal year 2013. In the snow and ice non-personnel 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 15% of any trust fund may be invested in bank stocks and

insurance company stocks, and not more than 1.5% 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 City Treasurer is the custodian of funds held in the Other Postemployment Benefit (OPEB) Trust Fund. As of June 30, 2012, \$381,000 from the OPEB Trust Fund is included within the City's cash and investments balances in the following disclosures.

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 formal deposit policy for custodial credit risk. At fiscal year-end, the carrying amount of deposits totaled \$27,902,004 and the bank balance totaled \$29,648,348. Of the bank balance, \$1,809,399 was covered by Federal Depository Insurance, \$4,821,389 was covered by the Share Insurance Fund, \$1,494,048 was covered by the Depositors Insurance Fund, \$16,192,172 was collateralized and \$5,331,340 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The System does not have a formal deposit policy for custodial credit risk. At fiscal year-end, the carrying amount of deposits totaled \$277,367 and the bank balance totaled \$300,000. The entire bank balance was covered by Federal Depository Insurance.

Investments

As of June 30, 2012, the City had the following investments:

Investment Type	Fair Value	Maturity		
		Under 1 Year	1-5 Years	Over 10 Years
<u>Debt Securities:</u>				
Corporate Bonds.....	\$ 1,632,575	\$ 269,251	\$ 1,363,324	\$ -
U.S. Instrumentalities.....	<u>2,238,951</u>	<u>-</u>	<u>2,075,664</u>	<u>163,287</u>
Total Debt Securities.....	3,871,526	<u>\$ 269,251</u>	<u>\$ 3,438,988</u>	<u>\$ 163,287</u>
<u>Other Investments:</u>				
Equity Securities.....	3,182,681			
Equity Mutual Funds.....	1,949,471			
Bond Mutual Funds.....	533,112			
Money Market Mutual Funds.....	773,571			
MMDT.....	<u>73,122</u>			
Total Investments.....	\$ 10,383,483			

As of December 31, 2011, the System had the following investments:

Investment Type	Fair Value	Maturity Under 1 Year
Repurchase Agreements.....	\$ 6,731,650	\$ 6,731,650
<u>Other Investments:</u>		
Government Short-term Investment Funds.....	1,326,533	
Venture Capital and Limited Partnerships.....	191,598	
Real Estate Investment Trust.....	564,672	
Pension Reserve Investment Trust (PRIT).....	85,018,605	
Total Investments.....	\$ 93,833,058	

The City participates in MMDT which is unrated. MMDT maintains a cash portfolio and a short-term bond portfolio with combined average maturities of approximately 3 months.

The System participates in PRIT which is unrated. The effective weighted duration rate for PRIT investments ranged from .08 to 9.69 years.

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, \$1,632,575 of corporate bonds, \$2,238,951 of U.S. Instrumentalities and \$3,182,681 of equity securities are exposed to custodial credit risk because the related securities are uninsured, unregistered and are held by the counterparty.

The City has a formal investment policy related to custodial credit risk to invest in U.S. Treasuries, U.S. Agency obligations and fully collateralized certificates of deposit and, in addition, any investment not meeting this criteria are limited to no more than 5% of an institution's assets and no more than 10% of the municipality's cash.

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 Contributory Retirement Board.

Interest Rate Risk

The City has a formal investment policy limiting investment maturities up to one year as a means of managing its exposure to fair value losses arising from increasing interest rates. The System does not have a formal investment policy related to interest rate risk.

Credit Risk

The City has not adopted a formal policy related to Credit Risk. The investment ratings are as follows:

	<u>Fair Value</u>	<u>AAA</u>	<u>AA+</u>	<u>A</u>	<u>A+</u>	<u>A-</u>	<u>BBB+</u>	<u>Unrated</u>
<u>Debt Securities:</u>								
Corporate Bonds.....	\$ 1,632,575	\$ -	\$ 384,389	\$ 257,302	\$ 197,171	\$ 523,628	\$ 258,710	\$ 11,375
U.S. Instrumentalities.....	<u>2,238,951</u>	<u>2,238,951</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Debt Securities.....	<u>\$ 3,871,526</u>	<u>\$ 2,238,951</u>	<u>\$ 384,389</u>	<u>\$ 257,302</u>	<u>\$ 197,171</u>	<u>\$ 523,628</u>	<u>\$ 258,710</u>	<u>\$ 11,375</u>

The System has not adopted a formal policy related to Credit Risk. The alternate investment mutual funds, real estate mutual fund investments and PRIT are unrated.

Concentration of Credit Risk

The City restricts investments to no more than 5% in any one issuer. The City did not have more than 5% of its investments in any one individual security.

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% of its investments in any one individual security.

NOTE 3 – RECEIVABLES

At June 30, 2012, 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.....	\$ 1,046,979	\$ -	\$ 1,046,979
Tax liens.....	1,499,755	-	1,499,755
Motor vehicle and other excise taxes.....	970,139	(502,939)	467,200
Departmental and other.....	67,162	-	67,162
Intergovernmental.....	23,807,815	-	23,807,815
Loans.....	652,726	(214,256)	438,470
Total.....	<u>\$ 28,044,576</u>	<u>\$ (717,195)</u>	<u>\$ 27,327,381</u>

At June 30, 2012, 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.....	\$ 1,138,578	\$ -	\$ 1,138,578
Sewer user fees.....	2,279,614	-	2,279,614
Trash fees.....	93,103	-	93,103
Total.....	<u>\$ 3,511,295</u>	<u>\$ -</u>	<u>\$ 3,511,295</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:

	General Fund	Other Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 707,777	\$ -	\$ 707,777
Tax liens.....	1,499,755	-	1,499,755
Motor vehicle and other excise taxes.....	467,200	-	467,200
Departmental and other.....	-	67,162	67,162
Intergovernmental.....	19,595,749	796,326	20,392,075
Loans.....	-	438,470	438,470
Total.....	<u>\$ 22,270,481</u>	<u>\$ 1,301,958</u>	<u>\$ 23,572,439</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 6,439,612	\$ -	\$ (4,044)	\$ 6,435,568
Construction in progress.....	557,657	8,216,051	(289,000)	8,484,708
Total capital assets not being depreciated.....	6,997,269	8,216,051	(293,044)	14,920,276
<u>Capital assets being depreciated:</u>				
Land improvements.....	6,569,097	943,857	-	7,512,954
Buildings and improvements.....	171,233,847	48,888	-	171,282,735
Equipment.....	10,072,273	834,110	-	10,906,383
Infrastructure.....	57,053,284	1,882,626	-	58,935,910
Vehicles.....	5,373,800	120,000	(386,070)	5,107,730
Total capital assets being depreciated.....	250,302,301	3,829,481	(386,070)	253,745,712
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(1,965,449)	(292,523)	-	(2,257,972)
Buildings and improvements.....	(49,328,815)	(4,277,377)	-	(53,606,192)
Equipment.....	(4,902,630)	(618,442)	-	(5,521,072)
Infrastructure.....	(29,374,409)	(1,535,012)	-	(30,909,421)
Vehicles.....	(4,289,205)	(272,616)	386,070	(4,175,751)
Total accumulated depreciation.....	(89,860,508)	(6,995,970)	386,070	(96,470,408)
Total capital assets being depreciated, net.....	160,441,793	(3,166,489)	-	157,275,304
Total governmental activities capital assets.....	\$ 167,439,062	\$ 5,049,562	\$ (293,044)	\$ 172,195,580

	Beginning Balance	Increases	Decreases	Ending Balance
Water Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 10,589	\$ -	\$ -	\$ 10,589
Construction in progress.....	1,529,595	881,072	(1,499,760)	910,907
Total capital assets not being depreciated.....	1,540,184	881,072	(1,499,760)	921,496
<u>Capital assets being depreciated:</u>				
Land improvements.....	114,550	-	-	114,550
Equipment.....	296,290	-	-	296,290
Vehicles.....	1,953,196	-	-	1,953,196
Infrastructure.....	15,101,050	2,760,564	-	17,861,614
Total capital assets being depreciated.....	17,465,086	2,760,564	-	20,225,650
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(54,413)	(5,728)	-	(60,141)
Equipment.....	(112,830)	(29,629)	-	(142,459)
Vehicles.....	(34,156)	(9,759)	-	(43,915)
Infrastructure.....	(6,633,910)	(291,579)	-	(6,925,489)
Total accumulated depreciation.....	(6,835,309)	(336,695)	-	(7,172,004)
Total capital assets being depreciated, net.....	10,629,777	2,423,869	-	13,053,646
Total water activities capital assets.....	\$ 12,169,961	\$ 3,304,941	\$ (1,499,760)	\$ 13,975,142
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.....	48,796	-	-	48,796
Infrastructure.....	3,575,544	511,418	-	4,086,962
Total capital assets being depreciated.....	3,629,765	511,418	-	4,141,183
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(5,426)	-	-	(5,426)
Vehicles.....	(34,157)	(9,759)	-	(43,916)
Infrastructure.....	(1,220,894)	(97,296)	-	(1,318,190)
Total accumulated depreciation.....	(1,260,477)	(107,055)	-	(1,367,532)
Total capital assets being depreciated, net.....	2,369,288	404,363	-	2,773,651
Total sewer activities capital assets.....	\$ 2,468,840	\$ 404,363	\$ -	\$ 2,873,203

	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.....	337,233	-	-	337,233
Total capital assets being depreciated.....	1,104,073	-	-	1,104,073
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(305,046)	(1,201)	-	(306,247)
Buildings and improvements.....	(140,488)	(11,000)	-	(151,488)
Equipment.....	(239,735)	(25,947)	-	(265,682)
Total accumulated depreciation.....	(685,269)	(38,148)	-	(723,417)
Total capital assets being depreciated, net.....	418,804	(38,148)	-	380,656
Total golf course activities capital assets.....	\$ 536,871	\$ (38,148)	\$ -	\$ 498,723
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.....	73,805	-	-	73,805
Infrastructure.....	24,952	-	-	24,952
Total capital assets being depreciated.....	9,062,223	-	-	9,062,223
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(208,353)	(33,500)	-	(241,853)
Buildings and improvements.....	(4,312,403)	(191,066)	-	(4,503,469)
Equipment.....	(15,405)	(6,870)	-	(22,275)
Infrastructure.....	(7,485)	(4,990)	-	(12,475)
Total accumulated depreciation.....	(4,543,646)	(236,426)	-	(4,780,072)
Total capital assets being depreciated, net.....	4,518,577	(236,426)	-	4,282,151
Total parking activities capital assets.....	\$ 4,566,791	\$ (236,426)	\$ -	\$ 4,330,365

In the fiduciary activities, the Retirement System owns a condominium, which is being depreciated on a straight-line basis over 40 years. The historical cost of the condominium was \$125,000; accumulated depreciation through December 31, 2011 totals \$21,094, for a net book value of \$103,906.

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

Governmental Activities:

General government.....	\$	376,634
Public safety.....		545,999
Education.....		4,099,157
Public works.....		1,792,611
Health and human services.....		4,636
Culture and recreation.....		176,933

Total depreciation expense - governmental activities..... \$ 6,995,970

Business-Type Activities:

Water.....	\$	336,695
Sewer.....		107,055
Golf Course.....		38,148
Parking.....		236,426

Total depreciation expense - business-type activities..... \$ 718,324

Fiduciary Activities:

Pension Trust.....	\$	<u>3,125</u>
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NOTE 5 – INTERFUND TRANSFERS AND BALANCES

Interfund transfers for the fiscal year ended June 30, 2012, are summarized as follows:

Transfers Out:	Transfers In:					Total
	General Fund	Trash Enterprise Fund	Golf Course Enterprise Fund	Water Enterprise Fund	Nonmajor Governmental Funds	
General Fund.....	\$ -	\$ 2,089,981	\$ 403,269	\$ 100,000	\$ 1,034,875	\$ 3,628,125 (1)
Nonmajor Governmental Funds.....	512,266	-	-	-	58,826	571,092 (2)
Parking Enterprise Fund.....	1,484,835	-	-	-	-	1,484,835 (3)
Golf Course Enterprise Fund.....	607,158	-	-	-	-	607,158 (4)
Sewer Enterprise Fund.....	776,463	-	-	-	-	776,463 (5)
Water Enterprise Fund.....	700,611	-	-	-	9,860	710,471 (6)
Total.....	<u>\$ 4,081,333</u>	<u>\$ 2,089,981</u>	<u>\$ 403,269</u>	<u>\$ 100,000</u>	<u>\$ 1,103,561</u>	<u>\$ 7,778,144</u>

- (1) Transfer from general fund to trash enterprise fund for the City's subsidized portion;
transfer from general fund to golf enterprise fund to reimburse for amounts raised by taxation;
transfer from general fund to nonmajor governmental funds to fund capital projects.
- (2) Transfer from the nonmajor governmental funds to the general fund for their share of indirect costs and transfers within nonmajor governmental funds.
- (3) Transfer from the parking enterprise fund to the general fund for their share of indirect costs.
- (4) Transfer from the golf course enterprise fund to the general fund for their share of indirect costs.
- (5) Transfer from the sewer enterprise fund to the general fund for their share of indirect costs.
- (6) Transfer from the water enterprise fund to the general fund for their share of indirect costs, and a transfer to special revenue for a Water Conservation project.

The City's interfund balances at June 30, 2012 consisted of \$315,113 in balances within the nonmajor governmental funds all representing interfund borrowings for cash flow purposes.

NOTE 6 – CAPITAL LEASES

The City has entered into lease agreements as lessee for financing the acquisition of a fire truck, radio equipment, police vehicles, school buses, 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.....	\$ 541,403
Vehicles.....	324,719
Less: accumulated depreciation.....	<u>(302,192)</u>
Total.....	<u>\$ 563,930</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012, were as follows:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2013.....	\$ 137,958
2014.....	112,061
2015.....	<u>14,012</u>
Total minimum lease payments.....	264,031
Less: amounts representing interest.....	<u>(18,328)</u>
Present value of minimum lease payments.....	<u>\$ 245,703</u>

NOTE 7 – 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, 2012, are as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2011	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2012
Governmental Activities							
GAN	Wharf Expansion.....	1.00%	10/21/11	\$ 3,000,000	\$ -	\$ (3,000,000)	\$ -
BAN	Municipal Purpose.....	1.60%	06/29/12	999,062	-	(999,062)	-
GAN	Wharf Expansion.....	1.50%	10/19/12	-	1,795,677	-	1,795,677
BAN	Municipal Purpose.....	1.20%	09/28/12	-	4,900,000	(3,900,938)	999,062
Sub-total government-type notes.....				<u>3,999,062</u>	<u>6,695,677</u>	<u>(7,900,000)</u>	<u>2,794,739</u>
Business-type Activities							
BAN	Sewer Improvements.....	1.60%	06/29/12	210,000	-	(210,000)	-
BAN	Sewer Improvements.....	1.20%	09/28/12	-	710,000	(710,000)	-
BAN	Water Improvements.....	1.20%	09/28/12	-	1,412,944	(1,412,402)	542
Sub-total business-type notes.....				<u>210,000</u>	<u>2,122,944</u>	<u>(2,332,402)</u>	<u>542</u>
Total notes payable.....				<u>\$ 4,209,062</u>	<u>\$ 8,818,621</u>	<u>\$ (10,232,402)</u>	<u>\$ 2,795,281</u>

Subsequent to year end, the City issued long-term debt which was used to retire \$3,900,938 of governmental BAN's, \$1,412,402 of water BAN's and \$710,000 of sewer BAN's outstanding at June 30, 2012. These BAN's have been classified as long-term debt as of June 30, 2012. The remaining BAN outstanding, totaling \$999,604, was retired with available funds subsequent to year end. The \$1,795,677 GAN outstanding at year end was retired upon maturity with Grant proceeds.

NOTE 8 – 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".

Subsequent to year end, the City issued \$18,181,000 of long-term general obligation bonds. The bond proceeds were partially utilized to retire \$3,900,938 of governmental BAN's, \$1,412,402 of water BAN's and \$710,000 of sewer BAN's outstanding at June 30, 2012 which have been classified as long-term debt.

Details related to the outstanding general obligation indebtedness at June 30, 2012, and the debt service requirements are reported in the following tables.

Bonds Payable Schedule – Governmental Activities

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
HUD Section 108.....	2012	\$ 6,000,000	9.00%	\$ 140,000	\$ -	\$ (35,000)	\$ 105,000
Municipal Purpose Refunding Bonds of 2001.....	2001	14,140,000	3.50-4.00%	905,000	-	(905,000)	-
Municipal Purpose Bonds of 2003.....	2023	28,670,000	3.00-5.00%	19,825,000	-	(1,325,000)	18,500,000
Municipal Purpose Refunding Bonds of 2003.....	2013	4,480,000	2.25-4.50%	925,000	-	(465,000)	460,000
Municipal Purpose Bonds of 2005.....	2025	2,465,000	3.00-5.00%	1,710,000	-	(125,000)	1,585,000
Municipal Purpose Bonds of 2007.....	2028	8,319,497	3.75-5.00%	6,845,000	-	(485,000)	6,360,000
Municipal Purpose Refunding Bonds of 2010.....	2020	8,113,000	2.00-5.00%	7,898,000	-	(838,000)	7,060,000
Municipal Purpose Bonds of 2010.....	2026	5,219,000	3.00-5.00%	5,219,000	-	(539,000)	4,680,000
Municipal Purpose Bonds of 2012.....	2043	3,900,938	2.63-4.00%	-	3,900,938	-	3,900,938
Total Governmental bonds payable.....				43,467,000	3,900,938	(4,717,000)	42,650,938
Unamortized premiums on bonds.....				1,114,526	-	(135,535)	978,991
Total outstanding bonds payable reported in governmental activities.....				<u>\$ 44,581,526</u>	<u>\$ 3,900,938</u>	<u>\$ (4,852,535)</u>	43,629,929
General obligation bonds issued in fiscal year 2013.....							11,242,660
Less unamortized premiums on bonds.....							(978,991)
Total future fiscal year payments of bonds reported in governmental activities.....							<u>\$ 53,893,598</u>

Debt service requirements for principal and interest for governmental bonds payable include the debt issuance subsequent to year end in which all except \$11,242,660 of new funds were used to redeem long-term BANs.

The future fiscal years payments are as follows:

Fiscal Year	Principal	Interest	Total
2013.....	\$ 3,834,000	\$ 1,753,216	\$ 5,587,216
2014.....	4,388,598	1,871,150	6,259,748
2015.....	3,905,000	1,711,966	5,616,966
2016.....	3,940,000	1,573,947	5,513,947
2017.....	3,786,000	1,434,583	5,220,583
2018.....	3,875,000	1,291,593	5,166,593
2019.....	3,870,000	1,144,602	5,014,602
2020.....	3,975,000	978,604	4,953,604
2021.....	3,055,000	820,554	3,875,554
2022.....	2,970,000	692,854	3,662,854
2023.....	3,065,000	562,422	3,627,422
2024.....	1,120,000	425,858	1,545,858
2025.....	1,130,000	384,040	1,514,040
2026.....	900,000	347,749	1,247,749
2027.....	840,000	319,767	1,159,767
2028.....	850,000	292,301	1,142,301
2029.....	465,000	271,519	736,519
2030.....	475,000	257,719	732,719
2031.....	495,000	243,469	738,469
2032.....	505,000	228,769	733,769
2033 through 2043.....	6,450,000	1,301,163	7,751,163
Total.....	<u>\$ 53,893,598</u>	<u>\$ 17,907,845</u>	<u>\$ 71,801,443</u>

The Commonwealth has approved school construction assistance to the City. The assistance program, which is administered by the Massachusetts School Building Authority (MSBA), provides resources for future debt service of general obligation school bonds outstanding along with direct capital grants. During fiscal year 2012, \$3,522,000 of such assistance was received. Approximately \$25,325,000 will be received in future fiscal years. Of the \$25,325,000, \$5,729,000 represents reimbursement of long-term interest costs, and \$19,596,000 represents reimbursement of approved construction costs. Accordingly, a \$19,596,000 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental fund financial statements. Deferred revenue has been eliminated in the conversion to the government-wide financial statements and reported as net assets.

The MSBA has modified the method of funding for new projects in the school building assistance program. Under the new program, the assistance is paid to support the State's share of eligible construction costs as they are incurred, therefore eliminating the need for the City to fund the State's share through long-term debt. The Saltonstall and Collins School projects are being partially funded through this program. As of June 30, 2012, the City has recorded an intergovernmental receivable totaling \$2.1 million, which represents the State's 78.26% share of eligible construction costs incurred to date that have not yet been reimbursed.

Bonds Payable Schedule – Water Enterprise Fund

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
Water Project - MWPAT.....	2027	\$ 2,330,656	2.00%	\$ 1,939,280	\$ -	\$ (103,880)	\$ 1,835,400
Water Project.....	2028	3,250,503	3.75-5.00%	2,750,000	-	(165,000)	2,585,000
Water System Tanks and Improvements.....	2031	8,464,000	3.00-5.00%	8,464,000	-	(544,000)	7,920,000
Water System Improvements.....	2033	1,412,402	2.63-4.00%	-	1,412,402	-	1,412,402
Total Water Enterprise Fund.....				\$ 13,153,280	\$ 1,412,402	\$ (812,880)	\$ 13,752,802

The future fiscal years payments are as follows:

Fiscal Year	Principal	Interest	Total
2013.....	\$ 810,978	\$ 442,807	\$ 1,253,785
2014.....	865,521	441,331	1,306,852
2015.....	870,303	414,736	1,285,039
2016.....	872,532	388,264	1,260,796
2017.....	874,805	359,047	1,233,852
2018.....	877,124	326,902	1,204,026
2019.....	879,490	294,735	1,174,225
2020.....	881,904	262,521	1,144,425
2021.....	889,367	229,859	1,119,226
2022.....	791,880	198,747	990,627
2023.....	799,443	169,484	968,927
2024.....	797,058	140,169	937,227
2025.....	804,726	111,264	915,990
2026.....	802,447	82,767	885,214
2027.....	610,224	58,202	668,426
2028.....	470,000	38,850	508,850
2029.....	310,000	24,050	334,050
2030.....	180,000	15,075	195,075
2031.....	180,000	8,725	188,725
2032.....	90,000	4,200	94,200
2033.....	95,000	1,425	96,425
Total.....	\$ 13,752,802	\$ 4,013,160	\$ 17,765,962

Bonds Payable Schedule – Sewer Enterprise Fund

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
Sewer Improvements.....	2030	\$ 1,690,000	3.00-5.00%	\$ 1,690,000	\$ -	\$ (105,000)	\$ 1,585,000
Sewer Improvements.....	2033	710,000	2.63-4.00%	-	710,000	-	710,000
Total Sewer Enterprise bonds payable.....				\$ 1,690,000	\$ 710,000	\$ (105,000)	2,295,000
General obligation bonds issued in fiscal year 2013.....							725,000
Total Sewer Enterprise Fund.....							\$ 3,020,000

Debt service requirements for principal and interest for sewer enterprise bonds payable include the debt issuance subsequent to year end in which all except \$725,000 of new funds were used to redeem long-term BANs. The future fiscal years payments are as follows:

Fiscal Year	Principal	Interest	Total
2013.....	\$ 100,000	\$ 77,108	\$ 177,108
2014.....	150,000	98,851	248,851
2015.....	155,000	94,277	249,277
2016.....	155,000	89,627	244,627
2017.....	155,000	84,502	239,502
2018.....	155,000	78,902	233,902
2019.....	160,000	73,227	233,227
2020.....	160,000	67,477	227,477
2021.....	155,000	61,502	216,502
2022.....	155,000	55,302	210,302
2023.....	155,000	49,102	204,102
2024.....	160,000	42,802	202,802
2025.....	165,000	36,902	201,902
2026.....	165,000	31,502	196,502
2027.....	165,000	26,052	191,052
2028.....	165,000	20,501	185,501
2029.....	170,000	14,725	184,725
2030.....	135,000	9,475	144,475
2031.....	95,000	5,775	100,775
2032.....	95,000	2,925	97,925
2033.....	50,000	750	50,750
Total.....	\$ 3,020,000	\$ 1,021,286	\$ 4,041,286

Bonds Payable Schedule – Golf Course Enterprise Fund

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
Golf Course Clubhouse Refunding of 2010.....	2017	\$ 172,000	2.00-5.00%	\$ 172,000	\$ -	\$ (32,000)	\$ 140,000

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
2013.....	\$ 31,000	\$ 4,180	\$ 35,180
2014.....	30,000	3,120	33,120
2015.....	30,000	1,920	31,920
2016.....	30,000	1,020	31,020
2017.....	19,000	285	19,285
Total.....	\$ 140,000	\$ 10,525	\$ 150,525

Bonds Payable Schedule – Parking Enterprise Fund

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
Parking Garage Repairs.....	2020	\$ 1,100,000	3.00-5.00%	\$ 650,000	\$ -	\$ (75,000)	\$ 575,000
General obligation bonds issued in fiscal year 2013.....							200,000
Total.....							\$ 775,000

Debt service requirements for principal and interest for parking enterprise bonds payable include the debt issuance subsequent to year end in which all except \$200,000 of new funds were used to redeem long-term BANs. The future fiscal years payments are as follows:

Fiscal Year	Principal	Interest	Total
2013.....	\$ 75,000	\$ 27,817	\$ 102,817
2014.....	115,000	26,900	141,900
2015.....	115,000	21,950	136,950
2016.....	115,000	17,000	132,000
2017.....	115,000	12,800	127,800
2018.....	115,000	8,600	123,600
2019.....	75,000	5,000	80,000
2020.....	50,000	2,000	52,000
Total.....	\$ 775,000	\$ 122,067	\$ 897,067

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, 2012, the City had the following authorized and unissued debt:

Purpose	Amount
School Construction.....	\$ 57,702,453
Water Systems Improvements.....	4,328,208
Capital Projects.....	8,872,500
Refunding Bonds.....	1,400,000
Total.....	<u>\$ 72,303,161</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2012, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Long-term bonds.....	\$ 43,467,000	\$ 3,900,938	\$ (4,717,000)	\$ 42,650,938	\$ 3,834,000
Add: unamortized premium.....	1,114,526	-	(135,535)	978,991	126,627
Total bonds payable.....	44,581,526	3,900,938	(4,852,535)	43,629,929	3,960,627
Capital leases.....	384,965	38,765	(178,027)	245,703	126,554
Compensated absences.....	7,048,019	419,330	(14,280)	7,453,069	1,508,154
Landfill Closure.....	2,400,000	-	(1,800,000)	600,000	-
Workers' compensation.....	1,174,953	758,793	(98,787)	1,834,959	101,904
Other postemployment benefits.....	21,918,722	9,372,439	(4,240,371)	27,050,790	-
Total governmental activity long-term liabilities.....	<u>\$ 77,508,185</u>	<u>\$ 14,490,265</u>	<u>\$ (11,184,000)</u>	<u>\$ 80,814,450</u>	<u>\$ 5,697,239</u>
Business-Type Activities:					
Long-term bonds.....	\$ 15,665,280	\$ 2,122,402	\$ (1,024,880)	\$ 16,762,802	\$ 1,016,978
Compensated absences.....	126,647	62,293	(31,663)	157,277	46,767
Other postemployment benefits.....	901,520	395,907	(179,120)	1,118,307	-
Total business-type activity long-term liabilities.....	<u>\$ 16,693,447</u>	<u>\$ 2,580,602</u>	<u>\$ (1,235,663)</u>	<u>\$ 18,038,386</u>	<u>\$ 1,063,745</u>

Compensated absence, workers' compensation and other postemployment 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, parking, and trash enterprise funds.

NOTE 9 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

The City classifies fund balances according to the constraints imposed on the use of the resources. There are two major types of fund balances, which are nonspendable and spendable.

Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The City has reported principal portions of endowment funds as nonspendable.

Spendable fund balances are classified based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

The City of Salem's spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds are designated for one purpose at the time of their creation. Therefore, any expenditure from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

Massachusetts General Law Ch.40 §5B allows for the establishment of Stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund along with any additions to or appropriations from the fund requires a two-thirds vote of the legislative body. At year end the balances of the General Stabilization Fund and the Retirement Stabilization Fund totaled \$3,453,722 and \$130,520, respectively and are reported as unassigned fund balance within the General Fund.

As of June 30, 2012, the governmental fund balances consisted of the following:

	GOVERNMENTAL FUNDS			
	General	School Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
FUND BALANCES				
Nonspendable:				
Permanent fund principal..... \$	- \$	- \$	2,074,097 \$	2,074,097
Restricted for:				
School Capital Projects fund.....	-	10,970	-	10,970
City revolving funds.....	-	-	1,298,180	1,298,180
City grant funds.....	-	-	1,955,220	1,955,220
School lunch.....	-	-	167,023	167,023
School revolving funds.....	-	-	440,173	440,173
School grant funds.....	-	-	1,940,798	1,940,798
Donations and gifts.....	-	-	1,565,742	1,565,742
Receipts reserved.....	-	-	516,050	516,050
Community development grants.....	-	-	73,640	73,640
Salem Redevelopment Authority.....	-	-	5,800	5,800
Other capital projects.....	-	-	1,134,466	1,134,466
Cemetery fund.....	-	-	1,843,402	1,843,402
Human services fund.....	-	-	1,127,250	1,127,250
Other permanent funds.....	-	-	179,016	179,016
Assigned to:				
General government.....	104,583	-	-	104,583
Public safety.....	11,788	-	-	11,788
Education.....	429,179	-	-	429,179
Public works.....	423,695	-	-	423,695
Human services.....	4,800	-	-	4,800
Culture and recreation.....	11,692	-	-	11,692
Unassigned.....	9,550,262	(1,301,380)	(713,160)	7,535,722
TOTAL FUND BALANCES (DEFICIT)..... \$	10,535,999 \$	(1,290,410) \$	13,607,697 \$	22,853,286

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. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

As of July 1, 2008, the City changed to a premium based plan for workers' compensation coverage. The remaining claims that were incurred prior to July 1, 2008 are accounted for in the funds incurring the expenditures.

Workers' Compensation

Workers' compensation claims incurred prior to July 1, 2008 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, 2012, the amount of the liability for workers' compensation claims totaled \$1,834,959.

Changes in the reported liability since July 1, 2010, 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 2011.....	\$ 812,132	\$ 639,627	\$ (276,806)	\$ 1,174,953	\$ 98,787
Fiscal Year 2012.....	1,174,953	1,142,946	(482,940)	1,834,959	101,904

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 \$9,695,000 for the fiscal year ended June 30, 2012, 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, 2011, the System's membership consists of the following:

Active members.....	870
Inactive members.....	153
Retirees and beneficiaries currently receiving benefits.....	<u>579</u>
Total.....	<u>1,602</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 86% 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, 2012, 2011, and 2010, were \$8,935,504, \$8,543,631, and \$8,233,450, respectively, which equaled its required contribution for each fiscal year. The required contribution was determined as part of the January 1, 2012, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included an inflation rate of 3%, 8% investment rate of return and projected salary increases of 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 closed amortization period at January 1, 2012 was 18 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)
01/01/12	\$ 106,806,161	\$ 214,346,363	\$ 107,540,202	49.8%	\$ 37,076,549	290.0%
01/01/10	100,046,731	193,470,036	93,423,305	51.7%	34,583,002	270.1%
01/01/08	99,998,471	179,382,299	79,383,828	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%

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 85% of the unfunded liability.

The schedule of progress, presented as required supplementary information, following the notes to the basic 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 liability for benefits. Additionally, the schedule of employer contributions, presented as required supplementary information, following the notes to the basic financial statements, presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the City is one participating employer, as well as the City's proportionate share of the plan's annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the City.

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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 2012, totaled \$1.9 million.

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 70% 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 70% in fiscal year 2013 for retirees in active plans. Plan members receiving benefits contribute the remainder of their premium costs. For fiscal year 2012, the City contributed \$3.3 million to the plan, and total member contributions totaled \$1.5 million.

Annual OPEB Cost and Net OPEB Obligation – The City's annual other postemployment 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:

Annual required contribution.....	\$ 9,555,726
Interest on net OPEB obligation.....	1,029,161
Adjustments to annual required contribution.....	(816,541)
Annual OPEB cost (expense).....	<u>9,768,346</u>
Contributions made (including retired teachers).....	<u>(4,419,491)</u>
Increase in net OPEB obligation.....	5,348,855
Net OPEB obligation-beginning of year.....	<u>22,820,242</u>
Net OPEB obligation-end of year.....	<u>\$ 28,169,097</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2010, 2011 and 2012 are 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>
6/30/2012	\$ 9,768,346	45%	\$ 28,169,097
6/30/2011	11,577,795	51%	22,820,242
6/30/2010	11,005,122	48%	17,159,404

Funded Status and Funding Progress – As of December 31, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits totaled \$145 million, all of which was unfunded.

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, 2011, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 4.5% 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 9% initially, graded to 5% over 8 years. Both rates included a 4.0% inflation assumption. The UAAL is being amortized over an open 30 year period using a level percentage of projected payroll 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, Dominion, who is the operator of a coal-fired electric generating power plant on the waterfront in Salem. In fiscal 2009, the City and the taxpayer entered into a three-year agreement, which would provide total payments of \$4.75 million in fiscal years 2009, 2010, and 2011, in the form of annual tax payments of \$3 million, and annual additional contributions of \$1.75 million, to be used exclusively for public purposes. In fiscal year 2011, Dominion filed paperwork to decommission all four of its generating units in Salem, which would have a negative impact on the City's revenue stream. To provide relief to municipalities from the decommissioning of electric generating stations, if the change in operating status also reduces the Commonwealth's greenhouse gas emissions, the Commonwealth has enacted Section 33 of Chapter 68 of the Acts of 2011 (the Act). The Act will defray the burden of the closure on the taxpayers by supplementing the difference between the payments in taxes from the plant and what the City would have otherwise collected until fiscal year 2016. During fiscal year 2012, Dominion was sold to Footprint Power in which subject to negotiation Footprint will assume the tax liability from Dominion. Footprint plans to operate the plant until 2014 at which time it will shut down the plant, demolish the old plant, clean up the site and build a new natural gas fired plant. They are in the process of applying for permitting for the complete decommission of the old plant and will demolish existing structures to make room for a new, 630 megawatt natural gas fired plant. This new plant will take up a portion of the property, leaving a significant portion of unused land in which the City and Footprint have been looking into other commercial uses of the land.

NOTE 14 – ENVIRONMENTAL REMEDIATION LIABILITY

State and federal laws and regulations require the City to construct a final capping system on its inactive landfill site, the Salem Transfer Station, when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The City has stopped accepting waste at the site and the site is closed. The City is the owner and permittee of the Salem Transfer Station site, while Northside Carting, Inc. operated the facility. The City has completed a preliminary study in order to estimate the cost of the landfill postclosure care which is to be paid for equally by the City and the operator. As a result, the City has recorded a liability of \$600,000 in the entity-wide financial statements for the total estimated postclosure costs. Actual costs may be higher due to inflation, changes in technology, or changes in applicable laws, regulations or agreements.

NOTE 15 – COMMITMENTS

The City entered into contracts totaling approximately \$53.7 million. Of this amount, \$1.1 million relates to Lafayette Street improvements, \$1.1 million relates to the McGrath Park improvements, \$119,000 is for road rehabilitation, \$87,000 is for sealcoating, \$535,000 is for drain and utility line improvements, and \$60,000 is for landscape design services. Additionally, the City is in the process of completing contracts of \$1.8 million for new water meters, \$691,000 for the installation of said water meters, and \$48.4 million for renovations to the Collins Middle School and Saltonstall School. The school projects are comprised of \$1.7 million for construction management, \$4.4 million for architectural services and \$42.3 million for construction.

NOTE 16 – 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, 2012, 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 the liability, if any, at June 30, 2012, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2012.

NOTE 17 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2012, the following GASB pronouncements were implemented:

- The GASB issued Statement #62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The implementation of this pronouncement did not impact the basic financial statements.
- The GASB issued Statement #64, Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53. The implementation of this pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in future fiscal years:

- The GASB issued Statement #60, Accounting and Financial Reporting for Service Concession Arrangements, which is required to be implemented in fiscal year 2013. This Statement addresses service concession arrangements, which are a type of public-private or public-public partnership.
- The GASB issued Statement #61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No.34, which is required to be implemented in fiscal year 2013. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity.

- The GASB issued Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, which is required to be implemented in fiscal year 2015.

Management is currently assessing the impact that the implementation of these pronouncements will have on the basic financial statements.

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, 2012

	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.....	\$ -	\$ 72,370,396	\$ 72,370,396	\$ 72,370,396	\$ 72,286,084	\$ -	\$ (84,312)	
Tax liens.....	-	-	-	-	647,045	-	647,045	
Motor vehicle and other excise taxes.....	-	2,960,000	2,960,000	2,960,000	3,203,122	-	243,122	
Hotel/motel tax and meals taxes.....	-	1,160,000	1,160,000	1,160,000	1,161,007	-	1,007	
Charges for services.....	-	1,050,000	1,050,000	1,050,000	1,394,844	-	344,844	
Penalties and interest on taxes.....	-	383,000	383,000	383,000	487,842	-	104,842	
Payments in lieu of taxes.....	-	1,320,000	1,320,000	1,320,000	1,440,186	-	120,186	
Licenses and permits.....	-	450,000	450,000	450,000	499,048	-	49,048	
Fines and forfeitures.....	-	950,000	950,000	950,000	1,255,894	-	305,894	
Intergovernmental.....	-	30,990,057	30,990,057	31,411,934	31,486,730	-	74,796	
Departmental and other.....	-	2,300,000	2,300,000	2,300,000	2,316,253	-	16,253	
Investment income.....	-	50,000	50,000	50,000	74,900	-	24,900	
TOTAL REVENUES.....	-	113,983,453	113,983,453	114,405,330	116,252,955	-	1,847,625	
EXPENDITURES:								
Current:								
General government								
City Council								
Personnel.....	-	119,700	119,700	119,700	119,700	-	-	
Non - Personnel.....	-	52,627	52,627	52,627	40,092	-	12,535	
Total.....	-	172,327	172,327	172,327	159,792	-	12,535	
Mayor								
Personnel.....	-	268,156	268,156	268,156	268,136	-	20	
Non - Personnel.....	13,000	90,000	103,000	103,000	88,736	10,520	3,744	
Total.....	13,000	358,156	371,156	371,156	356,872	10,520	3,764	
Finance/Auditing								
Personnel.....	-	241,899	241,899	241,899	241,783	-	116	
Non - Personnel.....	4,360	40,700	45,060	45,060	34,042	6,955	4,063	
Total.....	4,360	282,599	286,959	286,959	275,825	6,955	4,179	
Purchasing								
Personnel.....	-	99,370	99,370	99,370	48,880	-	50,490	
Non - Personnel.....	-	17,900	17,900	17,900	17,310	-	590	
Fixed Costs.....	-	51,254	51,254	51,254	50,798	-	456	
Total.....	-	168,524	168,524	168,524	116,988	-	51,536	
Assessors								
Personnel.....	-	253,055	253,055	237,055	232,023	-	5,032	
Non - Personnel.....	-	26,177	26,177	66,177	63,597	-	2,580	
Total.....	-	279,232	279,232	303,232	295,620	-	7,612	
Treasurer								
Personnel.....	-	158,842	158,842	158,842	157,831	-	1,011	
Non - Personnel.....	67,572	58,310	125,882	184,682	123,082	60,200	1,400	
Total.....	67,572	217,152	284,724	343,524	280,913	60,200	2,411	
Collector								
Personnel.....	-	199,412	199,412	199,412	197,400	-	2,012	
Non - Personnel.....	1,000	6,500	7,500	7,500	6,036	1,050	414	
Total.....	1,000	205,912	206,912	206,912	203,436	1,050	2,426	
Solicitor								
Personnel.....	1,900	209,542	211,442	211,853	209,953	-	1,900	
Non - Personnel.....	-	58,400	58,400	85,989	85,605	-	384	
Total.....	1,900	267,942	269,842	297,842	295,558	-	2,284	

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2012

	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.....	-	221,955	221,955	221,955	221,955	-	-
Non - Personnel.....	-	29,950	29,950	29,950	29,752	-	198
Total.....	-	251,905	251,905	251,905	251,707	-	198
Data Processing							
Personnel.....	-	159,657	159,657	159,657	157,783	1,873	1
Non - Personnel.....	-	31,225	31,225	31,225	23,653	5,145	2,427
Fixed Costs.....	1,270	322,140	323,410	323,410	303,253	18,840	1,317
GIS Expenses.....	450	-	450	450	-	-	450
Total.....	1,720	513,022	514,742	514,742	484,689	25,858	4,195
City Clerk Record Maintenance							
Personnel.....	-	251,256	251,256	251,256	251,053	-	203
Non - Personnel.....	500	7,000	7,500	7,500	6,810	-	690
Total.....	500	258,256	258,756	258,756	257,863	-	893
Elections & Registrations							
Personnel.....	-	97,166	97,166	97,166	97,162	-	4
Non - Personnel.....	8,525	50,100	58,625	58,625	56,940	-	1,685
Total.....	8,525	147,266	155,791	155,791	154,102	-	1,689
Conservation Commission							
Personnel.....	-	25,056	25,056	25,056	24,287	-	769
Non - Personnel.....	-	425	425	425	389	-	36
Total.....	-	25,481	25,481	25,481	24,676	-	805
Subdivision, Planning, and Zoning Board							
Personnel.....	-	23,931	23,931	23,931	22,668	-	1,263
Non - Personnel.....	-	3,000	3,000	3,000	2,185	-	815
Total.....	-	26,931	26,931	26,931	24,853	-	2,078
Board of Appeals							
Personnel.....	-	3,000	3,000	3,000	3,000	-	-
Non - Personnel.....	-	550	550	550	262	-	288
Total.....	-	3,550	3,550	3,550	3,262	-	288
Planning Department							
Personnel.....	-	256,290	256,290	256,290	255,663	-	627
Non - Personnel.....	-	7,275	7,275	7,275	6,338	-	937
Total.....	-	263,565	263,565	263,565	262,001	-	1,564
Public Property/Building Maintenance							
Fixed Costs.....	-	685,885	685,885	693,885	692,509	-	1,376
Market and Tourism.....	-	196,375	196,375	196,375	196,353	-	22
Total General Government.....	98,577	4,324,080	4,422,657	4,541,457	4,337,019	104,583	99,855

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2012

	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.....	-	7,424,200	7,424,200	7,457,016	7,456,520	-	496
Non - Personnel.....	16,607	482,145	498,752	562,552	533,500	6,088	22,964
Total.....	16,607	7,906,345	7,922,952	8,019,568	7,990,020	6,088	23,460
Fire							
Personnel.....	13,500	6,886,746	6,900,246	6,900,246	6,822,682	-	77,564
Non - Personnel.....	9,700	374,064	383,764	404,390	382,397	5,700	16,293
Total.....	23,200	7,260,810	7,284,010	7,304,636	7,205,079	5,700	93,857
Building, Plumbing, Gas Inspections							
Personnel.....	-	299,951	299,951	305,951	298,314	-	7,637
Non - Personnel.....	-	24,700	24,700	73,700	66,114	-	7,586
Total.....	-	324,651	324,651	379,651	364,428	-	15,223
Electrical Inspection and Maintenance							
Personnel.....	-	261,218	261,218	261,218	258,720	-	2,498
Non - Personnel.....	-	772,000	772,000	772,000	746,411	-	25,589
Total.....	-	1,033,218	1,033,218	1,033,218	1,005,131	-	28,087
Harbormaster							
Personnel.....	-	159,481	159,481	159,481	155,667	-	3,814
Non - Personnel.....	-	43,730	43,730	43,730	41,258	-	2,472
Total.....	-	203,211	203,211	203,211	196,925	-	6,286
Total Public Safety.....	39,807	16,728,235	16,768,042	16,940,284	16,761,583	11,788	166,913
Education							
School.....	393,287	48,856,000	49,249,287	49,249,287	48,611,521	429,179	208,587
NSRS/Charter/Choice.....	-	1,601,211	1,601,211	1,574,316	1,574,316	-	-
Total Education.....	393,287	50,457,211	50,850,498	50,823,603	50,185,837	429,179	208,587
Public Works							
Public Services							
Personnel.....	-	1,515,566	1,515,566	1,504,566	1,502,251	-	2,315
Non - Personnel.....	-	523,741	523,741	1,056,583	661,388	375,083	20,112
Total.....	-	2,039,307	2,039,307	2,561,149	2,163,639	375,083	22,427
Engineering							
Personnel.....	-	72,320	72,320	72,320	72,314	-	6
Non - Personnel.....	-	5,750	5,750	5,750	5,134	-	616
Total.....	-	78,070	78,070	78,070	77,448	-	622
Snow and Ice							
Personnel.....	-	50,000	50,000	50,000	21,395	-	28,605
Non - Personnel.....	-	344,560	344,560	344,560	317,995	36,550	(9,985)
Total.....	-	394,560	394,560	394,560	339,390	36,550	18,620
Parking Garage							
Personnel.....	-	546,273	546,273	536,273	530,314	-	5,959
Non - Personnel.....	3,360	161,100	164,460	174,460	159,453	12,062	2,945
Total.....	3,360	707,373	710,733	710,733	689,767	12,062	8,904
Total Public Works.....	3,360	3,219,310	3,222,670	3,744,512	3,270,244	423,695	50,573

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2012

	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.....	-	344,000	344,000	344,000	314,572	-	29,428
Non - Personnel.....	-	19,600	19,600	19,600	13,976	-	5,624
Total.....	-	363,600	363,600	363,600	328,548	-	35,052
Council on Aging							
Personnel.....	-	242,267	242,267	242,267	231,227	-	11,040
Non - Personnel.....	-	30,100	30,100	30,100	28,915	-	1,185
Total.....	-	272,367	272,367	272,367	260,142	-	12,225
Veterans Services							
Personnel.....	-	73,543	73,543	68,258	68,258	-	-
Non - Personnel.....	33,900	210,700	244,600	264,885	259,535	4,800	550
Total.....	33,900	284,243	318,143	333,143	327,793	4,800	550
Total Health and Human Services.....	33,900	920,210	954,110	969,110	916,483	4,800	47,827
Culture and Recreation							
Library							
Personnel.....	-	869,787	869,787	869,787	853,273	-	16,514
Non - Personnel.....	-	288,028	288,028	288,028	280,424	-	7,604
Total.....	-	1,157,815	1,157,815	1,157,815	1,133,697	-	24,118
Parks and Recreation							
Personnel.....	-	335,754	335,754	335,754	328,808	-	6,946
Non - Personnel.....	12,843	151,610	164,453	164,453	153,410	9,866	1,177
Total.....	12,843	487,364	500,207	500,207	482,218	9,866	8,123
Golf Course							
Personnel.....	-	262,706	262,706	233,306	222,840	-	10,466
Non - Personnel.....	4,284	99,500	103,784	158,184	143,937	317	13,930
Total.....	4,284	362,206	366,490	391,490	366,777	317	24,396
Witch House							
Personnel.....	-	74,066	74,066	74,066	69,495	-	4,571
Non - Personnel.....	2,994	64,280	67,274	67,274	60,892	1,510	4,873
Total.....	2,994	138,346	141,340	141,340	130,387	1,510	9,444
Historical Commission							
Personnel.....	-	8,066	8,066	8,066	8,020	-	46
Non - Personnel.....	-	1,030	1,030	1,030	940	-	90
Total.....	-	9,096	9,096	9,096	8,960	-	136
Winter Island							
Personnel.....	-	114,047	114,047	114,047	114,044	-	3
Non - Personnel.....	842	49,500	50,342	50,342	46,317	-	4,025
Total.....	842	163,547	164,389	164,389	160,361	-	4,028
Total Culture and Recreation.....	20,963	2,318,374	2,339,337	2,364,337	2,282,400	11,692	70,245

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2012

	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			
Debt service:							
Principal.....	-	4,888,920	4,888,920	4,789,001	4,789,001	-	-
Interest.....	-	1,752,138	1,752,138	1,752,058	1,752,058	-	-
Short Term Interest.....	-	30,000	30,000	38,200	38,190	-	10
Total.....	-	6,671,058	6,671,058	6,579,259	6,579,249	-	10
State and county charges.....	-	6,773,027	6,773,027	6,773,027	6,390,908	-	382,119
Pension benefits							
Contributory Retirement.....	-	8,765,223	8,765,223	8,774,025	8,773,800	-	225
Non-Contributory Retirement.....	-	87,675	87,675	69,673	69,474	-	199
Total.....	-	8,852,898	8,852,898	8,843,698	8,843,274	-	424
Workmen's Compensation.....	-	445,000	445,000	457,000	456,641	-	359
Unemployment Compensation.....	-	250,000	250,000	405,000	349,378	-	55,622
Group Insurance.....	-	11,276,999	11,276,999	11,536,923	11,464,758	-	72,165
Medicare.....	-	768,282	768,282	852,377	852,215	-	162
Municipal Insurance.....	-	305,000	305,000	250,000	249,689	-	311
TOTAL EXPENDITURES.....	589,894	113,309,684	113,899,578	115,080,587	112,939,678	985,737	1,155,172
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(589,894)	673,769	83,875	(675,257)	3,313,277	(985,737)	3,002,797
OTHER FINANCING SOURCES (USES):							
Premium from issuance of bonds.....	-	-	-	-	1,059	-	1,059
Transfers in.....	-	2,474,116	2,474,116	2,549,081	2,596,498	-	47,417
Transfers out.....	-	(3,453,981)	(3,453,981)	(5,149,053)	(5,149,053)	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	-	(979,865)	(979,865)	(2,599,972)	(2,551,496)	-	48,476
NET CHANGE IN FUND BALANCE.....	(589,894)	(306,096)	(895,990)	(3,275,229)	761,781	(985,737)	3,051,273
BUDGETARY FUND BALANCE, Beginning of year.....	-	6,217,521	6,217,521	6,217,521	6,217,521	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ (589,894)	\$ 5,911,425	\$ 5,321,531	\$ 2,942,292	\$ 6,979,302	\$ (985,737)	\$ 3,051,273

(concluded)

See notes to required supplementary information.

Retirement System Schedules of Funding Progress and Employer Contributions

The Retirement System Schedule of Funding Progress presents multiyear trend information relating to the cost-sharing plan as a whole, of which the City is one participating employer, about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The Retirement System Schedule of Employer Contributions presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the City is one participating employer, as well as the City's proportionate share of the plan's annual contributions.

SALEM CONTRIBUTORY RETIREMENT SYSTEM
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)
01/01/12	\$ 106,806,161	\$ 214,346,363	\$ 107,540,202	49.8%	\$ 37,076,549	290.0%
01/01/10	100,046,731	193,470,036	93,423,305	51.7%	34,583,002	270.1%
01/01/08	99,998,471	179,382,299	79,383,828	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%

See notes to required supplementary information.

SALEM CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30	System Wide			City of Salem	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contributions	(B/A) City's Percentage of System Wide Actual Contributions
2012	\$ 10,470,232	\$ 10,470,232	100%	\$ 8,935,504	85.34%
2011	9,991,587	9,991,587	100%	8,543,631	85.51%
2010	9,628,758	9,628,758	100%	8,233,450	85.51%
2009	9,239,327	9,239,327	100%	7,952,910	86.08%
2008	8,939,812	8,939,812	100%	7,693,291	86.06%
2007	8,431,371	8,431,371	100%	7,209,359	85.51%

The City's Actual Contributions equaled 100% of its Required Contributions for each year presented.

See notes to required supplementary information.

Other Postemployment 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 Employer Contributions presents, over time, the ratio of the actual annual employer contributions to the annual required contribution.

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

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Schedule of Funding Progress

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)
12/31/2011	\$ -	\$ 145,033,856	\$ 145,033,856	0%	\$ 50,103,473	289.5%
12/31/2009	-	171,447,034	171,447,034	0%	52,107,612	329.0%
12/31/2007	-	156,258,800	156,258,800	0%	50,103,473	311.9%

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution (ARC)	Actual Contributions Made	Percentage of the ARC Contributed
2012	\$ 9,555,726	\$ 4,419,491	46%
2011	11,374,693	5,916,957	52%
2010	10,869,698	5,287,195	49%
2009	11,068,269	6,799,394	61%
2008	10,554,680	3,443,274	33%

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods:

Valuation date	December 31, 2011
Actuarial cost method	Projected Unit Credit
Amortization method	Payments increasing at 4.0% per year as a level percentage of projected payroll
Remaining amortization period	30 years as of December 31, 2011, open

Actuarial Assumptions:

Investment rate of return	4.5%, pay-as-you-go scenario
Medical/drug cost trend rate	9.0% decreasing by 0.5% for 8 years to be an ultimate level of 5.0% per year.

Plan Membership:

Current retirees, beneficiaries, and dependents	1,053
Current active members	<u>890</u>
Total	<u><u>1,943</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 it 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 2012 approved budget authorized approximately \$117 million in appropriations and other amounts to be raised. During the fiscal year, increases to the original budget were approved totaling approximately \$2.9 million. The most notable components of this increase include an additional \$2.3 million in available funds (free cash) appropriated to fund stabilization reserves, veteran's benefits, capital improvements, and various additional appropriations.

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, 2012, is presented below:

Net change in fund balance - budgetary basis.....	\$ 761,781
<u>Perspective differences:</u>	
Reclassification of enterprise fund revenue budgeted in the general fund.....	1,888,104
Reclassification of enterprise fund expenditures budgeted in the general fund.....	(1,888,104)
Activity of the Salem Community Charter School.....	271,385
Activity of the stabilization funds recorded in the general fund for GAAP.....	591,376
<u>Basis of accounting differences:</u>	
Net change in revenues in recording tax refunds payable.....	(84,022)
Recognition of revenue for on-behalf payments.....	9,695,000
Recognition of expenditures for on-behalf payments.....	<u>(9,695,000)</u>
Net change in fund balances - GAAP basis.....	\$ <u><u>1,540,520</u></u>

3. Appropriation Deficits

During fiscal year 2012, expenditures exceeded budgeted appropriations for snow and ice. These over expenditures will be funded with available funds in fiscal year 2013.

NOTE B – PENSION PLAN

The City contributes to the System, a cost-sharing, multiple-employer defined benefit pension plan ("Plan") administered by the Salem Contributory Retirement Board. The System provides retirement, disability, and death benefits to members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the Plan. The City is required to pay into the Retirement System its share of the system-wide actuarially determined contribution which is apportioned among the employers based on active covered payroll.

The schedule of funding progress, presented as required supplementary information presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Additionally, the schedule of employer contributions, presented as required supplementary information presents multi-year trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the City is one participating employer, as well as the City's proportionate share of the plan's annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the City.

The following actuarial methods and assumptions were used in the Retirement System's most recent actuarial valuation:

Actuarial Methods and Assumptions:

Valuation Date.....	January 1, 2012
Actuarial Cost Method.....	Entry Age Normal Cost Method
Amortization Method.....	Increasing at 4.5% per year as a level percentage of projected payroll.
Remaining Amortization Period.....	20 years remaining as of July 1, 2012, open
Asset Valuation Method.....	The difference between the expected return on an actuarial basis and actual investment return on a market value basis is recognized over a 5 year period.
Investment rate of return.....	8.00%
Projected salary increases.....	5.00%
Cost of living adjustments.....	3.00% for the first \$12,000 of retirement income

NOTE C – OTHER POSTEMPLOYMENT 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 postemployment 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 multiyear trend information which compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions presents, over time, the ratio of the actual annual employer contributions to the annual required contribution.

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.

Salem Redevelopment Authority Fund – This fund is used to account for the activity of the Salem Redevelopment Authority (SRA) and is financed by federal, state, and other grants included with the Community Development grants. The funds are used for redevelopment and improvement of buildings and business storefronts located within the Urban Renewal Area which makes up a majority of Downtown Salem.

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 and 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

Wharf Renovation Fund – This fund is used to account for the renovation of the wharf which is being financed mainly by grants.

McGrath Park – This fund is used to account for the renovation and remediation of the McGrath Park.

Other Funds – This fund is used to account for various capital projects.

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

Human Service Fund – 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.

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**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

JUNE 30, 2012

Special Revenue Funds								
	City Grants	School Grants	Community Development Grants	Salem Redevelopment Authority	School Lunch	Highway Grants	Donations and Gifts	Receipts Reserved
ASSETS								
Cash and cash equivalents.....	\$ 1,327,636	\$ 1,951,242	\$ 104,067	\$ 5,800	\$ 182,607	\$ -	\$ 715,898	\$ 516,050
Investments.....	-	-	-	-	-	-	849,844	-
Receivables, net of uncollectibles:								
Departmental and other.....	-	-	-	-	-	-	-	67,162
Intergovernmental.....	669,306	129,532	125,206	-	-	888,180	-	-
Loans.....	-	-	293,506	-	-	-	-	-
Due from other funds.....	217,061	-	-	-	-	-	-	-
TOTAL ASSETS.....	\$ 2,214,003	\$ 2,080,774	\$ 522,779	\$ 5,800	\$ 182,607	\$ 888,180	\$ 1,565,742	\$ 583,212
LIABILITIES AND FUND BALANCES								
LIABILITIES:								
Warrants payable.....	\$ 226,527	\$ 29,200	\$ 23,946	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued payroll.....	32,256	110,776	6,481	-	15,584	-	-	-
Deferred revenues.....	-	-	293,506	-	-	796,325	-	67,162
Due to other funds.....	-	-	125,206	-	-	91,855	-	-
Notes payable.....	-	-	-	-	-	-	-	-
TOTAL LIABILITIES.....	258,783	139,976	449,139	-	15,584	888,180	-	67,162
FUND BALANCES:								
Nonspendable.....	-	-	-	-	-	-	-	-
Restricted.....	1,955,220	1,940,798	73,640	5,800	167,023	-	1,565,742	516,050
Unassigned.....	-	-	-	-	-	-	-	-
TOTAL FUND BALANCES.....	1,955,220	1,940,798	73,640	5,800	167,023	-	1,565,742	516,050
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 2,214,003	\$ 2,080,774	\$ 522,779	\$ 5,800	\$ 182,607	\$ 888,180	\$ 1,565,742	\$ 583,212

(Continued)

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

JUNE 30, 2012

	Capital Project Funds						
	City Revolving Accounts	School Revolving Accounts	Subtotal	Wharf Renovation	McGrath Park	Other	Subtotal
ASSET							
Cash and cash equivalents.....	\$ 1,298,181	\$ 463,094	\$ 6,564,575	\$ 1,663,799	\$ 628,047	\$ 43,254	\$ 2,335,100
Investments.....	-	-	849,844	-	-	-	-
Receivables, net of uncollectibles:							
Departmental and other.....	-	-	67,162	-	-	-	-
Intergovernmental.....	-	-	1,812,224	271,524	-	-	271,524
Loans.....	144,964	-	438,470	-	-	-	-
Due from other funds.....	-	-	217,061	98,052	-	-	98,052
TOTAL ASSETS.....	\$ 1,443,145	\$ 463,094	\$ 9,949,336	\$ 2,033,375	\$ 628,047	\$ 43,254	\$ 2,704,676
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Warrants payable.....	\$ -	\$ 6,000	\$ 285,673	\$ 11,446	\$ 345,358	\$ 32,837	\$ 389,641
Accrued payroll.....	-	16,921	182,018	-	-	-	-
Deferred revenues.....	144,965	-	1,301,958	-	-	-	-
Due to other funds.....	-	-	217,061	-	-	98,052	98,052
Notes payable.....	-	-	-	1,795,677	-	-	1,795,677
TOTAL LIABILITIES.....	144,965	22,921	1,986,710	1,807,123	345,358	130,889	2,283,370
FUND BALANCES:							
Nonspendable.....	-	-	-	-	-	-	-
Restricted.....	1,298,180	440,173	7,962,626	226,252	282,689	625,525	1,134,466
Unassigned.....	-	-	-	-	-	(713,160)	(713,160)
TOTAL FUND BALANCES.....	1,298,180	440,173	7,962,626	226,252	282,689	(87,635)	421,306
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 1,443,145	\$ 463,094	\$ 9,949,336	\$ 2,033,375	\$ 628,047	\$ 43,254	\$ 2,704,676

(Continued)

Permanent Funds				Total Nonmajor Governmental Funds
Cemetery Fund	Human Service Fund	Other	Subtotal	
\$ 346,420	\$ 163,375	\$ 140,849	\$ 650,644	\$ 9,550,319
2,482,991	1,185,049	905,081	4,573,121	5,422,965
-	-	-	-	67,162
-	-	-	-	2,083,748
-	-	-	-	438,470
-	-	-	-	315,113
<u>\$ 2,829,411</u>	<u>\$ 1,348,424</u>	<u>\$ 1,045,930</u>	<u>\$ 5,223,765</u>	<u>\$ 17,877,777</u>
\$ -	\$ -	\$ -	\$ -	\$ 675,314
-	-	-	-	182,018
-	-	-	-	1,301,958
-	-	-	-	315,113
-	-	-	-	1,795,677
-	-	-	-	4,270,080
986,009	221,174	866,914	2,074,097	2,074,097
1,843,402	1,127,250	179,016	3,149,668	12,246,760
-	-	-	-	(713,160)
<u>2,829,411</u>	<u>1,348,424</u>	<u>1,045,930</u>	<u>5,223,765</u>	<u>13,607,697</u>
<u>\$ 2,829,411</u>	<u>\$ 1,348,424</u>	<u>\$ 1,045,930</u>	<u>\$ 5,223,765</u>	<u>\$ 17,877,777</u>

(Concluded)

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

FISCAL YEAR ENDED JUNE 30, 2012

	Special Revenue Funds						
	City Grants	School Grants	Community Development Grants	Salem Redevelopment Authority	School Lunch	Highway Grants	Donations and Gifts
REVENUES:							
Charges for services.....	\$ 10,978	\$ 112,647	\$ -	\$ -	\$ -	\$ -	\$ -
Penalties and interest on taxes.....	-	-	-	-	-	-	-
Intergovernmental.....	7,831,314	5,749,643	1,298,709	-	1,734,228	664,203	-
Departmental and other.....	219,220	89,954	127,904	-	-	-	2,015
Contributions.....	24,663	22,797	-	-	-	-	263,922
Investment income (loss).....	427	-	235	14	-	-	26,331
TOTAL REVENUES.....	8,086,602	5,975,041	1,426,848	14	1,734,228	664,203	292,268
EXPENDITURES:							
Current:							
General government.....	759,398	-	-	-	-	-	2,069
Public safety.....	1,363,785	-	-	-	-	-	27,356
Education.....	171,404	6,077,900	-	-	1,622,663	-	36,784
Public works.....	104,070	-	-	-	-	664,203	4,395
Community development.....	1,148,885	-	1,416,828	15,000	-	-	-
Health and human services.....	4,595,973	-	-	-	-	-	18,963
Culture and recreation.....	69,699	-	-	-	-	-	18,349
Debt service:							
Principal.....	-	-	35,000	-	-	-	-
Interest.....	-	-	3,913	-	-	-	-
TOTAL EXPENDITURES.....	8,213,214	6,077,900	1,455,741	15,000	1,622,663	664,203	107,916
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(126,612)	(102,859)	(28,893)	(14,986)	111,565	-	184,352
OTHER FINANCING SOURCES (USES):							
Issuance of bonds and notes.....	-	-	-	-	-	-	-
Transfers in.....	1,055,379	45,407	2,775	-	-	-	-
Transfers out.....	(55,327)	(46,488)	-	-	-	-	(4,429)
TOTAL OTHER FINANCING SOURCES (USES).....	1,000,052	(1,081)	2,775	-	-	-	(4,429)
NET CHANGE IN FUND BALANCES.....	873,440	(103,940)	(26,118)	(14,986)	111,565	-	179,923
FUND BALANCES AT BEGINNING OF YEAR.....	1,081,780	2,044,738	99,758	20,786	55,458	-	1,385,819
FUND BALANCES AT END OF YEAR.....	\$ 1,955,220	\$ 1,940,798	\$ 73,640	\$ 5,800	\$ 167,023	\$ -	\$ 1,565,742

(Continued)

Special Revenue Funds				Capital Project Funds			
Receipts Reserved	City Revolving Accounts	School Revolving Accounts	Subtotal	Wharf Renovation	McGrath Park	Other	Subtotal
\$ -	\$ -	\$ -	\$ 123,625	\$ -	\$ -	\$ -	\$ -
2,400	-	-	2,400	-	-	-	-
-	-	-	17,278,097	561,417	-	-	561,417
523,859	677,791	1,330,269	2,971,012	-	-	-	-
-	295	12,800	324,477	-	-	-	-
-	1,459	280	28,746	-	-	-	-
526,259	679,545	1,343,349	20,728,357	561,417	-	-	561,417
-	161,102	-	922,569	-	-	65,735	65,735
-	-	-	1,391,141	-	-	133,619	133,619
-	-	1,180,700	9,089,451	-	-	233,353	233,353
-	73,557	-	846,225	75,502	-	605,436	680,938
-	168,363	-	2,749,076	259,663	-	-	259,663
-	345	-	4,615,281	-	-	-	-
-	231,292	-	319,340	-	1,117,311	50,229	1,167,540
-	-	-	35,000	-	-	-	-
-	-	-	3,913	-	-	-	-
-	634,659	1,180,700	19,971,996	335,165	1,117,311	1,088,372	2,540,848
526,259	44,886	162,649	756,361	226,252	(1,117,311)	(1,088,372)	(1,979,431)
-	-	-	-	-	1,400,000	-	1,400,000
-	-	-	1,103,561	-	-	-	-
(464,848)	-	-	(571,092)	-	-	-	-
(464,848)	-	-	532,469	-	1,400,000	-	1,400,000
61,411	44,886	162,649	1,288,830	226,252	282,689	(1,088,372)	(579,431)
454,639	1,253,294	277,524	6,673,796	-	-	1,000,737	1,000,737
\$ 516,050	\$ 1,298,180	\$ 440,173	\$ 7,962,626	\$ 226,252	\$ 282,689	\$ (87,635)	\$ 421,306

(Continued)

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

FISCAL YEAR ENDED JUNE 30, 2012

	Permanent Funds				Total Nonmajor Governmental Funds
	Cemetery Fund	Human Service Fund	Other	Subtotal	
REVENUES:					
Charges for services.....	\$ -	\$ -	\$ -	\$ -	123,625
Penalties and interest on taxes.....	-	-	-	-	2,400
Intergovernmental.....	-	-	-	-	17,839,514
Departmental and other.....	-	-	-	-	2,971,012
Contributions.....	14,250	-	3,077	17,327	341,804
Investment income (loss).....	1,066	(9,152)	21,724	13,638	42,384
TOTAL REVENUES.....	15,316	(9,152)	24,801	30,965	21,320,739
EXPENDITURES:					
Current:					
General government.....	-	-	-	-	988,304
Public safety.....	-	-	1,000	1,000	1,525,760
Education.....	-	-	-	-	9,322,804
Public works.....	67,808	-	49,040	116,848	1,644,011
Community development.....	-	-	-	-	3,008,739
Health and human services.....	-	40,757	-	40,757	4,656,038
Culture and recreation.....	-	-	-	-	1,486,880
Debt service:					
Principal.....	-	-	-	-	35,000
Interest.....	-	-	-	-	3,913
TOTAL EXPENDITURES.....	67,808	40,757	50,040	158,605	22,671,449
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(52,492)	(49,909)	(25,239)	(127,640)	(1,350,710)
OTHER FINANCING SOURCES (USES):					
Issuance of bonds and notes.....	-	-	-	-	1,400,000
Transfers in.....	-	-	-	-	1,103,561
Transfers out.....	-	-	-	-	(571,092)
TOTAL OTHER FINANCING SOURCES (USES).....	-	-	-	-	1,932,469
NET CHANGE IN FUND BALANCES.....	(52,492)	(49,909)	(25,239)	(127,640)	
FUND BALANCES AT BEGINNING OF YEAR.....	2,881,903	1,398,333	1,071,169	5,351,405	13,025,938
FUND BALANCES AT END OF YEAR.....	\$ 2,829,411	\$ 1,348,424	\$ 1,045,930	\$ 5,223,765	\$ 13,607,697

(Concluded)

Employee Benefit Trust Funds

Pension Trust Fund – This fund is used to account for the activity of the Salem Contributory Retirement System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

Other Postemployment Benefit Trust Fund – This fund is used to account for resources being accumulated to fund future liabilities for “other” postemployment employee benefits.

EMPLOYEE BENEFIT TRUST FUNDS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

	Pension Trust Fund (as of December 31, 2011)	Other Postemployment Benefits Trust Fund	Total Employee Benefit Trust Funds
ASSETS			
Cash and cash equivalents.....	\$ 8,335,550	\$ 18,770	\$ 8,354,320
Investments:			
Corporate bonds.....	-	362,242	362,242
Real estate and alternative investment mutual funds.....	756,270	-	756,270
PRIT.....	85,018,605	-	85,018,605
Receivables, net of allowance for uncollectibles:			
Other.....	425,604	-	425,604
NONCURRENT:			
Capital assets, net of accumulated depreciation.....	103,906	-	103,906
TOTAL ASSETS.....	94,639,935	381,012	95,020,947
LIABILITIES			
Warrants payable.....	5,533	-	5,533
NET ASSETS			
Held in trust for pension and OPEB benefits.....	\$ 94,634,402	\$ 381,012	\$ 95,015,414

EMPLOYEE BENEFIT TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2012

	Pension Trust Fund (as of December 31, 2011)	Other Postemployment Benefits Trust Fund	Total Employee Benefit Trust Funds
ADDITIONS:			
Contributions:			
Employer.....	\$ 10,497,479	\$ 324,924	\$ 10,822,403
Plan member.....	3,353,392	-	3,353,392
Total contributions.....	13,850,871	324,924	14,175,795
Net investment income:			
Net change in fair value of investments.....	(2,448,512)	6,088	(2,442,424)
Interest.....	2,702,897	-	2,702,897
Total investment income.....	254,385	6,088	260,473
Less: investment expense.....	(473,299)	-	(473,299)
Net investment income.....	(218,914)	6,088	(212,826)
Intergovernmental.....	381,906	-	381,906
Transfers from other systems.....	385,154	-	385,154
TOTAL ADDITIONS.....	14,399,017	331,012	14,730,029
DEDUCTIONS:			
Administration.....	306,474	-	306,474
Transfers to other systems.....	304,484	-	304,484
Retirement benefits and refunds.....	13,206,874	-	13,206,874
Depreciation.....	3,125	-	3,125
TOTAL DEDUCTIONS.....	13,820,957	-	13,820,957
CHANGE IN NET ASSETS.....	578,060	331,012	909,072
NET ASSETS AT BEGINNING OF YEAR.....	94,056,342	50,000	94,106,342
NET ASSETS AT END OF YEAR.....	\$ 94,634,402	\$ 381,012	\$ 95,015,414

Private Purpose Trust Funds

Trust Fund Commissioners – This fund is used to account for trusts held by the City to benefit individuals and is 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 NET ASSETS

JUNE 30, 2012

		Private Purpose Trust Funds		
		Trust Fund Commissioners	Scholarship Funds	Total
ASSETS				
Cash and cash equivalents.....	\$	148,432	\$ 102,839	\$ 251,271
Investments.....		1,037,999	-	1,037,999
TOTAL ASSETS.....		1,186,431	102,839	1,289,270
NET ASSETS				
Held in trust for other purposes.....	\$	1,186,431	\$ 102,839	\$ 1,289,270

PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2012

	Private Purpose Trust Funds		
	Trust Fund Commissioners	Scholarship Funds	Total
ADDITIONS:			
Contributions:			
Private donations.....	\$ 1,726	\$ 14,326	\$ 16,052
Net investment income:			
Net change in fair value of investments.....	(12,450)	-	(12,450)
Interest.....	-	1,020	1,020
Total Net Investment Income.....	(12,450)	1,020	(11,430)
TOTAL ADDITIONS.....	(10,724)	15,346	4,622
DEDUCTIONS:			
Educational scholarships.....	8,218	8,300	16,518
Housing subsidies.....	89,683	-	89,683
TOTAL DEDUCTIONS.....	97,901	8,300	106,201
CHANGE IN NET ASSETS.....	(108,625)	7,046	(101,579)
NET ASSETS AT BEGINNING OF YEAR.....	1,295,056	95,793	1,390,849
NET ASSETS AT END OF YEAR.....	\$ 1,186,431	\$ 102,839	\$ 1,289,270

Agency Fund

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

AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FISCAL YEAR ENDED JUNE 30, 2012

	Beginning of Year	Additions	Deletions	End of Year
ASSETS				
CURRENT:				
Cash and cash equivalents.....	\$ 683,356	\$ 11,576,197	\$ (10,583,403)	\$ 1,676,150
LIABILITIES				
Warrants payable.....	\$ 17,049	\$ 56,752	\$ (17,049)	\$ 56,752
Liabilities due depositors.....	666,307	36,710,889	(35,757,798)	1,619,398
TOTAL LIABILITIES.....	\$ 683,356	\$ 36,767,641	\$ (35,774,847)	\$ 1,676,150

Statistical Section



Winter Island Light House



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, until it should be wanted for defense. 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, Waikiki Beach 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.

Net Assets By Component

Last Ten Fiscal Years

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities										
Invested in capital assets, net of related debt.....	\$ 83,045,604	\$ 79,729,492	\$ 112,740,510	\$ 109,183,737	\$ 132,787,853	\$ 139,683,360	\$ 147,373,757	\$ 147,313,749	\$ 144,887,020	\$ 147,692,495
Restricted.....	5,237,908	8,759,761	9,734,998	8,649,700	8,868,048	6,948,839	6,968,580	6,892,267	10,562,103	11,197,635
Unrestricted.....	9,656,396	6,519,783	(3,667,364)	(371,947)	(2,189,821)	(6,668,493)	(13,473,169)	(17,907,226)	(17,992,385)	(21,617,069)
Total governmental activities net assets.....	\$ 97,939,908	\$ 95,009,036	\$ 118,808,144	\$ 117,461,490	\$ 139,466,080	\$ 139,963,706	\$ 140,869,168	\$ 136,298,790	\$ 137,456,738	\$ 137,273,061
Business-type activities										
Invested in capital assets, net of related debt.....	8,319,902	8,147,378	9,212,891	9,018,231	9,138,929	8,836,475	6,939,001	8,245,799	8,248,186	8,605,165
Unrestricted.....	6,649,222	7,538,395	4,492,692	4,722,252	5,609,406	5,647,967	6,371,380	3,920,927	4,366,232	4,085,318
Total business-type activities net assets.....	\$ 14,969,124	\$ 15,685,773	\$ 13,705,583	\$ 13,740,483	\$ 14,748,335	\$ 14,484,442	\$ 13,310,381	\$ 12,166,726	\$ 12,614,418	\$ 12,690,483
Primary government										
Invested in capital assets, net of related debt.....	91,365,506	87,876,870	121,953,401	118,201,968	141,926,782	148,519,835	154,312,758	155,559,548	153,135,206	156,297,660
Restricted.....	5,237,908	8,759,761	9,734,998	8,649,700	8,868,048	6,948,839	6,968,580	6,892,267	10,562,103	11,197,635
Unrestricted.....	16,305,618	14,058,178	825,328	4,350,305	3,419,585	(1,020,526)	(7,101,789)	(13,986,299)	(13,626,153)	(17,531,751)
Total primary government net assets.....	\$ 112,909,032	\$ 110,694,809	\$ 132,513,727	\$ 131,201,973	\$ 154,214,415	\$ 154,448,148	\$ 154,179,549	\$ 148,465,516	\$ 150,071,156	\$ 149,963,544

Note: As allowed by GASB #34, the City reported retroactive general infrastructure, acquired prior to fiscal 2002, beginning in fiscal 2005. Fiscal years 2003-2004 have not been restated to reflect this change.

Changes in Net Assets

Last Ten Fiscal Years

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental activities:										
General government.....	\$ 8,514,423	\$ 9,454,148	\$ 9,373,119	\$ 9,867,573	\$ 9,641,318	\$ 10,598,174	\$ 10,914,012	\$ 10,865,152	\$ 11,702,186	\$ 11,904,711
Public safety.....	20,884,198	22,235,461	22,058,002	23,481,525	24,433,343	28,262,847	27,421,538	26,755,783	27,989,181	26,551,919
Education.....	59,386,206	61,775,760	67,483,676	67,258,196	75,513,149	75,874,227	79,410,738	83,743,843	86,938,434	91,261,655
Public works.....	4,464,257	6,517,047	8,421,997	7,991,774	9,229,479	6,846,006	6,705,986	6,820,639	8,894,659	5,952,380
Community development.....	4,954,608	5,767,362	2,066,749	1,891,386	1,804,554	1,567,381	2,093,618	3,226,360	1,845,141	1,530,786
Health and human services.....	1,388,761	1,410,712	4,856,306	5,016,513	4,675,688	5,904,063	6,226,498	6,622,114	5,930,089	6,001,130
Culture and recreation.....	4,022,880	4,186,622	3,689,992	3,718,183	2,448,265	3,293,415	3,228,906	3,169,224	2,997,090	3,219,315
Interest.....	3,366,107	3,136,763	2,689,312	2,889,116	2,604,390	2,503,461	2,396,187	1,888,315	1,582,033	1,544,887
Total government activities expenses.....	108,981,440	114,483,875	120,639,153	122,114,266	130,350,186	134,849,574	138,397,483	143,091,430	147,878,813	147,966,783
Business-type activities:										
Water services.....	10,196,489	9,619,356	3,186,840	3,197,864	3,562,372	3,895,551	4,021,536	4,395,607	4,161,481	4,188,083
Sewer services.....	(A)	(A)	6,616,318	5,686,595	5,612,230	5,894,870	7,467,332	7,400,431	6,590,680	6,733,017
Golf course.....	333,512	320,632	292,187	279,981	363,651	386,099	278,007	399,023	363,625	438,613
Parking.....	679,171	665,458	664,686	800,506	792,903	936,826	905,834	844,615	991,722	1,042,610
Trash.....	(C)	(C)	(C)	(C)	(C)	3,230,500	2,558,263	2,573,421	2,617,948	2,744,963
Total business type activities expenses.....	11,209,172	10,605,446	10,760,031	9,964,946	10,331,156	14,343,846	15,230,972	15,613,097	14,725,456	15,147,286
Total primary government expenses.....	\$ 120,190,612	\$ 125,089,321	\$ 131,399,184	\$ 132,079,212	\$ 140,681,342	\$ 149,193,420	\$ 153,628,455	\$ 158,704,527	\$ 162,604,269	\$ 163,114,069
Program Revenues										
Governmental activities:										
Education charges for services.....	\$ 1,097,764	\$ 1,141,196	\$ 1,023,839	\$ 831,579	\$ 1,659,544	\$ 1,586,525	\$ 1,473,880	\$ 1,370,250	\$ 1,277,950	\$ 1,271,626
Public Safety charges for services.....	1,804,781	1,865,270	1,923,845	2,003,791	2,217,287	2,378,961	2,456,341	2,074,324	2,115,452	2,212,295
Other charges for services.....	1,197,196	2,055,497	1,481,467	1,825,898	2,561,814	1,602,847	1,693,333	1,824,040	1,744,351	1,872,305
Operating grants and contributions.....	39,127,290	35,305,349	34,087,248	37,934,300	37,957,703	41,168,760	43,744,124	46,352,034	51,358,511	47,872,700
Capital grant and contributions.....	7,019,891	2,129,821	2,090,467	3,312,346	30,118,572	9,615,336	8,762,642	4,135,374	5,197,515	5,699,571
Total government activities program revenues.....	50,246,922	42,497,133	40,606,866	45,907,914	74,514,920	56,352,429	58,130,320	55,756,022	61,693,779	58,928,497
Business-type activities:										
Charges for services - Water.....	10,415,528	11,708,715	3,853,505	4,319,560	4,822,041	4,318,889	4,085,103	4,511,916	4,517,123	4,623,340
Charges for services - Sewer.....	(A)	(A)	5,512,922	6,233,883	6,694,172	6,555,593	7,668,044	7,610,195	8,292,908	7,986,386
Charges for services - Golf.....	549,091	543,467	502,770	525,404	546,841	570,142	547,301	589,345	548,805	648,916
Charges for services - Parking.....	1,364,076	1,536,390	1,453,088	1,549,833	1,713,649	1,651,032	1,694,708	2,038,235	2,333,478	2,274,470
Charges for services - Trash.....	(C)	(C)	(C)	(C)	(C)	908,577	720,193	740,511	692,089	675,916
Operating grants and contributions.....	-	-	-	-	-	-	-	-	-	-
Capital grants and contributions.....	-	-	-	-	-	49,707	43,796	41,820	39,804	-
Total business-type activities program revenues.....	12,328,695	13,788,572	11,322,285	12,628,680	13,776,703	14,053,940	14,759,145	15,532,022	16,424,207	16,209,028
Total primary government program revenues.....	\$ 62,575,617	\$ 56,285,705	\$ 51,929,151	\$ 58,536,594	\$ 88,291,623	\$ 70,406,369	\$ 72,889,465	\$ 71,288,044	\$ 78,117,986	\$ 75,137,525
Net (Expense)/Revenue										
Governmental activities.....	\$ (58,734,518)	\$ (71,986,742)	\$ (78,692,287)	\$ (76,206,352)	\$ (55,835,266)	\$ (78,497,145)	\$ (80,267,163)	\$ (87,335,408)	\$ (86,185,034)	\$ (89,038,286)
Business-type activities.....	1,119,523	3,183,126	562,254	2,663,734	3,445,547	(289,906)	(471,827)	(81,075)	1,698,751	1,061,742
Total primary government net expense.....	\$ (57,614,995)	\$ (68,803,616)	\$ (78,130,033)	\$ (73,542,618)	\$ (52,389,719)	\$ (78,787,051)	\$ (80,738,990)	\$ (87,416,483)	\$ (84,486,283)	\$ (87,976,544)
General Revenues and other Changes in Net Assets										
Governmental activities:										
Real estate and personal property taxes, net of tax refunds payable.....	\$ 52,118,338	\$ 54,855,784	\$ 55,915,767	\$ 58,379,505	\$ 60,991,003	\$ 63,230,976	\$ 66,672,653	\$ 69,067,349	\$ 71,828,412	\$ 72,073,381
Tax liens.....	(B)	(B)	690,557	635,624	182,650	752,178	527,492	234,353	510,973	795,443
Motor vehicle and other excise taxes.....	3,793,044	3,478,999	3,489,584	3,452,569	3,357,765	3,286,119	2,978,961	3,092,527	3,181,247	3,131,334
Hotel/motel tax.....	(B)	(B)	219,628	263,962	282,324	373,655	324,622	294,214	955,092	1,161,007
Penalties and interest on taxes.....	391,429	322,003	288,874	350,651	266,246	353,952	412,572	437,361	438,487	490,242
Payments in lieu of taxes.....	(B)	(B)	1,073,539	1,088,754	1,235,083	1,229,435	1,320,945	1,307,078	1,319,079	1,440,186
Grants and contributions not restricted to specific programs.....	3,774,422	6,932,546	8,097,351	7,661,752	8,971,625	9,163,777	8,064,486	6,583,118	6,404,395	8,220,908
Unrestricted investment income.....	816,614	568,503	521,585	183,980	965,694	462,275	(35,188)	435,769	1,095,518	103,015
Miscellaneous.....	536,979	431,558	77,454	214,067	248,905	168,417	203,848	250,681	358,720	453,416
Transfers.....	2,687,282	2,466,477	2,542,444	2,628,834	2,437,695	(26,013)	702,234	1,062,580	1,251,059	985,677
Total governmental activities.....	64,118,108	69,055,870	72,916,783	74,859,698	78,938,990	78,994,771	81,172,625	82,765,030	87,342,982	88,854,609
Business-type activities:										
Transfers.....	(2,687,282)	(2,466,477)	(2,542,444)	(2,628,834)	(2,437,695)	26,013	(702,234)	(1,062,580)	(1,251,059)	(985,677)
Total primary government.....	\$ 61,430,826	\$ 66,589,393	\$ 70,374,339	\$ 72,230,864	\$ 76,501,295	\$ 79,020,784	\$ 80,470,391	\$ 81,702,450	\$ 86,091,923	\$ 87,868,932
Changes in Net Assets										
Governmental activities.....	\$ 5,383,590	\$ (2,930,872)	\$ (5,775,504)	\$ (1,346,654)	\$ 23,103,724	\$ 497,626	\$ 905,462	\$ (4,570,378)	\$ 1,157,948	\$ (183,677)
Business-type activities.....	(1,567,759)	716,649	(1,980,190)	34,900	1,007,852	(263,893)	(1,174,061)	(1,143,655)	447,692	76,065
Total primary government.....	\$ 3,815,831	\$ (2,214,223)	\$ (7,755,694)	\$ (1,311,754)	\$ 24,111,576	\$ 233,733	\$ (268,599)	\$ (5,714,033)	\$ 1,605,640	\$ (107,612)

(A) In fiscal years 2003 - 2004 the City reported a joint water/sewer enterprise fund.

(B) In fiscal years 2003 - 2004 the City included in real estate and personal property taxes, net of tax refunds payable.

(C) In fiscal years 2003 - 2007 the City reported Trash in the governmental funds.

Fund Balances, Governmental Funds

Last Ten Fiscal Years

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund										
Reserved.....	\$ 1,382,756	\$ 1,153,872	\$ 68,524	\$ 197,581	\$ 69,631	\$ 220,608	\$ 372,027	\$ 421,825	\$ -	\$ -
Unreserved.....	3,980,693	3,398,534	335,643	1,162,714	(1,151,199)	1,321,397	749,849	1,211,094	-	-
Assigned.....	-	-	-	-	-	-	-	-	589,894	985,737
Unassigned.....	-	-	-	-	-	-	-	-	8,405,585	9,550,262
Total general fund.....	<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>	<u>\$ 1,121,876</u>	<u>\$ 1,632,919</u>	<u>\$ 8,995,479</u>	<u>\$ 10,535,999</u>
All Other Governmental Funds										
Reserved.....	\$ 1,481,549	\$ 1,844,725	\$ 1,591,750	\$ 1,606,904	\$ 1,629,202	\$ 1,650,597	\$ 1,688,851	\$ 1,689,176	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds.....	8,920,508	6,618,566	7,763,007	5,474,128	5,477,136	3,768,323	5,602,931	5,819,702	-	-
Capital projects funds.....	(14,050,593)	(24,963,657)	(10,513,270)	(1,859,435)	(197,270)	2,806,105	(537,848)	3,969,207	-	-
Permanent funds.....	2,801,999	2,555,014	2,897,589	3,018,952	3,556,455	3,291,512	2,678,043	2,783,655	-	-
Nonspendable.....	-	-	-	-	-	-	-	-	1,707,276	2,074,097
Restricted.....	-	-	-	-	-	-	-	-	11,329,632	14,344,418
Unassigned.....	-	-	-	-	-	-	-	-	(665,295)	(4,101,228)
Total all other governmental funds....	<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>	<u>\$ 9,431,977</u>	<u>\$ 14,261,740</u>	<u>\$ 12,371,613</u>	<u>\$ 12,317,287</u>

Note: The City implemented GASB 54 in fiscal year 2011, fund balances prior to fiscal year 2011 have been reported in the pre-GASB 54 format.

Changes in Fund Balances, Governmental Funds

Last Ten Fiscal Years

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues:										
Real estate and personal property taxes,										
net of tax refunds.....	\$ 52,448,384	\$ 55,603,719	\$ 55,866,348	\$ 58,601,934	\$ 60,638,180	\$ 63,376,714	\$ 66,717,968	\$ 68,747,759	\$ 71,754,816	\$ 72,202,064
Motor vehicle and other excise taxes.....	3,875,265	3,387,266	3,531,673	3,577,544	3,215,438	3,427,889	3,154,642	3,007,759	3,180,552	3,203,122
Intergovernmental.....	37,949,147	37,305,545	40,601,143	40,386,321	38,496,892	39,569,976	42,962,129	44,150,857	51,562,915	50,048,535
Departmental and other.....	8,628,161	9,324,193	7,539,138	8,496,446	9,017,710	10,086,572	9,382,460	8,511,803	9,656,996	10,366,488
Investment income.....	816,821	568,503	828,933	927,302	925,771	462,585	(32,923)	436,686	1,096,747	129,773
Commonwealth school construction grants.....	-	-	(B)	12,739,570	16,559,515	17,324,905	13,130,784	7,095,272	4,310,837	4,310,837
On-behalf pension payments by Commonwealth.....	4,275,669	5,345,441	5,890,261	6,376,140	7,044,987	7,511,889	8,277,958	8,602,216	9,290,000	9,695,000
Total Revenue.....	107,993,447	111,534,667	126,997,066	134,925,202	154,364,294	141,760,530	143,593,018	140,552,352	150,852,863	149,955,819
Expenditures:										
General government.....	4,463,397	4,627,702	4,863,297	5,112,025	4,733,168	4,512,126	5,284,403	5,062,768	5,678,376	6,039,335
Public safety.....	15,368,476	14,999,915	14,417,276	14,547,596	14,969,952	15,945,719	16,452,689	16,147,666	17,129,546	17,807,607
Education.....	48,449,552	47,729,470	46,260,838	47,647,867	47,719,326	47,293,548	48,101,995	49,491,944	51,429,439	50,076,848
Public works.....	5,232,421	5,209,599	6,663,143	5,427,108	6,137,334	3,338,981	3,718,860	3,255,769	3,573,118	2,831,181
Community development.....	2,348,162	2,085,553	2,066,749	1,891,386	1,804,554	1,567,381	2,402,149	3,413,203	1,933,227	1,757,053
Health and human services.....	901,407	855,553 (A)	4,348,098	4,475,413	4,730,161	5,306,444	5,339,094	6,158,089	5,927,137	5,538,621
Culture and recreation.....	2,981,769	2,756,066	2,278,899	2,339,600	1,865,609	2,135,563	2,395,536	2,320,698	2,152,872	3,367,206
Pension benefits.....	4,340,575	6,565,806	11,926,982	13,388,893	14,375,924	15,180,985	16,206,240	16,770,835	17,707,823	18,538,274
Massachusetts teachers' retirement.....	4,275,669	5,345,441	5,890,261	6,376,140	7,044,987	7,511,889	8,277,958	8,602,216	9,290,000	9,695,000
Employee benefits.....	10,529,297	10,580,395	10,433,140	9,964,302	10,889,249	11,570,087	11,805,651	11,077,682	11,751,691	13,122,992
State and county charges.....	3,911,644	4,212,549	4,028,333	5,047,971	5,589,986	5,933,670	6,302,025	6,655,890	6,445,380	6,390,908
Capital outlay.....	18,550,903	15,793,932	1,422,955	7,581,652	38,018,740	12,930,767	13,552,655	4,654,814	6,194,898	11,752,488
Debt service										
Principal.....	2,795,000	3,890,000	4,105,000	4,385,000	4,310,000	6,620,000	4,559,497	5,385,000	7,550,000	4,717,000
Interest.....	2,854,502	3,259,021	2,919,668	2,958,101	2,513,575	2,622,389	2,568,643	2,087,028	1,851,117	1,761,551
Total Expenditures.....	127,002,774	127,911,002	121,624,639	131,143,054	164,702,565	142,469,549	146,967,395	141,083,602	148,614,624	153,396,064
Excess of revenues over (under) expenditures.....	(19,009,327)	(16,376,335)	5,372,427	3,782,148	(10,338,271)	(709,019)	(3,374,377)	(531,250)	2,238,239	(3,440,245)
Other Financing Sources (Uses)										
Issuance of debt.....	28,670,000	-	2,465,000	-	8,319,497	3,930,000	-	4,589,000	630,000	3,900,938
Premium from issuance of bonds.....	-	-	232,856	-	85,169	84,840	-	575,986	1,167,420	1,059
Issuance of refunding bonds.....	-	-	-	-	-	-	3,785,000	11,043,000	4,589,000	-
Payments to refunded bond escrow agent.....	-	-	-	-	-	-	-	(8,512,000)	-	-
Refunding bonds redeemed.....	-	-	-	-	-	-	(3,785,000)	(2,930,000)	(4,589,000)	-
Capital lease financing.....	-	-	807,283	1,046,619	378,169	394,779	167,454	43,500	185,715	38,765
Sale of capital assets.....	300,000	-	-	-	-	-	-	-	-	-
Transfers in.....	9,051,161	10,693,915	3,597,240	5,320,517	3,558,845	4,508,229	5,228,530	6,160,597	5,137,447	5,184,894
Transfers out.....	(6,719,057)	(8,227,438)	(1,054,796)	(2,691,683)	(1,121,150)	(4,534,242)	(4,526,296)	(5,098,017)	(3,886,388)	(4,199,217)
Total other financing sources (uses).....	31,302,104	2,466,477	6,047,583	3,675,453	11,220,530	4,383,606	869,688	5,872,066	3,234,194	4,926,439
Net change in fund balance.....	\$ 12,292,777	\$ (13,909,858)	\$ 11,420,010	\$ 7,457,601	\$ 882,259	\$ 3,674,587	\$ (2,504,689)	\$ 5,340,816	\$ 5,472,433	\$ 1,486,194
Debt service as a percentage of noncapital expenditures.....	4.51%	6.16%	5.95%	5.94%	5.39%	7.13%	5.34%	5.48%	6.60%	4.57%

(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.

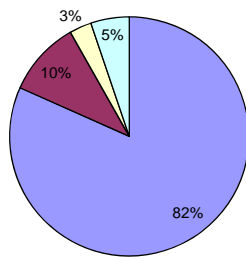
(C) The Commonwealth is legally obligated to fund the Salem teachers retirement. Therefore the revenue and expenditure has been recorded in accordance with GASB 24.

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

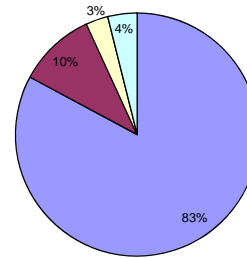
Last Ten Fiscal Years

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 City Value	
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	
2009	3,753,889,412	12.92	446,457,904	133,318,180	177,993,390	757,769,474	24.54	14.87	4,511,658,886	
2010	(1) 3,527,110,563	14.01	432,747,534	127,061,700	207,643,630	767,452,864	26.93	16.32	4,294,563,427	
2011	3,361,382,273	15.05	417,668,102	123,342,500	213,577,900	754,588,502	29.08	17.62	4,115,970,775	
2012	3,291,268,444	15.63	410,704,364	118,044,040	153,768,900	682,517,304	29.81	18.07	3,973,785,748	

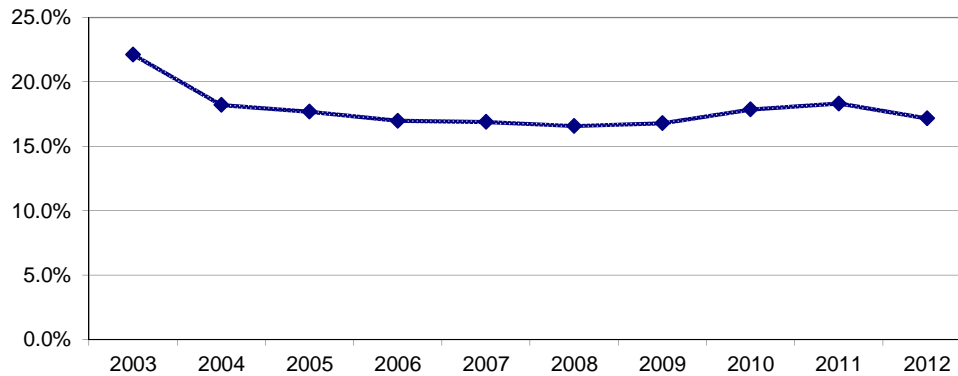
Total Assessed Value by Classification Fiscal Year Ended June 30, 2011



Total Assessed Value by Classification Fiscal Year Ended June 30, 2012



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 City. 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	2012			2003		
		Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value	Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value
Dominion	Personal & Industrial Property	\$50,000,000	1	1.3%	-	-	-
New England Power Company	Personal & Industrial Property	\$31,774,550	2	0.8%	-	-	-
Massachusetts Electric	Personal Property	\$30,234,110	3	0.8%	\$19,779,700	6	0.6%
Shetland Properties	Industrial & Commercial Property	\$26,202,800	4	0.7%	\$23,706,200	4	0.7%
Highlander Plazas	Commercial Property	\$21,105,400	5	0.5%	\$18,902,300	7	0.6%
Algonquin Gas Transmission	Personal Property	\$20,986,100	6	0.5%	-	-	-
Salem Station LLC	Apartments	\$32,000,700	7	0.8%	-	-	-
Princeton Crossing Apartments	Apartments	\$27,622,400	8	0.7%	\$20,246,800	5	0.6%
National Grid	Industrial Property & PP	\$14,405,760	9	0.4%	-	-	-
Verizon New England	Personal Property	\$12,817,000	10	0.0%	12,098,600.00	9	0.4%
US Gen New England	Personal & Industrial Property	-	-	-	\$195,675,800	1	5.9%
Pacific Gas and Electric (PG&E)	Utility	-	-	-	\$50,000,000	2	1.5%
Jefferson at Salem	Retail	-	-	-	\$25,825,300	3	0.8%
Second Pickwick Trust	Commercial Property	-	-	-	\$12,737,900	8	0.4%
Keyspan Energy Delivery	Energy	-	-	-	\$10,103,530	10	0.2%
Totals		<u>\$267,148,820</u>		<u>6.4%</u>	<u>\$389,076,130</u>		<u>11.8%</u>

Source: Board of Assessors

Property Tax Levies and Collections

Last Ten Fiscal Years

Fiscal Year		Total Tax Levy	Less Abatements & Exemptions	Net Tax Levy	Current Tax Collections	Percent of Net Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Net Tax Levy
2003		52,210,909	508,719	51,702,190	51,303,297	99.2%	398,826	51,702,123	100.0%
2004	(1)	54,374,223	564,486	53,809,737	53,259,047	99.0%	550,063	53,809,110	100.0%
2005		56,839,329	418,415	56,420,914	55,554,023	98.5%	866,450	56,420,473	100.0%
2006		59,292,238	443,519	58,848,719	58,010,805	98.6%	835,900	58,846,705	100.0%
2007	(1)	61,785,514	593,521	61,191,993	60,318,905	98.6%	870,423	61,189,328	100.0%
2008		64,399,664	565,307	63,834,357	63,225,112	99.0%	609,245	63,834,357	100.0%
2009		67,095,914	514,742	66,581,172	66,300,317	99.6%	280,855	66,581,172	100.0%
2010	(1)	70,082,325	612,829	69,469,496	68,292,880	98.3%	1,176,616	69,469,496	100.0%
2011		72,532,237	402,324	72,129,913	70,936,056	98.3%	1,193,857	72,129,913	100.0%
2012		71,788,367	360,622	71,427,745	70,558,172	98.8%	0	70,558,172	98.8%

(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	U. S. Census Population	Personal Income	Assessed Value	Governmental Activities Debt				
				General Obligation Bonds	Capital Leases	Per Capita	Percentage of Personal Income	Percentage of Assessed Value
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%
2009	41,421	1,180,967,527	4,511,658,886	51,145,000	530,771	1,248	4.38%	1.15%
2010	41,361	1,202,841,984	4,294,563,427	50,387,000	317,032	1,226	4.22%	1.18%
2011	41,361	1,226,898,824	4,115,970,775	44,581,526	384,965	1,087	3.67%	1.09%
2012	41,340	1,250,801,415	3,973,785,748	43,629,929	245,703	1,061	3.51%	1.10%

Fiscal Year	Business-type Activities		Total Primary Government			
	General Obligation Bonds	Capital Leases	Total Debt Outstanding	Per Capita	Percentage of Personal Income	Percentage of Assessed Value
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%
2009	7,250,908	0	58,926,679	1,423	4.99%	1.31%
2010	12,949,102	0	63,653,134	1,539	5.29%	1.48%
2011	15,665,280	0	60,631,771	1,466	4.94%	1.47%
2012	16,762,802	0	60,638,434	1,467	4.85%	1.53%

Source: Audited Financial Statements, U. S. Census

Direct and Overlapping Governmental Activities Debt

As of June 30, 2012

	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
North Shore Regional Vocational School District.....	\$ 705,000	24.60%	\$ <u>173,430</u>
Capital Lease Obligations.....			245,703
General Governmental Debt			<u>43,629,929</u>
City total direct debt.....			<u>43,875,632</u>
Total direct and overlapping debt.....			\$ <u><u>44,049,062</u></u>

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the Town. This schedule estimates the portion of the outstanding debt of the overlapping governments that is borne by the taxpayers of the Town. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the property taxpayers should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

Source: Treasurer and North Shore Regional Vocational School District

Computation of Legal Debt Margin

Last Ten Fiscal Years

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Equalized Valuation.....	\$ 3,148,016,400	\$ 3,148,016,400	\$ 4,184,128,700	\$ 4,223,735,800	\$ 4,923,330,400	\$ 4,923,330,400	\$ 5,168,060,200	\$ 4,521,039,500	\$ 4,521,039,500	\$ 4,214,398,700
Debt Limit -5% of Equalized Valuation.....	\$ 157,400,820	\$ 157,400,820	\$ 209,206,435	\$ 211,186,790	\$ 246,166,520	\$ 246,166,520	\$ 258,403,010	\$ 226,051,975	\$ 226,051,975	\$ 210,719,935
Less:										
Outstanding debt applicable to limit.....	4,646,000	4,167,000	6,695,447	6,064,000	5,435,000	12,004,000	12,004,000	10,884,900	16,669,700	14,905,000
Authorized and unissued debt.....	69,000,988	70,336,913	39,296,218	48,682,895	54,169,239	28,769,240	28,769,240	11,128,240	13,725,802	72,303,161
Legal debt margin.....	\$ <u>83,753,832</u>	\$ <u>82,896,907</u>	\$ <u>163,214,770</u>	\$ <u>156,439,895</u>	\$ <u>186,562,281</u>	\$ <u>205,393,280</u>	\$ <u>217,629,770</u>	\$ <u>204,038,835</u>	\$ <u>195,656,473</u>	\$ <u>123,511,774</u>
Total debt applicable to the limit as a percentage of debt limit.....	46.79%	47.33%	21.98%	25.92%	24.21%	16.56%	15.78%	9.74%	13.45%	41.39%

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
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%
2009	41,421	1,180,967,527	28,511	36.4	4,474	9.7%
2010	41,361	1,202,841,984	29,082	36.7	4,647	9.6%
2011	41,361	1,226,898,824	29,663	36.5	4,647	9.2%
2012	41,340	1,250,783,040	30,256	37.6	4,541	8.2%

Note: Per Capita Personal Income based on 2010 U.S Census

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

Principal Employers
Current Year and Nine Years Ago

Employer	Nature of Business	2012			2003		
		Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
North Shore Medical Center	Healthcare	3,240	1	14.2%	3,680	1	16.0%
Salem State College	Higher Education	1,506	2	6.6%	1,699	2	7.4%
City of Salem	Municipal Government	1,414	3	6.2%	1,661	3	7.2%
Shaughnessy	Health Care	560	4	2.4%	-	-	-
Market Basket	Food Market	350	5	1.5%	250	7	1.1%
Commonwealth of Massachusetts	State Government	344	6	1.5%	655	4	2.8%
Salem Five Savings	Banking	275	7	1.2%	356	5	1.5%
Grovenor Park Nursing	Health Care	250	8	1.1%	200	8	0.9%
Peabody Essex Museum	Cultural Tourism	233	9	1.0%	285	6	1.2%
Salem YMCA	Social Service Agency	166	10	0.7%	-	-	-
Home Depot	Retail	-	-	-	200	9	0.9%
Perkin Elmer Opto Electronics	Analytical Systems	-	-	-	180	10	0.8%
		<u>8,338</u>		<u>36.4%</u>	<u>9,166</u>		<u>39.8%</u>

Source: The City Planning Department

City of Salem, Massachusetts
Full-time Equivalent City Employees by Function
Last Ten Fiscal Years

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Function										
General government.....	68	62	64	40	34	36	35	35	35	35
Public safety.....	185	180	190	181	190	185	187	191	190	194
Education.....	755	756	756	752	752	753	752	752	752	776
Public works.....	47	45	55	35	38	40	37	38	39	40
Engineering.....	-	-	-	-	1	3	1	1	1	1
Health and human services.....	22	21	21	21	20	17	14	17	15	14
Culture and recreation.....	34	31	31	34	23	21	22	22	23	23
Total	<u>1,111</u>	<u>1,095</u>	<u>1,117</u>	<u>1,063</u>	<u>1,058</u>	<u>1,054</u>	<u>1,048</u>	<u>1,056</u>	<u>1,054</u>	<u>1,083</u>

Source: Various City Departments

Operating Indicators by Function/Program

Last Ten Fiscal Years

Function/Program	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2102
General government										
Marriage recordings.....	327	330	327	375	322	306	276	243	381	321
Birth recordings.....	1,804	1,839	1,761	2,044	2,043	1,712	1,614	1,774	1,599	1,433
Death recordings.....	823	935	847	737	755	520	535	557	492	436
Police										
Physical arrests.....	984	965	685	2,792	2,793	2,502	2,502	2,072	2,629	1,627
Motor vehicle violations.....	5,489	5,238	4,334	6,477	8,672	6,604	191	6,631	10,309	8,497
Police personnel and officers.....	94	85	85	81	84	85	85	87	89	93
Fire										
Inspections.....	1,972	3,231	2,789	1,187	1,562	886	886	935	1,077	973
Emergency responses.....	3,911	4,281	4,572	6,235	6,719	6,330	17	6,409	6,079	5,952
Fire personnel and officers.....	85	78	78	75	76	81	81	79	83	90
Education										
Number of students.....	5,016	4,727	4,676	4,744	4,573	4,404	4,474	4,647	4,585	4,541
Number of graduates.....	218	257	246	255	269	254	273	283	246	240
Number of teachers.....	406	415	409	477	484	479	479	488	507	517
Water										
Service connections.....	9,898	10,516	10,568	11,000	11,811	11,701	11,737	11,719	11,719	11,719
Consumption in gallons.....	2,090	2,111	2,136	2,000	2,056	2,123	1,994	2,103	2,025	1,921
Daily consumption (MG).....	5.73	5.78	6.43	6.84	6.74	5.80	5.44	6.00	6.00	5.00
Sewer										
Service connections.....	9,898	10,516	10,568	11,000	11,811	11,701	11,727	11,709	11,706	11,719
Health and human services										
Number of persons using COA transportation....	44,804	44,500	45,976	37,497	39,052	18,678	15,526	16,076	16,908	19,630
Libraries										
Volumes in circulation.....	124,435	125,516	128,569	141,595	143,052	148,752	145,634	143,512	148,634	158,011
Total volumes borrowed.....	470,192	464,453	490,116	508,728	500,907	514,708	538,184	508,507	508,293	493,315

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>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</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	191	4	4	4
Education										
Number of elementary schools.....	7	7	7	7	7	7	38	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	17	1	1	1
Public Works										
Water mains (miles).....	108	108	108	108	108	108	102	102	102	102
Health and human services										
Number of personnel.....	17	17	17	17	17	17	17	17	15	14.7
Culture and recreation										
Parks and playgrounds.....	35	35	35	35	35	35	35	35	35	35
Park and playground (acreage).....	230	230	230	230	230	230	230	230	230	230
Conservation land (acreage).....	114	128	128	128	128	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 and Stabilization Fund Balances

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Free Cash</u>	<u>Stabilization Fund</u>
FY2012.....	\$ 2,525,829	\$ 3,453,722
FY2011.....	\$ 3,249,238	\$ 2,736,777
FY2010.....	\$ 750,607	\$ 1,913,913
FY2009.....	\$ 1,261,200	\$ 1,489,907
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

Source: City Records