

# CITY OF SALEM

MASSACHUSETTS

## COMPREHENSIVE ANNUAL FINANCIAL REPORT



**For the Fiscal Year Ended June 30, 2013**

Kimberley L. Driscoll, Mayor  
Sarah A. Stanton, Finance Director

Prepared by the City of Salem Finance Department

## On the Cover – Winter Island Lighthouse

Fort Pickering Light, also known as **Winter Island Light**, was built in 1871, the same year as Derby Wharf Light in Salem Harbor and Hospital Point Light in nearby Beverly. Mariners would line up Winter Island and Derby Wharf Lights after passing Baker's Island on their way into Salem Harbor. The lighthouse was discontinued by the Coast Guard in 1969 and replaced by an offshore buoy. The lighthouse fell into disrepair until a group of concerned citizens and businesses formed the Fort Pickering Light Association in the early 1980s. The Association refurbished the lighthouse and Fort Pickering Light was relighted in 1983 as a private aid to navigation. The lighthouse was converted to solar power in 1995 by the City of Salem and the Fort Pickering Light Association and received a facelift in 1999, thanks to a community development block grant. Winter Island Light is a favorite of photographers and painters.



### The Friendship Sailing Ship at Pickering Wharf

The **Friendship** is a reconstruction of a 171-foot three-masted Salem East Indiaman built in 1797. She is the largest wooden, Coast Guard certified, sailing vessel to be built in New England in more than a century. The replica is based on a model of the original Friendship at the Peabody Essex Museum, as well as several paintings of the ship and numerous documents, including logs of the ship's voyages. The new Friendship is part of the National Park Service's larger exhibit area at Salem Maritime National Historic Site. She is a fully operational sailing vessel but stays close to home so that everyone can come aboard. On special occasions she sails as Essex County's flagship, visiting ports along our coast to join in maritime festivals and events.

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JUNE 30, 2013

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# Introductory Section



## Salem Willows Park

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



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



# ***Introductory Section***

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# City of Salem, Massachusetts

Finance Department  
93 Washington Street  
Salem, MA 01970  
Ph. 978.745.9595 Ext 5625  
Fax 978.741.3348  
[sstanton@salem.com](mailto:sstanton@salem.com)

## Letter of Transmittal

Sarah Stanton, Finance Director

November 12, 2013

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, 2013 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, 2013, 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, 2013, 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, 2013 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 41,654 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 1,779 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 1,179 units, 715 are public housing, 211 are designated for families, and 465 are for elderly housing. 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.

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 FY2014 totaled approximately \$134 million, which includes Real & Personal Property tax revenue, State Revenues, Massachusetts School Building Authority (MSBA) Revenue, local revenues, transfers in of approximately \$1,000,000 from Receipts Reserved Harbormaster, Witch House and Golf Course (to reduce tax rate), other receipts reserved transfers, and approximately \$1.5 million 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.

#### 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.

### Private Infrastructure Improvements FY2013

The City Council recently approved the sale of a City owned 38 space parking area to Dodge Area LLC in FY2014. The developer plans to fold this property into a proposed larger \$45 million mixed-use development that would utilize properties it already owns. Proposed is a 100 room hotel, a new 275 space parking structure that would maintain 38 spaces for public access, 22,400 square feet of ground floor retail and commercial space, 7,000 to 14,000 square feet of upper level office space, and 70 to 80 residential units. The City views this project as a viable way to effectively extend its downtown that has been experiencing significant investment and growth.

Salem State University continues to invest in its ever-growing campus. FY2013 brought the completion of the brand new library. Opened in June 2013, the \$74 million, 122,000-square-foot Frederick E. Berry Library houses 1,000 study seats, 150 personal computers, and 12 group study rooms. State-of-the-art technology is available throughout, including paint that can transform walls in the study rooms to dry-erase boards. Desks are adjustable to accommodate people with special needs.

FY2013 also brought the long-awaited approval of the new Salem Senior Center. The \$30 million proposed development was approved in FY2013 to include the City's senior center, professional offices, and a health club. The City anticipates that the development, which will be built upon a now abandoned five acre property that once housed a Sylvania lighting plant, will catalyze more economic development opportunities along its North River Canal and Boston Street corridors.

Around the corner from the proposed new Senior Center, demolition of former St. Joes Church and school and construction of new four-story, mixed-use building which includes 51 affordable dwelling units, 4,560 sq. ft. of commercial space, and a 1,000 sq. ft. community center is nearing completion. Construction started in August 2012 and is projected to be completed by January 2014.

Also, the Peabody Essex Museum (PEM) is in the process of realizing a \$200 million, 175,000 square foot expansion, which will add approximately 75,000 square feet of new gallery, public program and education spaces, a restaurant, as well as improvements to the museum's collection, conservation and exhibition processing areas. A first phase of this expansion is currently wrapping up – an “enabling phase” that includes the construction of a mechanical penthouse that will support the future expansion – and PEM recently selected a new architectural firm – Ennead Architects of New York – to oversee the balance of the expansion, which should be complete by 2019.

Finally, in July 2013, after FY2013 financial approval, the MBTA began construction of a new \$34 million garage, pedestrian bridge, and improved platform. The project is expected to be completed around October 1, 2014. Commuter rail and bus service to and from the Salem station is still available during construction. The new Salem Station and Parking Garage will be fully accessible with a new 9-Car high level platform and a lobby with two elevators in compliance with the Americans with Disabilities Act (ADA). Station access includes an at-grade bus platform, taxi lane and kiss-and-ride drop-off/pick-up area, pedestrian sidewalks and a pedestrian bridge from Bridge Street to the elevators and stairs down to the platform. There will be station upgrades to seating, lighting, signage systems, site improvements and landscaping. The new parking garage is being designed with 714 spaces. The garage will include parking for electric vehicles, accessible parking on each level, zip car parking, motorcycle and bicycle parking, and a parking control system.

### Public Infrastructure Improvements FY2013

Downtown Salem Continues to thrive as a vibrant center of commerce and activity. The City continues its investment in to the Essex Street Pedestrian Mall. FY2013 improvements included the removal of two planting beds and replacement with brick, removal of cobble parking tabs and replacement with brick, the removal and resetting of all cobble on a concrete slab, the removal and replacement of 8 trees, the demolition and removal of the information kiosk, the relocation of utilities into a new electrical cabinet, the removal of three bollards and the

installation of eight new bollards, etc. The project started in May 2013, substantially completed on June 30, 2013 and final punch list items was completed in September 2013.

The City is carrying out the \$20 Million construction of a concrete and steel pier and floating dock system with utilities to accommodate a variety of vessels including the Salem Ferry, cruise ships, excursion boats, water taxis and commercial fishing boats. Construction began in 2010 and is about 50% complete. Project costs are primarily funded with State and Federal grants. Successful development of this facility will provide a major economic boost for the region by expanding markets in the tourism industry and by creating opportunity for new, innovative marine industry.

Continuing the City's long standing commitment to open space and public recreation, Salem is undertaking a complete renovation of Bertram Field football stadium and track. The field is being converted to synthetic turf which requires far less maintenance and can stand up to heavy use. The track will be expanded to regulation size. Cost of the project is \$1.9 million and is being partially funded with a MA PARC grant in the amount \$400,000. The project was completed in October 2013, just in time to host the Thanksgiving football game of Salem v. Beverly.

The City was also awarded a \$420,946 grant by the MA Office of Environmental Affairs to fund a full renovation including the ballpark, community gardens, new play equipment, enhanced park entrances and installation of an irrigation system. The City matched the grant with \$216,851.

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 completed their \$12 million 10,700 square foot cardiac surgical suite and 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 23,914, of whom 22,389 were employed and 1,575, or 6.6% were unemployed. The Commonwealth, for the same period, had an unemployment rate of 7.2%.

#### Financial Planning and Forecasting

In FY2009, 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 2013.

Included in the budget was the City's Five Year Financial Forecast. This is the seventh 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 FY2013 CIP, the City used \$340,000 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 FY2013 CIP include the investment of over \$1.1 million to

purchase a new ladder truck for the fire department, over \$1.8 million to remediate the Universal Steel parking area, over \$400,000 in police technology and public safety upgrades, and over \$200,000 for a new prevention and response multi-mission boat for the Harbormaster.

#### 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 FY2006, 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 FY2007 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 \$1.25 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 FY2007, 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 FY2009, the Retirement Board moved all available funds into the State's Pension Reserves 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 next actuarial valuation will take place in January 2014. 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 FY2013 appropriation for the system is \$10,941,379, with the City's share of 85.3% 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.

For FY2013, 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 FY13 to \$4.75 million. This was the same agreement negotiated for FY2012. The City is working on completing an agreement for FY14.

#### 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 \$6.3 million. As of June 30, 2013, the balance in the City's Stabilization fund is \$3.4 million. The target date to have the Stabilization Fund fully funded is projected to occur by FY 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 FY 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, 2013, the balance of this account was

\$195,088. During the FY2013 budget process, all department heads were asked if they anticipated any retirements and to calculate the estimated cost of each person's buyout for FY2013. As part of the FY2013 budget process, the City Council appropriated an additional \$505,165 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 FY2011, 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 postemployment benefits. The City currently has \$675,000 in the account, and has designated \$600,000 to this fund as of June 30, 2013. 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 in mid-October in the amount of \$5.5 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 the Stabilization Fund up to the goal of the 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 the Stabilization Fund will also be allocated to the Capital Improvement Fund for funding Capital.
- 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, 2012. 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.

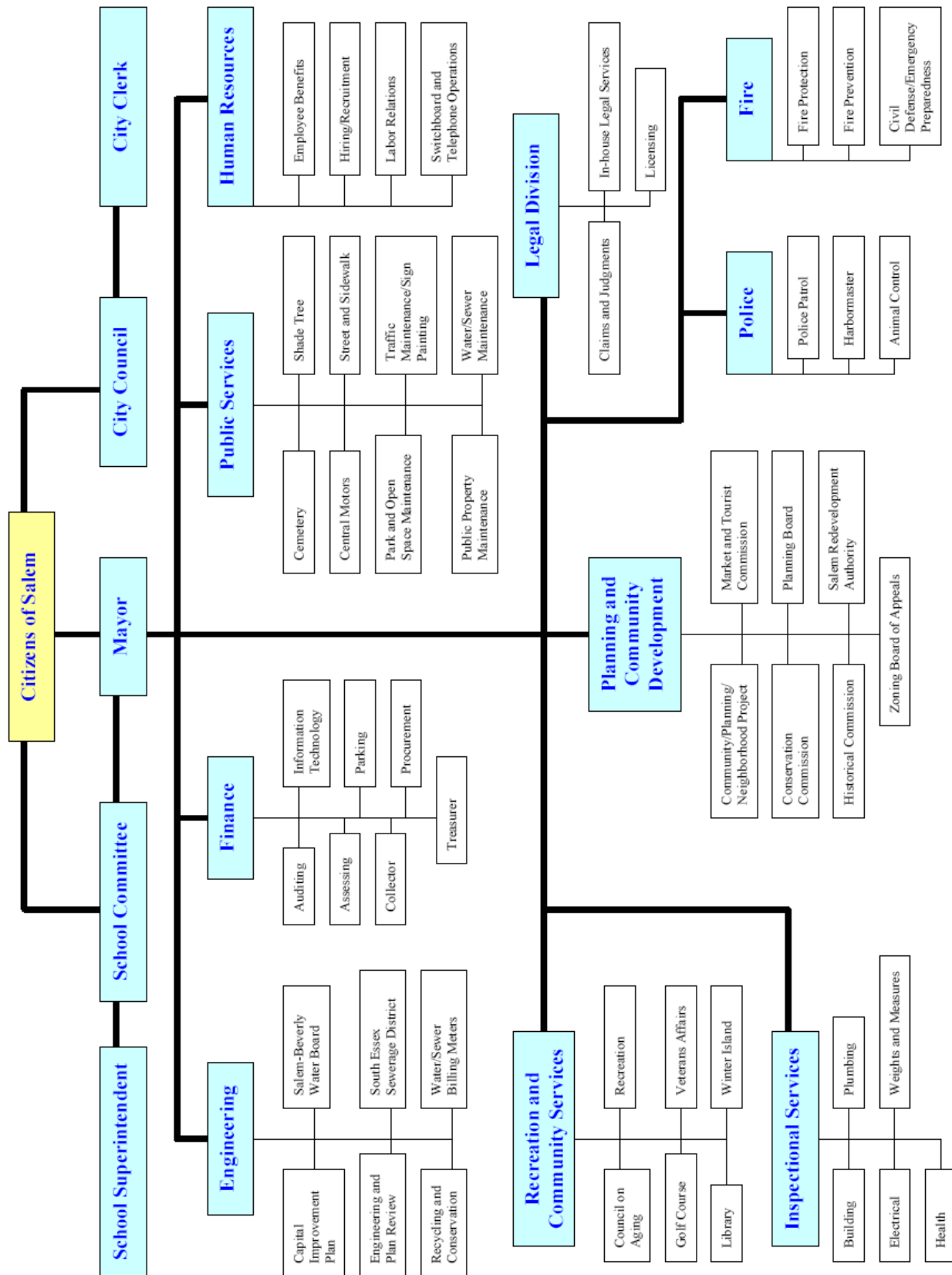
It should be noted that the Distinguished Budget Award was awarded to only twelve of the 351 communities in the Commonwealth for the fiscal period beginning 2012 and that only five communities in the entire Commonwealth received both the Certificate of Achievement of Excellence in Financial Reporting and the Distinguished Budget Presentation Award in 2012.

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,



Sarah A. Stanton  
Finance Director



### Principal Executive Officers

TITLE	NAME	FIRST TOOK OFFICE	TERM EXPIRES
Mayor	Kimberley L. Driscoll	1/2/2006	12/31/2013
President, City Council	Jerry Ryan	1/1/2013	12/31/2013
Finance Director	Sarah Stanton	3/14/2013	1/31/2013
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



Government Finance Officers Association

**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, 2012**

Executive Director/CEO





GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished  
Budget Presentation  
Award*

PRESENTED TO

**City of Salem  
Massachusetts**

For the Fiscal Year Beginning

**July 1, 2012**

*Christopher P. Morrell*

President

*Jeffrey R. Egan*

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, 2012. 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.

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# ***Financial Section***



## **Downtown Salem**

Salem has a wide variety of restaurants including outdoor cafes, ethnic eateries and fine dining establishments. For shoppers there are malls and department stores, an open market, a waterfront village, as well as a downtown retail district. Salem also boasts of a wealth of museums, historic sites and attractions.

## ***Financial Section***

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## Independent Auditor's Report

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

100 Quannapowitt Parkway  
Suite 101  
Wakefield, MA 01880  
T. 781-914-1700  
F. 781-914-1701  
www.powersandsullivan.com

## Report on the Financial Statements

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 year ended June 30, 2013 (except for the Salem Contributory Retirement System which is as of and for the year ended December 31, 2012), and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## 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, 2013 (except for the Salem Contributory Retirement System which is as of December 31, 2012), and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



## **Other Matters**

### *Required Supplementary Information*

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, or 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Salem's basic financial statements. The introductory, combining and individual fund statements and statistical sections are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory and statistical sections have 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 them.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2013 on our consideration of the City of Salem, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Salem, Massachusetts' internal control over financial reporting and compliance.

*Powers & Sullivan LLC*

November 12, 2013

## ***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, 2013. 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 position* presents information on all assets and liabilities, and deferred inflows/outflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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, and 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 City 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.

The fiduciary fund financial statements provide separate information for the pension trust funds of the City. The other postemployment benefits trust fund is used to account for assets accumulated to provide funding for future other postemployment benefits (OPEB) liabilities. Private-purpose trust funds and agency funds are reported and combined into a single, aggregate presentation in the fiduciary funds financial statements under the captions "private purpose trust funds" and "agency funds", respectively.

**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 position may serve over time as a useful indicator of a government's financial position. The City of Salem's governmental assets exceeded liabilities by \$159.7 million at the close of fiscal year 2013. This represents an increase of \$22.4 million from the prior fiscal year.

Net position of \$169.8 million reflects the City's net 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. Net investment in capital assets increased by approximately \$22 million during fiscal year 2013. This was primarily the result of the acquisition of new capital assets of approximately \$38 million, mainly related to school construction, net of \$7.3 million in depreciation recorded against capital assets and a net decrease of \$8 million in outstanding debt related to those assets.

The \$38 million of capital assets were partially funded by \$30.6 million in capital grants (\$25 million of which was from MSBA). An additional portion of the governmental net position, \$12.5 million, represents resources that are subject to external restrictions on how they may be used. This balance was up by approximately \$1.3 million due to the timing of grant and gift receipts and expenses. The balance of *unrestricted net position* has a year-end deficit of \$22.6 million. The primary reason for this deficit balance is the recognition of other postemployment benefit liabilities totaling \$32.4 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 \$5.4 million for governmental activities for fiscal year 2013. The City began the process of pre-funding a portion of the liability in fiscal year 2012 by establishing an irrevocable trust which, as of June 30, 2013, has a balance of \$675,000 and is reported within the Fiduciary Funds in the City's financial statements. This accrued liability was partially offset by positive budgetary results in the City's general fund which contributed approximately \$2 million to the unrestricted net position. The components of the City's governmental activities are presented below.

	Governmental Activities	
	Fiscal 2013	Fiscal 2012
<b>Assets:</b>		
Current assets.....	\$ 47,247,438	\$ 40,433,740
Noncurrent assets (excluding capital).....	4,004,603	18,326,546
Capital assets.....	203,205,214	172,195,580
<b>Total assets.....</b>	<b>254,457,255</b>	<b>230,955,866</b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	11,678,583	11,810,228
Noncurrent liabilities (excluding debt).....	40,971,218	35,447,909
Current debt.....	10,019,179	6,755,366
Noncurrent debt.....	32,100,521	39,669,302
<b>Total liabilities.....</b>	<b>94,769,501</b>	<b>93,682,805</b>
<b>Net Position:</b>		
Net investment in capital assets.....	169,750,602	147,692,495
Restricted.....	12,499,976	11,197,635
Unrestricted.....	(22,562,824)	(21,617,069)
<b>Total net position.....</b>	<b>\$ 159,687,754</b>	<b>\$ 137,273,061</b>

The \$14.3 million decrease in noncurrent assets over the prior year was mainly due to the City receiving a \$15.8 million payment from the MSBA as an early redemption of a portion of MSBA's share of bonds issued in 2003 to finance school construction projects on the Bowditch, Carlton and Bates elementary schools. The MSBA payment, along with net premiums and City appropriations of approximately \$333,000 were used to pay down \$15.6 million of bonds outstanding. Through the early redemption the City realized a net decrease in its aggregate debt service payments of \$2,113,445 over the next 10 years.

	Governmental Activities	
	Fiscal 2013	Fiscal 2012
<b>Program revenues:</b>		
Charges for services.....	\$ 6,215,886	\$ 5,356,226
Operating grants and contributions.....	49,028,512	47,872,700
Capital grants and contributions.....	30,643,446	5,699,571
<b>General Revenues:</b>		
Real estate and personal property taxes.....	76,770,134	72,073,381
Motor vehicle and other excise taxes.....	3,052,229	3,131,334
Nonrestricted grants.....	6,610,413	8,220,908
Unrestricted investment income.....	828,974	103,015
Other revenues.....	4,051,862	4,340,294
<b>Total revenues.....</b>	<b>177,201,456</b>	<b>146,797,429</b>
<b>Expenses:</b>		
General government.....	10,574,021	9,353,833
Public safety.....	27,832,445	26,551,919
Education.....	95,924,303	93,193,380
Public works.....	8,848,271	6,571,533
Community development.....	1,347,731	1,530,786
Health and human services.....	6,140,975	6,001,130
Culture and recreation.....	3,429,452	3,219,315
Interest.....	1,277,709	1,544,887
<b>Total expenses.....</b>	<b>155,374,907</b>	<b>147,966,783</b>
<b>Excess (Deficiency) before transfers.....</b>	<b>21,826,549</b>	<b>(1,169,354)</b>
<b>Transfers.....</b>	<b>588,144</b>	<b>985,677</b>
<b>Change in net position.....</b>	<b>\$ 22,414,693</b>	<b>\$ (183,677)</b>

The governmental expenses totaled \$155 million of which \$85.9 million (55%) was directly supported by program revenues consisting of charges for services, operating and capital grants, and contributions. Public works and education expenses increased by \$2.3 million and \$2.7 million, respectively, both are primarily related to budgetary increases involving contracts and snow and ice removal costs. General revenues totaled \$91 million, primarily coming from property taxes, motor vehicle and other excise, and non-restricted state aid. Capital grants and contributions increased in fiscal year 2013 mainly due to the MSBA reimbursement of 78.26% of allowable school construction costs on the Collins and Saltonstall school construction projects.

### **Business-type Activities**

For the City's business-type activities, assets exceeded liabilities by \$14.4 million at the close of fiscal year 2013.

	Business-type Activities	
	Fiscal 2013	Fiscal 2012
<b>Assets:</b>		
Current assets.....	\$ 7,893,316	\$ 9,520,269
Capital assets.....	25,271,454	21,677,433
<b>Total assets.....</b>	<b>33,164,770</b>	<b>31,197,702</b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	601,381	515,058
Noncurrent liabilities (excluding debt).....	1,472,817	1,228,817
Current debt.....	1,160,521	1,017,520
Noncurrent debt.....	15,510,303	15,745,824
<b>Total liabilities.....</b>	<b>18,745,022</b>	<b>18,507,219</b>
<b>Net Position:</b>		
Net investment in capital assets.....	9,562,558	8,605,165
Unrestricted.....	4,857,190	4,085,318
<b>Total net position.....</b>	<b>\$ 14,419,748</b>	<b>\$ 12,690,483</b>

Business-type net position of \$9.6 million (66%) represents net investment in capital assets. The remaining \$4.9 million (34%) 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 \$1.7 in net position reported in connection with the enterprise funds.

The water enterprise fund's net position of \$4.3 million (83%) represent the net investment in capital assets, while \$898,000 (17%) is unrestricted. The water department experienced a net increase of \$791,000 in net position from the prior year. The increase is partially the result of rates increasing 9% within fiscal year 2013. The water fund pays an annual assessment to the Salem Beverly Water Supply Board, which totaled \$2.5 million or 63% of the fund's operating expenses for fiscal year 2013.

The sewer enterprise fund's net position of \$1.4 million (28%) represents the net investment in capital assets, and \$3.7 million (72%) is unrestricted. The unrestricted balance includes the City's \$699,000 equity interest in the South Essex Sewerage District which decreased by approximately \$432,000 during fiscal year 2013. This decrease was mainly due to the City receiving a drawdown of their investment during fiscal year 2013 to fund operations of the Sewer enterprise. The sewer department operations experienced an overall net increase of \$908,000 during the current fiscal year. Approximately 81% of the expenses in the sewer fund consist of the annual assessments paid to the South Essex Sewerage District. The sewer enterprise fund had a rate increase of 4% within fiscal year 2013 which attributed to its overall increase.

The golf course enterprise fund's net position of \$353,000 (57%) represent the net investment in capital assets, while \$269,000 (43%) is unrestricted. Overall, revenues and expenses both increased by approximately 6-7% at the golf course during fiscal year 2013 as a result, net position remained substantially unchanged.

The parking enterprise fund's net position of \$3.4 million represent the net investment in capital assets, while a deficit balance of \$310,000 is reported as unrestricted. The parking operations experienced a net decrease of \$221,000 during fiscal year 2013 which is consistent with prior years, and is mostly attributable to recording depreciation on previously purchased capital assets totaling approximately \$198,000. 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 2013, \$1.7 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 \$2.2 million transfer was made from the general fund to subsidize for the budgeted deficit. As of June 30, 2013 the trash fund had unrestricted net position totaling \$344,000.

	Business-type Activities	
	Fiscal 2013	Fiscal 2012
<b>Program revenues:</b>		
Charges for services.....	\$ 17,653,779	\$ 16,209,028
<b>Total revenues.....</b>	<b>17,653,779</b>	<b>16,209,028</b>
<b>Expenses:</b>		
Cost of service and administration.....	6,123,663	5,822,797
District assessment.....	7,959,481	8,100,740
Depreciation.....	723,853	718,324
Interest.....	529,373	505,425
<b>Total expenses.....</b>	<b>15,336,370</b>	<b>15,147,286</b>
<b>Excess (Deficiency) before transfers.....</b>	<b>2,317,409</b>	<b>1,061,742</b>
<b>Transfers.....</b>	<b>(588,144)</b>	<b>(985,677)</b>
<b>Change in net assets.....</b>	<b>\$ 1,729,265</b>	<b>\$ 76,065</b>

### ***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 \$27 million of which \$12.7 million is reported in the general fund, a deficit of \$284,000 is reported in the school capital projects major fund, and \$14.7 million is reported in the nonmajor governmental funds. Cumulatively there was an increase of \$4.3 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 \$11.7 million, while total fund balance was \$12.7 million. The general fund balance increased by \$2.2 million in fiscal year 2013. 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 increased by \$1 million in fiscal year 2013 as the City bonded for the project during the year. The major fund ended the fiscal year with a deficit balance of \$284,000 due to the financing of \$5 million in bond anticipation notes (BANs) whose proceeds are not recognized until they are permanently financed. 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 \$7.8 million were recognized in this fund in fiscal year 2013.

Cumulatively, nonmajor governmental funds had a net increase of \$1 million. This represents the activity of other nonmajor capital projects, grants, and permanent trust funds. The fiscal year 2013 increase was almost entirely the result of the timing of funding and recognizing expenditures on capital projects. Bond proceeds in this fund totaled \$3.4 million in fiscal year 2013 related to various City improvement projects.

### ***General Fund Budgetary Highlights***

The \$3 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 \$2.5 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 \$3.2 million more than budgeted. The City does not budget revenue for tax liens which totaled \$353,000. Additionally, fines and forfeitures reported a budgetary surplus of \$471,000 which was the result of modest budgeting. Charges for services reported a surplus of \$940,000 due to several major projects coming on-line including major renovation at PEM, moving entire electrical sub-station at North Shore Medical Center from the front of the building to the back of the building, and also the construction of an apartment building in the Blubber Hollow area.

The City's General Fund reported expenditures less than appropriations by approximately \$1.2 million. The \$1.2 million of expenditures less appropriations relates mostly to the refinancing of School Building Projects that saved the City \$754,000 in Debt Service in fiscal year 2013. State and county assessments were lower than anticipated by \$369,000, which mainly related to the charter school tuition.

### ***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, 2013, amounts to \$228.5 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 \$38.3 million for governmental activities and \$4.3 million for business-type activities.

For governmental activities, over \$30 million of the additions related to the Collins Middle School and the Saltonstall School renovation projects. These assets are recorded as construction in progress at year end as the projects have not been completed. Equipment additions of \$1.6 million included over \$1 million for an Aerial Fire Truck, and \$4.9 million in infrastructure improvements included \$2.8 million for Blaney Street Wharf improvements and \$1.5 million in road improvements.

Capital improvements for business-type activities included \$2.3 million in water infrastructure including water meters and water main improvements; \$358,000 in the Folly Hill water tank project; and \$1.6 million in infrastructure related to the South River Basin and Forest Street drainage projects.

**Debt Administration.** Outstanding long-term debt of the governmental activities, as of June 30, 2013, totaled \$35 million.

The Commonwealth of Massachusetts is obligated to provide school construction assistance for approved school projects through a grant program administered by the MSBA. The assistance is paid to offset a portion of principal and interest on debt issued to finance approved school construction costs. At June 30, 2013 the City has recorded a receivable from the MSBA totaling \$4.2 million, which represents future reimbursements of approved construction costs on projects completed under this MSBA program. During fiscal year 2013, the MSBA provided the City \$15.8 million as an early redemption of a portion of bonds issued under this school construction assistance program. The \$15.8 million was combined with net premiums and a \$333,000 contribution from the City to redeem \$15.6 million of bonds outstanding. This redemption has resulted in a future net debt service savings to the City of over \$2 million.

The City also issued \$11.2 million in general obligation bonds in fiscal year 2013 to finance various governmental capital projects as well as part of the construction costs for the Collins and Saltonstall schools.

Outstanding debt of the water, sewer, golf and parking enterprise funds totaled \$12.9 million, \$2.9 million, \$109,000 and \$700,000 respectively, and funded various repairs, maintenance and infrastructure projects. This includes new debt issued in fiscal year 2013 for sewer improvements \$725,000 and for a parking study \$200,000.

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 POSITION**

JUNE 30, 2013

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents.....	\$ 31,350,975	\$ 3,173,733	\$ 34,524,708
Restricted deposits held in escrow.....	200,450	-	200,450
Investments.....	7,695,057	-	7,695,057
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	990,653	-	990,653
Tax liens.....	1,736,150	-	1,736,150
Motor vehicle and other excise taxes.....	406,367	-	406,367
User fees.....	-	3,933,056	3,933,056
Trash fees.....	-	88,005	88,005
Departmental and other.....	90,834	-	90,834
Intergovernmental.....	4,629,244	-	4,629,244
Loans.....	147,708	-	147,708
Investment in joint venture.....	-	698,522	698,522
Total current assets.....	<u>47,247,438</u>	<u>7,893,316</u>	<u>55,140,754</u>
<b>NONCURRENT:</b>			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	3,695,128	-	3,695,128
Loans.....	309,475	-	309,475
Capital assets, non depreciable.....	44,979,324	1,545,581	46,524,905
Capital assets, net of accumulated depreciation.....	<u>158,225,890</u>	<u>23,725,873</u>	<u>181,951,763</u>
Total noncurrent assets.....	<u>207,209,817</u>	<u>25,271,454</u>	<u>232,481,271</u>
<b>TOTAL ASSETS.....</b>	<u>254,457,255</u>	<u>33,164,770</u>	<u>287,622,025</u>
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Warrants payable.....	2,371,639	248,513	2,620,152
Accrued liabilities.....	1,257,261	234,302	1,491,563
Accrued payroll.....	4,934,082	17,905	4,951,987
Tax refunds payable.....	380,085	-	380,085
Accrued interest.....	415,916	50,140	466,056
Capital lease obligations.....	277,258	-	277,258
Compensated absences.....	1,871,442	50,521	1,921,963
Workers' compensation.....	170,900	-	170,900
Notes payable.....	6,827,738	-	6,827,738
Bonds payable.....	<u>3,191,441</u>	<u>1,160,521</u>	<u>4,351,962</u>
Total current liabilities.....	<u>21,697,762</u>	<u>1,761,902</u>	<u>23,459,664</u>
<b>NONCURRENT:</b>			
Capital lease obligations.....	342,059	-	342,059
Landfill closure.....	600,000	-	600,000
Compensated absences.....	6,842,565	128,195	6,970,760
Other postemployment benefits.....	32,408,395	1,344,622	33,753,017
Workers' compensation.....	778,199	-	778,199
Bonds payable.....	<u>32,100,521</u>	<u>15,510,303</u>	<u>47,610,824</u>
Total noncurrent liabilities.....	<u>73,071,739</u>	<u>16,983,120</u>	<u>90,054,859</u>
<b>TOTAL LIABILITIES.....</b>	<u>94,769,501</u>	<u>18,745,022</u>	<u>113,514,523</u>
<b>NET POSITION</b>			
Net investment in capital assets.....	169,750,602	9,562,558	179,313,160
Restricted for:			
Loans.....	457,183	-	457,183
Permanent funds:			
Expendable.....	3,695,829	-	3,695,829
Nonexpendable.....	2,074,989	-	2,074,989
Grants and gifts.....	6,271,975	-	6,271,975
Unrestricted.....	<u>(22,562,824)</u>	<u>4,857,190</u>	<u>(17,705,634)</u>
<b>TOTAL NET POSITION.....</b>	<u>\$ 159,687,754</u>	<u>\$ 14,419,748</u>	<u>\$ 174,107,502</u>

See notes to basic financial statements.

# STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2013

		Program Revenues				
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue	
<b>Primary Government:</b>						
<i>Governmental Activities:</i>						
General government.....	\$ 10,574,021	\$ 814,824	\$ 578,936	\$ 15,087	\$ (9,165,174)	
Public safety.....	27,832,445	2,780,253	615,897	-	(24,436,295)	
Education.....	95,924,303	1,171,221	41,104,658	25,150,812	(28,497,612)	
Public works.....	8,848,271	259,825	245,092	2,801,276	(5,542,078)	
Community development.....	1,347,731	16,634	1,522,913	2,676,271	2,868,087	
Health and human services.....	6,140,975	135,846	4,535,871	-	(1,469,258)	
Culture and recreation.....	3,429,452	1,037,283	155,362	-	(2,236,807)	
Interest.....	1,277,709	-	269,783	-	(1,007,926)	
Total Governmental Activities...	155,374,907	6,215,886	49,028,512	30,643,446	(69,487,063)	
<i>Business-Type Activities:</i>						
Water.....	4,287,422	5,118,557	-	-	831,135	
Sewer.....	6,882,394	8,573,466	-	-	1,691,072	
Golf Course.....	465,210	697,232	-	-	232,022	
Parking.....	1,052,780	2,580,262	-	-	1,527,482	
Trash.....	2,648,564	684,262	-	-	(1,964,302)	
Total Business-Type Activities..	15,336,370	17,653,779	-	-	2,317,409	
Total Primary Government.....	\$ 170,711,277	\$ 23,869,665	\$ 49,028,512	\$ 30,643,446	\$ (67,169,654)	

See notes to basic financial statements.

(Continued)

# STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Changes in net position:</b>			
Net (expense) revenue from previous page.....	\$ <b>(69,487,063)</b>	\$ <b>2,317,409</b>	\$ <b>(67,169,654)</b>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	76,770,134	-	76,770,134
Tax liens.....	589,138	-	589,138
Motor vehicle and other excise taxes.....	3,052,229	-	3,052,229
Hotel/motel and meals taxes.....	1,224,849	-	1,224,849
Penalties and interest on taxes.....	399,311	-	399,311
Payments in lieu of taxes.....	1,462,692	-	1,462,692
Grants and contributions not restricted to specific programs.....	6,610,413	-	6,610,413
Unrestricted investment income.....	828,974	-	828,974
Miscellaneous.....	375,872	-	375,872
<i>Transfers, net</i> .....	588,144	(588,144)	-
Total general revenues and transfers.....	91,901,756	(588,144)	91,313,612
Change in net position.....	22,414,693	1,729,265	24,143,958
<b>NET POSITION:</b>			
Beginning of year.....	137,273,061	12,690,483	149,963,544
End of year.....	\$ <b>159,687,754</b>	\$ <b>14,419,748</b>	\$ <b>174,107,502</b>

(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2013

	General	School Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents.....	\$ 16,884,055	\$ 4,180,139	\$ 10,112,596	\$ 31,176,790
Restricted deposits held in escrow.....	-	-	200,450	200,450
Investments.....	1,658,377	-	6,036,680	7,695,057
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	990,653	-	-	990,653
Tax liens.....	1,736,150	-	-	1,736,150
Motor vehicle and other excise taxes.....	406,367	-	-	406,367
Departmental and other.....	-	-	90,834	90,834
Intergovernmental.....	4,239,533	2,097,335	1,987,504	8,324,372
Loans.....	-	-	457,183	457,183
Due from other funds.....	-	-	631,416	631,416
<b>TOTAL ASSETS.....</b>	<b>\$ 25,915,135</b>	<b>\$ 6,277,474</b>	<b>\$ 19,516,663</b>	<b>\$ 51,709,272</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Warrants payable.....	\$ -	\$ 1,561,863	\$ 809,776	\$ 2,371,639
Accrued liabilities.....	1,257,261	-	-	1,257,261
Accrued payroll.....	4,765,889	-	168,193	4,934,082
Tax refunds payable.....	380,085	-	-	380,085
Deferred revenues.....	6,788,739	-	1,401,616	8,190,355
Due to other funds.....	-	-	631,416	631,416
Notes payable.....	-	5,000,000	1,827,738	6,827,738
<b>TOTAL LIABILITIES.....</b>	<b>13,191,974</b>	<b>6,561,863</b>	<b>4,838,739</b>	<b>24,592,576</b>
<b>FUND BALANCES:</b>				
Nonspendable.....	-	-	2,074,989	2,074,989
Restricted.....	-	226,825	12,715,343	12,942,168
Assigned.....	1,059,667	-	-	1,059,667
Unassigned.....	11,663,494	(511,214)	(112,408)	11,039,872
<b>TOTAL FUND BALANCES.....</b>	<b>12,723,161</b>	<b>(284,389)</b>	<b>14,677,924</b>	<b>27,116,696</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 25,915,135</b>	<b>\$ 6,277,474</b>	<b>\$ 19,516,663</b>	<b>\$ 51,709,272</b>

See notes to basic financial statements.

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

JUNE 30, 2013

Total governmental fund balances.....	\$ 27,116,696
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....	203,205,214
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....	8,190,355
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 position.....	174,185
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....	(415,916)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds payable.....	(35,291,962)
Landfill closure.....	(600,000)
Workers' compensation.....	(949,099)
Capital leases.....	(619,317)
Compensated absences.....	(8,714,007)
Other postemployment benefits.....	(32,408,395)
Net effect of reporting long-term liabilities.....	(78,582,780)
Net position of governmental activities.....	\$ <u>159,687,754</u>

See notes to basic financial statements.



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

FISCAL YEAR ENDED JUNE 30, 2013

	General	School Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ 77,018,965	\$ -	\$ -	\$ 77,018,965
Tax liens.....	352,743	-	-	352,743
Motor vehicle and other excise taxes.....	3,113,058	-	-	3,113,058
Hotel/motel and meals taxes.....	1,224,849	-	-	1,224,849
Charges for services.....	1,990,257	-	139,545	2,129,802
Penalties and interest on taxes.....	396,661	-	2,650	399,311
Payments in lieu of taxes.....	1,462,692	-	-	1,462,692
Licenses and permits.....	484,184	-	-	484,184
Fines and forfeitures.....	1,230,762	-	-	1,230,762
Intergovernmental.....	57,540,213	22,493,602	19,439,619	99,473,434
Departmental and other.....	459,515	-	3,957,980	4,417,495
Contributions.....	-	-	347,271	347,271
Investment income.....	113,370	-	715,604	828,974
<b>TOTAL REVENUES.....</b>	<b>145,387,269</b>	<b>22,493,602</b>	<b>24,602,669</b>	<b>192,483,540</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	6,014,975	-	1,018,896	7,033,871
Public safety.....	17,820,345	-	1,783,468	19,603,813
Education.....	53,767,839	29,282,741	10,498,388	93,548,968
Public works.....	3,578,976	-	4,626,969	8,205,945
Community development.....	-	-	4,603,651	4,603,651
Health and human services.....	1,210,656	-	4,369,506	5,580,162
Culture and recreation.....	1,898,562	-	772,361	2,670,923
Pension benefits.....	19,771,148	-	-	19,771,148
Employee benefits.....	13,326,634	-	-	13,326,634
State and county charges.....	5,141,397	-	-	5,141,397
Debt service:				
Principal.....	19,380,915	-	73,085	19,454,000
Interest.....	1,813,501	-	2,616	1,816,117
<b>TOTAL EXPENDITURES.....</b>	<b>143,724,948</b>	<b>29,282,741</b>	<b>27,748,940</b>	<b>200,756,629</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>1,662,321</b>	<b>(6,789,139)</b>	<b>(3,146,271)</b>	<b>(8,273,089)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Issuance of bonds.....	-	7,795,160	3,447,500	11,242,660
Premium from issuance of bonds.....	191,693	-	-	191,693
Capital lease financing.....	41,502	-	472,500	514,002
Transfers in.....	4,399,463	-	943,864	5,343,327
Transfers out.....	(4,107,817)	-	(647,366)	(4,755,183)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>524,841</b>	<b>7,795,160</b>	<b>4,216,498</b>	<b>12,536,499</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>2,187,162</b>	<b>1,006,021</b>	<b>1,070,227</b>	<b>4,263,410</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>10,535,999</b>	<b>(1,290,410)</b>	<b>13,607,697</b>	<b>22,853,286</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 12,723,161</b>	<b>\$ (284,389)</b>	<b>\$ 14,677,924</b>	<b>\$ 27,116,696</b>

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, 2013

Net change in fund balances - total governmental funds.....		\$ 4,263,410
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.....	38,287,997	
Depreciation expense.....	<u>(7,278,363)</u>	
Net effect of reporting capital assets.....		31,009,634
In the Statement of Activities, only the <i>gain</i> on the sale of capital assets is reported, whereas in the governmental funds the entire proceeds of the sale are reported as financial resources. As a result, the change in net position differs from the change in fund balance by the cost of the capital assets sold.....		
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.....		
		(15,382,084)
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 position. 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.....	140,388	
Capital lease issuance.....	(514,002)	
Issuance of bonds.....	(11,242,660)	
Debt service principal payments.....	<u>19,454,000</u>	
Net effect of reporting long-term debt.....		7,837,726
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.....	(1,260,938)	
Net change in workers' compensation.....	885,860	
Net change in accrued interest on long-term debt.....	220,088	
Net change in other postemployment benefits.....	(5,357,605)	
Amortization of premium from issuance of bonds payable.....	<u>126,627</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		(5,385,968)
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>71,975</u>
Change in net position of governmental activities.....		<u>\$ 22,414,693</u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF NET POSITION**

JUNE 30, 2013

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Parking	Trash	Total	
<b>ASSETS</b>							
<b>CURRENT:</b>							
Cash and cash equivalents.....	\$ 1,210,274	\$ 762,234	\$ 457,555	\$ 200,000	\$ 543,670	\$ 3,173,733	\$ 174,185
User fees.....	1,309,525	2,623,531	-	-	-	3,933,056	-
Trash fees.....	-	-	-	-	88,005	88,005	-
Investment in joint venture.....	-	698,522	-	-	-	698,522	-
Total current assets.....	2,519,799	4,084,287	457,555	200,000	631,675	7,893,316	174,185
<b>NONCURRENT:</b>							
Capital assets, non depreciable.....	1,279,748	99,552	118,067	48,214	-	1,545,581	-
Capital assets, net of accumulated depreciation..	15,035,426	4,262,640	343,508	4,084,299	-	23,725,873	-
Total noncurrent assets.....	16,315,174	4,362,192	461,575	4,132,513	-	25,271,454	-
TOTAL ASSETS.....	18,834,973	8,446,479	919,130	4,332,513	631,675	33,164,770	174,185
<b>LIABILITIES</b>							
<b>CURRENT:</b>							
Warrants payable.....	239,026	9,487	-	-	-	248,513	-
Accrued liabilities.....	-	15,021	-	-	219,281	234,302	-
Accrued payroll.....	8,778	8,477	-	-	650	17,905	-
Accrued interest.....	36,100	-	1,290	12,750	-	50,140	-
Compensated absences.....	9,982	9,982	5,394	25,163	-	50,521	-
Bonds payable.....	865,521	150,000	30,000	115,000	-	1,160,521	-
Total current liabilities.....	1,159,407	192,967	36,684	152,913	219,931	1,761,902	-
<b>NONCURRENT:</b>							
Compensated absences.....	22,325	22,325	14,474	69,071	-	128,195	-
Other postemployment benefits obligation.....	343,953	361,826	167,666	402,986	68,191	1,344,622	-
Bonds payable.....	12,076,303	2,770,000	79,000	585,000	-	15,510,303	-
Total noncurrent liabilities.....	12,442,581	3,154,151	261,140	1,057,057	68,191	16,983,120	-
TOTAL LIABILITIES.....	13,601,988	3,347,118	297,824	1,209,970	288,122	18,745,022	-
<b>NET POSITION</b>							
Net investment in capital assets.....	4,335,278	1,442,192	352,575	3,432,513	-	9,562,558	-
Unrestricted.....	897,707	3,657,169	268,731	(309,970)	343,553	4,857,190	174,185
TOTAL NET POSITION.....	\$ 5,232,985	\$ 5,099,361	\$ 621,306	\$ 3,122,543	\$ 343,553	\$ 14,419,748	\$ 174,185

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FISCAL YEAR ENDED JUNE 30, 2013

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Parking	Trash	Total	
<b>OPERATING REVENUES:</b>							
Charges for services .....	\$ 5,118,557	\$ 8,573,466	\$ 697,232	\$ 2,580,262	\$ 684,262	\$ 17,653,779	\$ -
Other.....	-	-	-	-	-	-	100,000
<b>TOTAL OPERATING REVENUES .....</b>	<b>5,118,557</b>	<b>8,573,466</b>	<b>697,232</b>	<b>2,580,262</b>	<b>684,262</b>	<b>17,653,779</b>	<b>100,000</b>
<b>OPERATING EXPENSES:</b>							
Cost of services and administration .....	1,049,780	1,172,051	423,715	829,553	2,648,564	6,123,663	-
District Assessment.....	2,450,815	5,508,666	-	-	-	7,959,481	-
Depreciation.....	364,284	124,569	37,148	197,852	-	723,853	-
Employee benefits .....	-	-	-	-	-	-	28,025
<b>TOTAL OPERATING EXPENSES .....</b>	<b>3,864,879</b>	<b>6,805,286</b>	<b>460,863</b>	<b>1,027,405</b>	<b>2,648,564</b>	<b>14,806,997</b>	<b>28,025</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>1,253,678</b>	<b>1,768,180</b>	<b>236,369</b>	<b>1,552,857</b>	<b>(1,964,302)</b>	<b>2,846,782</b>	<b>71,975</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>							
Interest expense.....	(422,543)	(77,108)	(4,347)	(25,375)	-	(529,373)	-
<b>INCOME (LOSS) BEFORE TRANSFERS...</b>	<b>831,135</b>	<b>1,691,072</b>	<b>232,022</b>	<b>1,527,482</b>	<b>(1,964,302)</b>	<b>2,317,409</b>	<b>71,975</b>
<b>TRANSFERS:</b>							
Transfers in.....	668,998	-	431,415	-	2,160,684	3,261,097	-
Transfers out.....	(708,877)	(783,049)	(609,167)	(1,748,148)	-	(3,849,241)	-
<b>TOTAL TRANSFERS.....</b>	<b>(39,879)</b>	<b>(783,049)</b>	<b>(177,752)</b>	<b>(1,748,148)</b>	<b>2,160,684</b>	<b>(588,144)</b>	<b>-</b>
<b>CHANGE IN NET POSITION.....</b>	<b>791,256</b>	<b>908,023</b>	<b>54,270</b>	<b>(220,666)</b>	<b>196,382</b>	<b>1,729,265</b>	<b>71,975</b>
<b>NET POSITION AT BEGINNING OF YEAR.....</b>	<b>4,441,729</b>	<b>4,191,338</b>	<b>567,036</b>	<b>3,343,209</b>	<b>147,171</b>	<b>12,690,483</b>	<b>102,210</b>
<b>NET POSITION AT END OF YEAR.....</b>	<b>\$ 5,232,985</b>	<b>\$ 5,099,361</b>	<b>\$ 621,306</b>	<b>\$ 3,122,543</b>	<b>\$ 343,553</b>	<b>\$ 14,419,748</b>	<b>\$ 174,185</b>

See notes to basic financial statements.

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS**

FISCAL YEAR ENDED JUNE 30, 2013

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Parking	Trash	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>							
Receipts from customers and users.....	\$ 4,947,610	\$ 8,229,549	\$ 697,232	\$ 2,580,262	\$ 689,360	\$ 17,144,013	\$ -
Receipts from interfund services provided.....	-	-	-	-	-	-	100,000
Payments to vendors.....	(3,098,256)	(5,852,585)	(187,508)	(155,954)	(2,672,870)	(11,967,173)	-
Payments to employees.....	(384,288)	(368,570)	(208,732)	(575,910)	(19,556)	(1,557,056)	-
Payments for interfund services used.....	-	-	-	-	-	-	(28,025)
NET CASH FROM OPERATING ACTIVITIES.....	<u>1,465,066</u>	<u>2,008,394</u>	<u>300,992</u>	<u>1,848,398</u>	<u>(2,003,066)</u>	<u>3,619,784</u>	<u>71,975</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>							
Transfers in.....	668,998	-	431,415	-	2,160,684	3,261,097	-
Transfers out.....	(708,877)	(783,049)	(609,167)	(1,748,148)	-	(3,849,241)	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	<u>(39,879)</u>	<u>(783,049)</u>	<u>(177,752)</u>	<u>(1,748,148)</u>	<u>2,160,684</u>	<u>(588,144)</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>							
Proceeds from the issuance of bonds and notes.....	-	725,000	-	200,000	-	925,000	-
Acquisition and construction of capital assets.....	(2,465,290)	(1,629,610)	-	-	-	(4,094,900)	-
Principal payments on bonds and notes.....	(811,520)	(100,000)	(31,000)	(75,000)	-	(1,017,520)	-
Interest expense.....	(442,807)	(77,108)	(4,180)	(25,250)	-	(549,345)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	<u>(3,719,617)</u>	<u>(1,081,718)</u>	<u>(35,180)</u>	<u>99,750</u>	<u>-</u>	<u>(4,736,765)</u>	<u>-</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(2,294,430)	143,627	88,060	200,000	157,618	(1,705,125)	71,975
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	<u>3,504,704</u>	<u>618,607</u>	<u>369,495</u>	<u>-</u>	<u>386,052</u>	<u>4,878,858</u>	<u>102,210</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	<u>\$ 1,210,274</u>	<u>\$ 762,234</u>	<u>\$ 457,555</u>	<u>\$ 200,000</u>	<u>\$ 543,670</u>	<u>\$ 3,173,733</u>	<u>\$ 174,185</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</b>							
Operating income (loss).....	\$ 1,253,678	\$ 1,768,180	\$ 236,369	\$ 1,552,857	\$ (1,964,302)	\$ 2,846,782	\$ 71,975
Adjustments to reconcile operating income (loss) to net cash from operating activities:							
Depreciation.....	364,284	124,569	37,148	197,852	-	723,853	-
Changes in assets and liabilities:							
User fees.....	(170,947)	(343,917)	-	-	-	(514,864)	-
Trash fees.....	-	-	-	-	5,098	5,098	-
Investment in joint venture.....	-	431,594	-	-	-	431,594	-
Accrued liabilities.....	(33,888)	(32,234)	-	-	(55,738)	(121,860)	-
Accrued payroll.....	1,359	345	-	-	(277)	1,427	-
Other postemployment benefits.....	55,688	64,965	27,503	66,006	12,153	226,315	-
Accrued compensated absences.....	(5,108)	(5,108)	(28)	31,683	-	21,439	-
Total adjustments.....	<u>211,388</u>	<u>240,214</u>	<u>64,623</u>	<u>295,541</u>	<u>(38,764)</u>	<u>773,002</u>	<u>-</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 1,465,066</u>	<u>\$ 2,008,394</u>	<u>\$ 300,992</u>	<u>\$ 1,848,398</u>	<u>\$ (2,003,066)</u>	<u>\$ 3,619,784</u>	<u>\$ 71,975</u>

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2013

	Pension Trust Funds (1)	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds	Agency Fund
<b>ASSETS</b>				
Cash and cash equivalents.....	\$ 9,715,249	\$ 3,998	\$ 312,372	\$ 729,890
Investments:				
Corporate bonds.....	-	671,005	1,033,429	-
Real estate and alternative investment mutual funds.....	604,144	-	-	-
PRIT.....	96,438,473	-	-	-
Receivables, net of allowance for uncollectibles:				
Other.....	294,530	-	-	-
NONCURRENT:				
Capital assets, net of accumulated depreciation.....	100,781	-	-	-
<b>TOTAL ASSETS.....</b>	<b>107,153,177</b>	<b>675,003</b>	<b>1,345,801</b>	<b>729,890</b>
<b>LIABILITIES</b>				
Warrants payable.....	5,251	-	-	-
Accrued payroll.....	-	-	-	43,757
Liabilities due depositors.....	-	-	-	686,133
<b>TOTAL LIABILITIES.....</b>	<b>5,251</b>	<b>-</b>	<b>-</b>	<b>729,890</b>
<b>NET POSITION</b>				
Held in trust for pension, OPEB benefits, and other purposes.....	\$ 107,147,926	\$ 675,003	\$ 1,345,801	\$ -

(1) The Pension Trust Fund is as of December 31, 2012.

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FISCAL YEAR ENDED JUNE 30, 2013

	Pension Trust Funds (1)	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds
<b>ADDITIONS:</b>			
Contributions:			
Employer.....	\$ 10,941,379	\$ 252,582	\$ -
Plan member.....	3,477,638	-	-
Private donations.....	-	-	19,726
Total contributions.....	14,419,017	252,582	19,726
Net investment income:			
Net change in fair value of investments.....	8,971,946	41,409	142,927
Interest.....	2,978,515	-	123
Total investment income.....	11,950,461	41,409	143,050
Less: investment expense.....	(503,558)	-	-
Net investment income.....	11,446,903	41,409	143,050
Intergovernmental.....	255,540	-	-
Transfers from other systems.....	426,939	-	-
TOTAL ADDITIONS.....	26,548,399	293,991	162,776
<b>DEDUCTIONS:</b>			
Administration.....	418,035	-	-
Transfers to other systems.....	284,352	-	-
Retirement benefits and refunds.....	13,329,363	-	-
Educational scholarships.....	-	-	21,456
Housing subsidies.....	-	-	84,789
Depreciation.....	3,125	-	-
TOTAL DEDUCTIONS.....	14,034,875	-	106,245
CHANGE IN NET POSITION.....	12,513,524	293,991	56,531
NET POSITION AT BEGINNING OF YEAR.....	94,634,402	381,012	1,289,270
NET POSITION AT END OF YEAR.....	\$ 107,147,926	\$ 675,003	\$ 1,345,801

(1) The Pension Trust Fund is for the year ended December 31, 2012.

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.

*Component Unit Presented as a Fiduciary Fund* – The following component unit is presented as a Fiduciary Fund of the primary government due to the nature and significance of relationship between the City and the component unit.

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, 2013, the City's equity interest in the operations of the District totaled \$698,522, 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,



2013 totaled approximately \$2,451,000 million. Complete financial information for the Water Board can be obtained by contacting them at 50 Arlington Avenue, Beverly, MA 01915.

The Salem Public Schools was granted a charter by the Secretary of Education of the Commonwealth of Massachusetts, pursuant to Chapter 71, Section 89 of the Massachusetts General Laws to operate 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 and is part of the Salem Public Schools. The Charter School is managed by an appointed Board of Trustees and not by the School Committee and Superintendent. Ongoing funding for the school's operations is 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 is included within the City's basic financial statements and is audited independently. Complete financial statements can be obtained by contacting the Salem Public Schools located at 29 Highland Ave., Salem MA 01970.

## B. Government-Wide and Fund Financial Statements

### *Government-Wide Financial Statements*

The government-wide financial statements (i.e., statement of net position and the statement of changes in net position) 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.

#### 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 1<sup>st</sup> 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 1<sup>st</sup>, November 1<sup>st</sup>, February 1<sup>st</sup> and May 1<sup>st</sup> 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 liening 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 liened 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. Deferred Outflows/Inflows of Resources

*Government-Wide Financial Statements (Net Position)*

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The City did not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City did not have any items that qualify for reporting in this category.

I. 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 position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net position 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.

J. 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 position. 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.

K. 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.

L. Net position and Fund Equity*Government-Wide Financial Statements (Net position)*

Net position reported as “net investment in capital assets” 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 position is reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net position has 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.

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

*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.

#### M. 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 position. 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.

#### N. 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.

O. 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.

P. Fund Deficits and Appropriation Deficits

Individual fund deficits existed at June 30, 2013 in the school capital fund and within the nonmajor governmental funds. These deficits will be funded through long-term borrowing, capital grants and grant proceeds in fiscal year 2014.

Actual expenditures exceeded appropriations for snow and ice by \$539,000. This over-expenditure will be funded with available funds during fiscal year 2014. In the snow and ice removal appropriation line, the general law allows deficits to occur and to be raised in the subsequent fiscal year.

Q. 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.

R. 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.

As of June 30, 2013, the City's restricted deposit held in escrow represents capital lease proceeds that are held in escrow until the related equipment is purchased.

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 15% 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, 2013, \$675,003 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 \$34,778,045 and the bank balance totaled \$40,124,850. Of the bank balance, \$4,404,662 was covered by Federal Depository Insurance, \$11,779,719 was covered by the Share Insurance Fund, \$2,044,768 was covered by the Depositors Insurance Fund, \$18,635,810 was collateralized and \$3,259,891 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 \$120,114 and the bank balance totaled \$315,981. The entire bank balance was covered by Federal Depository Insurance.

Investments

As of June 30, 2013, the City had the following investments:

Investment Type	Fair Value	Maturity	
		Under 1 Year	1-5 Years
Debt Securities:			
Corporate Bonds.....	\$ 1,748,530	\$ 14,927	\$ 1,733,603
U.S. Treasury Notes.....	401,060	-	401,060
Government Sponsored Enterprises.....	163,637	-	163,637
Total Debt Securities.....	2,313,227	\$ 14,927	\$ 2,298,300
Other Investments:			
Equity Securities.....	3,577,909		
Equity Mutual Funds.....	2,922,841		
Bond Mutual Funds.....	585,514		
Money Market Mutual Funds.....	920,092		
MMDT.....	73,281		
Total Investments.....	\$ 10,392,864		

As of December 31, 2012, the System had the following investments:

Investment Type	Fair Value	Maturity	
		Under 1 Year	
Repurchase Agreements.....	\$ 8,116,835	\$ 8,116,835	
<u>Other Investments:</u>			
Government Short-term Investment Funds.....	1,478,300		
Venture Capital and Limited Partnerships.....	141,242		
Real Estate Investment Trust.....	462,902		
Pension Reserve Investment Trust (PRIT).....	96,438,473		
Total Investments.....	\$ 106,637,752		

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 10.37 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, \$1,748,530 of corporate bonds, \$401,060 of U.S. Treasury Notes, \$163,637 of Government Sponsored Enterprises and \$3,577,909 of equity securities are exposed to custodial credit risk because the related securities are uninsured, unregistered and are held by the counterparty.

The Citywide investment policy, as well as the investment policy specifically for OPEB funds, addresses custodial credit risk by requiring all securities not held directly by the City to be held in the City's name and tax identification number by a third party custodian approved by the Treasurer and evidenced by safekeeping receipts showing individual CUSIP numbers for each security.

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:

	Fair Value	AAA	AA+	AA-	A+	A	A-	BBB+	BBB	Unrated
<u>Debt Securities:</u>										
Corporate Bonds.....	\$ 1,748,530	\$ -	\$ 575,574	\$ 260,110	\$ 155,339	\$ 211,764	\$ 101,897	\$ 329,755	\$ 101,466	\$ 12,625
U.S. Treasury Notes.....	401,060	401,060	-	-	-	-	-	-	-	-
Government Sponsored Enterprises..	163,637	-	163,637	-	-	-	-	-	-	-
Total Debt Securities.....	<u>\$ 2,313,227</u>	<u>\$ 401,060</u>	<u>\$ 739,211</u>	<u>\$ 260,110</u>	<u>\$ 155,339</u>	<u>\$ 211,764</u>	<u>\$ 101,897</u>	<u>\$ 329,755</u>	<u>\$ 101,466</u>	<u>\$ 12,625</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, 2013, 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.....	\$ 990,653	\$ -	\$ 990,653
Tax liens.....	1,736,150	-	1,736,150
Motor vehicle and other excise taxes.....	909,670	(503,303)	406,367
Departmental and other.....	90,834	-	90,834
Intergovernmental.....	8,324,372	-	8,324,372
Loans.....	660,352	(203,169)	457,183
Total.....	<u>\$ 12,712,031</u>	<u>\$ (706,472)</u>	<u>\$ 12,005,559</u>

At June 30, 2013, 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.....	\$ 1,309,525	\$ -	\$ 1,309,525
Sewer user fees.....	2,623,531	-	2,623,531
Trash fees.....	88,005	-	88,005
Total.....	<u>\$ 4,021,061</u>	<u>\$ -</u>	<u>\$ 4,021,061</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.....	\$ 458,949	\$ -	\$ 458,949
Tax liens.....	1,736,150	-	1,736,150
Motor vehicle and other excise taxes.....	406,367	-	406,367
Departmental and other.....	-	90,834	90,834
Intergovernmental.....	4,187,273	853,599	5,040,872
Loans.....	-	457,183	457,183
Total.....	<u>\$ 6,788,739</u>	<u>\$ 1,401,616</u>	<u>\$ 8,190,355</u>

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 6,435,568	\$ -	\$ -	\$ 6,435,568
Construction in progress.....	8,484,708	30,059,048	-	38,543,756
Total capital assets not being depreciated.....	14,920,276	30,059,048	-	44,979,324
<u>Capital assets being depreciated:</u>				
Land improvements.....	7,512,954	770,624	-	8,283,578
Buildings and improvements.....	171,282,735	713,884	(114,220)	171,882,399
Equipment.....	10,906,383	1,567,786	(161,046)	12,313,123
Infrastructure.....	58,935,910	4,941,402	-	63,877,312
Vehicles.....	5,107,730	235,253	(763,129)	4,579,854
Total capital assets being depreciated.....	253,745,712	8,228,949	(1,038,395)	260,936,266
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(2,257,972)	(337,015)	-	(2,594,987)
Buildings and improvements.....	(53,606,192)	(4,286,672)	114,220	(57,778,644)
Equipment.....	(5,521,072)	(704,748)	161,046	(6,064,774)
Infrastructure.....	(30,909,421)	(1,690,737)	-	(32,600,158)
Vehicles.....	(4,175,751)	(259,191)	763,129	(3,671,813)
Total accumulated depreciation.....	(96,470,408)	(7,278,363)	1,038,395	(102,710,376)
Total capital assets being depreciated, net.....	157,275,304	950,586	-	158,225,890
Total governmental activities capital assets.....	\$ 172,195,580	\$ 31,009,634	\$ -	\$ 203,205,214

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Water Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 10,589	\$ -	\$ -	\$ 10,589
Construction in progress.....	910,907	358,252	-	1,269,159
Total capital assets not being depreciated.....	921,496	358,252	-	1,279,748
<u>Capital assets being depreciated:</u>				
Land improvements.....	114,550	-	-	114,550
Equipment.....	296,290	-	-	296,290
Vehicles.....	48,794	-	-	48,794
Infrastructure.....	19,766,016	2,346,064	-	22,112,080
Total capital assets being depreciated.....	20,225,650	2,346,064	-	22,571,714
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(60,141)	(5,727)	-	(65,868)
Equipment.....	(142,459)	(29,630)	-	(172,089)
Vehicles.....	(43,915)	(4,879)	-	(48,794)
Infrastructure.....	(6,925,489)	(324,048)	-	(7,249,537)
Total accumulated depreciation.....	(7,172,004)	(364,284)	-	(7,536,288)
Total capital assets being depreciated, net.....	13,053,646	1,981,780	-	15,035,426
Total water activities capital assets.....	\$ 13,975,142	\$ 2,340,032	\$ -	\$ 16,315,174
<b>Sewer Activities:</b>				
<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.....	4,086,962	1,613,558	-	5,700,520
Total capital assets being depreciated.....	4,141,183	1,613,558	-	5,754,741
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(5,426)	-	-	(5,426)
Vehicles.....	(43,916)	(4,880)	-	(48,796)
Infrastructure.....	(1,318,190)	(119,689)	-	(1,437,879)
Total accumulated depreciation.....	(1,367,532)	(124,569)	-	(1,492,101)
Total capital assets being depreciated, net.....	2,773,651	1,488,989	-	4,262,640
Total sewer activities capital assets.....	\$ 2,873,203	\$ 1,488,989	\$ -	\$ 4,362,192



	Beginning Balance	Increases	Decreases	Ending Balance
<b>Golf Course Activities:</b>				
<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.....	(306,247)	(1,201)	-	(307,448)
Buildings and improvements.....	(151,488)	(11,000)	-	(162,488)
Equipment.....	(265,682)	(24,947)	-	(290,629)
Total accumulated depreciation.....	(723,417)	(37,148)	-	(760,565)
Total capital assets being depreciated, net.....	380,656	(37,148)	-	343,508
Total golf course activities capital assets.....	\$ 498,723	\$ (37,148)	\$ -	\$ 461,575
<b>Parking Activities:</b>				
<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.....	(241,853)	(33,500)	-	(275,353)
Buildings and improvements.....	(4,503,469)	(152,491)	-	(4,655,960)
Equipment.....	(22,275)	(6,871)	-	(29,146)
Infrastructure.....	(12,475)	(4,990)	-	(17,465)
Total accumulated depreciation.....	(4,780,072)	(197,852)	-	(4,977,924)
Total capital assets being depreciated, net.....	4,282,151	(197,852)	-	4,084,299
Total parking activities capital assets.....	\$ 4,330,365	\$ (197,852)	\$ -	\$ 4,132,513

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, 2012 totals \$24,219, for a net book value of \$100,781.

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

**Governmental Activities:**

General government.....	\$	390,988
Public safety.....		603,681
Education.....		4,112,542
Public works.....		1,971,819
Health and human services.....		4,636
Culture and recreation.....		194,697

Total depreciation expense - governmental activities..... \$ 7,278,363

**Business-Type Activities:**

Water.....	\$	364,284
Sewer.....		124,569
Golf Course.....		37,148
Parking.....		197,852

Total depreciation expense - business-type activities..... \$ 723,853

**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, 2013, 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.....	\$ -	\$ 2,160,684	\$ 431,415	\$ 668,998	\$ 846,720	\$ 4,107,817 (1)
Nonmajor Governmental Funds.....	550,222	-	-	-	97,144	647,366 (2)
Parking Enterprise Fund.....	1,748,148	-	-	-	-	1,748,148 (3)
Golf Course Enterprise Fund.....	609,167	-	-	-	-	609,167 (4)
Sewer Enterprise Fund.....	783,049	-	-	-	-	783,049 (5)
Water Enterprise Fund.....	708,877	-	-	-	-	708,877 (6)
Total.....	\$ <u>4,399,463</u>	\$ <u>2,160,684</u>	\$ <u>431,415</u>	\$ <u>668,998</u>	\$ <u>943,864</u>	\$ <u>8,604,424</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 water enterprise fund to cover year end deficits;  
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 to return their net operating income.
- (4) Transfer from the golf course enterprise fund to the general fund as voted by council to fund related operations.
- (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.

The City's interfund balances at June 30, 2013 consisted of \$631,416 in balances within the nonmajor governmental funds all representing interfund borrowings for cash flow purposes.

## NOTE 6 – CAPITAL AND OPERATING LEASES

### Capital Leases

The City has entered into lease agreements as lessee for financing the acquisition of police vehicles, fire truck, department of public works vehicles, school buses and maintenance van, and information technology. 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.

During fiscal year 2013, the City entered into a new lease agreement for a total of \$472,500 for equipment to be purchased in fiscal years 2013 and 2014. The funds were deposited into an escrow account and \$272,050 of assets were purchased in fiscal year 2013 and \$200,450 remained in the escrow account at year end to be used in fiscal 2014 for future purchases. The remaining funds are presented in the basic financial statements as restricted deposits held in escrow. The City also entered into a new capital lease totaling \$41,502 for police vehicles.

The assets acquired through capital leases are as follows:

<u>Asset:</u>	<u>Governmental Activities</u>
Machinery and equipment.....	\$ 583,386
Vehicles.....	363,821
Less: accumulated depreciation.....	<u>(268,432)</u>
Total.....	<u>\$ 678,776</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2013, were as follows:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2014.....	\$ 293,216
2015.....	191,893
2016.....	<u>160,774</u>
Total minimum lease payments.....	645,883
Less: amounts representing interest.....	<u>(26,566)</u>
Present value of minimum lease payments.....	<u>\$ 619,317</u>

### Operating Leases

The City leases office space for the City Hall Annex under an operating lease that began in February, 2013 and expires on April 30, 2016. The City made five lease payments for the fiscal year ended June 30, 2013 totaling

\$152,000 which is reported as general government expenditures in the general fund. Prior to the lease agreement, the City paid \$223,000 in rent payments during fiscal year 2013. Rental and lease payments for fiscal year 2013 totaled \$375,000.

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

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2014.....	\$ 339,500
2015.....	382,000
2016.....	<u>260,000</u>
Total.....	\$ <u>981,500</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), state aid anticipation notes (SAANS) 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, 2013, are as follows:

<u>Type</u>	<u>Purpose</u>	<u>Rate (%)</u>	<u>Due Date</u>	<u>Balance at June 30, 2012</u>	<u>Renewed/ Issued</u>	<u>Retired/ Redeemed</u>	<u>Balance at June 30, 2013</u>
<b>Governmental Activities</b>							
GAN	Wharf Expansion.....	1.50%	10/19/13	\$ 1,795,677	\$ -	\$ (1,795,677)	\$ -
BAN	Municipal Purpose.....	1.20%	09/28/13	999,062	-	(999,062)	-
BAN	Municipal Purpose.....	2.17%	12/20/13	-	6,790,000	-	6,790,000
SAAN	Municipal Purpose.....	0.75%	12/20/13	-	37,738	-	37,738
	Sub-total governmental notes.....			<u>2,794,739</u>	<u>6,827,738</u>	<u>(2,794,739)</u>	<u>6,827,738</u>
<b>Business-type Activities</b>							
BAN	Water Improvements.....	1.20%	09/28/13	542	-	(542)	-
	Total notes payable.....			<u>\$ 2,795,281</u>	<u>\$ 6,827,738</u>	<u>\$ (2,795,281)</u>	<u>\$ 6,827,738</u>

**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".

Details related to the outstanding general obligation indebtedness at June 30, 2013, 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, 2012	Issued	Redeemed	Outstanding at June 30, 2013
HUD Section 108.....	2015	\$ 6,000,000	9.00%	\$ 105,000	\$ -	\$ (35,000)	\$ 70,000
Municipal Purpose Bonds of 2003.....	2023	28,670,000	3.00-5.00%	18,500,000	-	(17,005,000)	1,495,000
Municipal Purpose Refunding Bonds of 2003.....	2013	4,480,000	2.25-4.50%	460,000	-	(460,000)	-
Municipal Purpose Bonds of 2005.....	2025	2,465,000	3.00-5.00%	1,585,000	-	(125,000)	1,460,000
Municipal Purpose Bonds of 2007.....	2028	8,319,497	3.75-5.00%	6,360,000	-	(485,000)	5,875,000
Municipal Purpose Refunding Bonds of 2010.....	2020	8,113,000	2.00-5.00%	7,060,000	-	(809,000)	6,251,000
Municipal Purpose Bonds of 2010.....	2026	5,219,000	3.00-5.00%	4,680,000	-	(535,000)	4,145,000
Municipal Purpose Bonds of 2012.....	2043	15,143,598	2.63-4.00%	3,900,938	11,242,660	-	15,143,598
Total Governmental bonds payable.....				42,650,938	11,242,660	(19,454,000)	34,439,598
Unamortized premiums on bonds.....				978,991	-	(126,627)	852,364
Total outstanding bonds payable reported in governmental activities.....				\$ 43,629,929	\$ 11,242,660	\$ (19,580,627)	\$ 35,291,962

The future fiscal years payments are as follows:

Fiscal Year	Principal	Interest	Total
2014.....	\$ 3,073,598	\$ 1,208,048	\$ 4,281,646
2015.....	2,535,000	1,097,663	3,632,663
2016.....	2,515,000	1,010,444	3,525,444
2017.....	2,301,000	925,736	3,226,736
2018.....	2,330,000	841,396	3,171,396
2019.....	2,260,000	755,957	3,015,957
2020.....	2,285,000	664,562	2,949,562
2021.....	1,405,000	584,835	1,989,835
2022.....	1,245,000	531,185	1,776,185
2023.....	1,260,000	479,905	1,739,905
2024.....	1,120,000	427,977	1,547,977
2025.....	1,130,000	385,996	1,515,996
2026.....	900,000	349,580	1,249,580
2027.....	840,000	321,470	1,161,470
2028.....	850,000	293,870	1,143,870
2029.....	465,000	272,869	737,869
2030.....	475,000	258,769	733,769
2031.....	495,000	244,219	739,219
2032.....	505,000	229,219	734,219
2033.....	520,000	213,844	733,844
2034.....	520,000	197,919	717,919
2035 through 2039.....	2,905,000	714,892	3,619,892
2040 through 2043.....	2,505,000	174,658	2,679,658
Total.....	\$ 34,439,598	\$ 12,185,013	\$ 46,624,611

The Commonwealth has approved school construction assistance to the City. The assistance program, which is administered by the MSBA, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2013, \$2,534,000 of such assistance was received. Approximately \$5,130,000 will be received in future fiscal years of which \$942,000 represents reimbursement of long-term interest costs, and \$4,187,000 represents reimbursement of approved construction costs. Accordingly, a \$4,187,000 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 position.

During fiscal year 2013, the City received a \$15.8 million payment from the MSBA as an early redemption of a portion of MSBA's share of the bonds issued in 2003 to finance school construction projects on the Bowditch, Carlton and Bates elementary schools. The MSBA payment, along with net premiums and City appropriations of approximately \$333,000, were used to pay down \$15.6 million of bonds outstanding. Through the early redemption the City has realized a net decrease in its aggregate debt service payments of \$2,113,445 over the next 10 years.

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, 2013, 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, 2012	Issued	Redeemed	Outstanding at June 30, 2013
Water Project - MWPAT.....	2027	\$ 2,330,656	2.00%	\$ 1,835,400	\$ -	\$ (105,978)	\$ 1,729,422
Water Project.....	2028	3,250,503	3.75-5.00%	2,585,000	-	(165,000)	2,420,000
Water System Tanks and Improvements.....	2031	8,464,000	3.00-5.00%	7,920,000	-	(540,000)	7,380,000
Water System Improvements.....	2033	1,412,402	2.63-4.00%	1,412,402	-	-	1,412,402
Total Water Enterprise Fund.....				\$ 13,752,802	\$ -	\$ (810,978)	\$ 12,941,824

The future fiscal years payments are as follows:

Fiscal Year	Principal	Interest	Total
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.....	\$ 12,941,824	\$ 3,570,353	\$ 16,512,177

**Bonds Payable Schedule – Sewer Enterprise Fund**

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2012	Issued	Redeemed	Outstanding at June 30, 2013
Sewer Improvements.....	2030	\$ 1,690,000	3.00-5.00%	\$ 1,585,000	\$ -	\$ (100,000)	\$ 1,485,000
Sewer Improvements.....	2033	190,000	2.63-4.00%	710,000	725,000	-	1,435,000
Total Sewer Enterprise Fund.....				\$ 2,295,000	\$ 725,000	\$ (100,000)	\$ 2,920,000

The future fiscal years payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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.....	\$ <u>2,920,000</u>	\$ <u>944,178</u>	\$ <u>3,864,178</u>

#### Bonds Payable Schedule – Golf Course Enterprise Fund

<u>Project</u>	<u>Maturities Through</u>	<u>Original Loan Amount</u>	<u>Interest Rate (%)</u>	<u>Outstanding at June 30, 2012</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2013</u>
Golf Course Clubhouse Refunding of 2010.....	2017	\$ 172,000	2.00-5.00%	\$ <u>140,000</u>	\$ <u>-</u>	\$ <u>(31,000)</u>	\$ <u>109,000</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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.....	\$ <u>109,000</u>	\$ <u>6,345</u>	\$ <u>115,345</u>



**Bonds Payable Schedule – Parking Enterprise Fund**

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2012	Issued	Redeemed	Outstanding at June 30, 2013
Parking Garage Repairs.....	2020	\$ 1,100,000	3.00-5.00%	\$ 575,000	\$ -	\$ (75,000)	\$ 500,000
Parking Study.....	2018	200,000	2.625-4%	-	200,000	-	200,000
Total Parking Enterprise Fund.....				<u>\$ 575,000</u>	<u>\$ 200,000</u>	<u>\$ (75,000)</u>	<u>\$ 700,000</u>

The future fiscal years payments are as follows:

Fiscal Year	Principal	Interest	Total
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.....	<u>50,000</u>	<u>2,000</u>	<u>52,000</u>
Total.....	<u>\$ 700,000</u>	<u>\$ 94,250</u>	<u>\$ 794,250</u>

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2013, the City had the following authorized and unissued debt:

Purpose	Amount
School Construction.....	\$ 27,146,635
Water Systems Improvements.....	4,915,264
Capital Projects.....	1,790,000
Roadway Improvements.....	2,000,000
Senior Center Construction.....	4,994,136
Bertram Field.....	1,900,000
Canal Street Utility Program.....	<u>3,900,000</u>
Total.....	<u>\$ 46,646,035</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2013, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
Long-term bonds.....	\$ 42,650,938	\$ 11,242,660	\$ (19,454,000)	\$ 34,439,598	\$ 3,073,598
Add: unamortized premium.....	978,991	-	(126,627)	852,364	117,843
Total bonds payable.....	43,629,929	11,242,660	(19,580,627)	35,291,962	3,191,441
Capital leases.....	245,703	514,002	(140,388)	619,317	277,258
Compensated absences.....	7,453,069	2,769,092	(1,508,154)	8,714,007	1,871,442
Landfill Closure.....	600,000	-	-	600,000	-
Workers' compensation.....	1,834,959	-	(885,860)	949,099	170,900
Other postemployment benefits.....	27,050,790	9,849,544	(4,491,939)	32,408,395	-
Total governmental activity long-term liabilities.....	\$ 80,814,450	\$ 24,375,298	\$ (26,606,968)	\$ 78,582,780	\$ 5,511,041
<b>Business-Type Activities:</b>					
Long-term bonds.....	\$ 16,762,802	\$ 925,000	\$ (1,016,978)	\$ 16,670,824	\$ 1,160,521
Compensated absences.....	157,277	68,206	(46,767)	178,716	50,521
Other postemployment benefits.....	1,118,307	416,061	(189,746)	1,344,622	-
Total business-type activity long-term liabilities.....	\$ 18,038,386	\$ 1,409,267	\$ (1,253,491)	\$ 18,194,162	\$ 1,211,042

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 \$3,438,799 and \$195,088, respectively and are reported as unassigned fund balance within the General Fund.

As of June 30, 2013, the governmental fund balances consisted of the following:

	GOVERNMENTAL FUNDS			
	General	School Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>FUND BALANCES</b>				
Nonspendable:				
Permanent fund principal..... \$	- \$	- \$	2,074,989 \$	2,074,989
Restricted for:				
School capital projects fund.....	-	226,825	-	226,825
City revolving funds.....	-	-	1,072,763	1,072,763
City grant funds.....	-	-	2,874,948	2,874,948
School lunch.....	-	-	103,846	103,846
School revolving funds.....	-	-	334,242	334,242
School grant funds.....	-	-	1,666,926	1,666,926
Donations and gifts.....	-	-	1,670,883	1,670,883
Receipts reserved.....	-	-	683,040	683,040
Community development grants.....	-	-	59,218	59,218
Capital Improvement Plan.....	-	-	465,181	465,181
Other capital projects.....	-	-	88,467	88,467
Cemetery fund.....	-	-	2,146,941	2,146,941
Human services fund.....	-	-	1,246,527	1,246,527
Other permanent funds.....	-	-	302,361	302,361
Assigned to:				
General government.....	111,503	-	-	111,503
Public safety.....	129,761	-	-	129,761
Education.....	758,965	-	-	758,965
Public works.....	16,067	-	-	16,067
Human services.....	8,116	-	-	8,116
Culture and recreation.....	35,255	-	-	35,255
Unassigned.....	11,663,494	(511,214)	(112,408)	11,039,872
<b>TOTAL FUND BALANCES (DEFICIT)..... \$</b>	<b>12,723,161 \$</b>	<b>(284,389) \$</b>	<b>14,677,924 \$</b>	<b>27,116,696</b>

**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.

The City participates in premium-based health care plans for its active employees and retirees through the state's Group Insurance Commission.

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, 2013, the amount of the liability for workers' compensation claims totaled \$949,099.

Changes in the reported liability since July 1, 2011, 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 2012.....	\$ 1,174,953	\$ 1,142,946	\$ (482,940)	\$ 1,834,959	\$ 101,904
Fiscal Year 2013.....	1,834,959	(710,792)	(175,068)	949,099	170,900

**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 \$10,522,000 for the fiscal year ended June 30, 2013, 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, 2012, the System's membership consists of the following:

Active members.....	868
Inactive members.....	184
Retirees and beneficiaries currently receiving benefits.....	<u>563</u>
Total.....	<u>1,615</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 85% 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, 2013, 2012, and 2011, were \$9,337,442, \$8,935,504, and \$8,543,631, 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 open amortization period at January 1, 2012 was 20 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 maintains 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 participation in the Group Insurance Commission of the Commonwealth of Massachusetts (GIC), which covers both active and retired members. Chapter 32b of the MGL assigns authority to establish and amend benefit provisions of the plan. The Retiree Health Plan does not issue a publicly available financial report. The employer’s share for life insurance is 65% while the retiree is responsible for 35%. Regarding health insurance, these rates are dependent upon the individual’s date of retirement. The rates range from 10% to 35% for the retiree’s co-payment of the total premium, and 65% to 90% for the City.

As of December 31, 2011, the plan’s membership consisted of:

Active participants.....	890
Retired participants.....	<u>1,053</u>
Total participants.....	<u><u>1,943</u></u>

*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, 65% for those in senior plans and 90% for retired teachers. The City contributes 50% for surviving spouses. Plan members receiving benefits contribute the remainder of their premium costs. For fiscal year 2013, the City contributed \$4.7 million to the plan. Administrative costs of the Plan are assumed to be included in the fully insured premium rates.

The Commonwealth of Massachusetts passed special legislation that has allowed the City to establish the Other Postemployment Benefits Trust fund which allows the City to set aside amounts to begin pre-funding its OPEB liabilities. During fiscal year 2013, the City pre-funded future OPEB liabilities in the amount of \$252,582.

*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.....	\$ 10,003,723
Interest on net OPEB obligation.....	1,267,609
Adjustments to annual required contribution.....	<u>(1,005,727)</u>
Annual OPEB cost (expense).....	10,265,605
Contributions made (including retired teachers).....	<u>(4,681,685)</u>
Increase in net OPEB obligation.....	5,583,920
Net OPEB obligation-beginning of year.....	<u>28,169,097</u>
Net OPEB obligation-end of year.....	<u>\$ 33,753,017</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 2011, 2012 and 2013 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>
6/30/2013	\$ 10,265,605	46%	\$ 33,753,017
6/30/2012	9,768,346	45%	28,169,097
6/30/2011	11,577,795	51%	22,820,242

*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. The covered payroll (annual payroll of active employees covered by the plan) was \$50,103,473 and the ratio of unfunded actuarial accrued liability was 289.5%.

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 2012, 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 2012 (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 2013, 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 \$12.5 million. This amount includes \$1.5 million for the first year of a five-year solid waste and recycling collection and transportation contract, \$1.1 million for Phase 1 of the Salem Wharf dredging project, \$1.1 million for the purchase of new fire apparatus, \$3.5 million for Canal Street drainage, sewer and water improvements, \$1.6 million for renovations to Bertram field and \$1.1 million for roadway pavement rehabilitation. The City is also nearing completion of the \$48.4 million Collins Middle School and Saltonstall Elementary School renovation projects.

In June 2013, the City adopted a 1% community preservation act surcharge for fiscal year 2014.

**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, 2013, 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, 2013, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2013.

#### **NOTE 17 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During fiscal year 2013, the following GASB pronouncements were implemented:

- GASB Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*. The implementation of this pronouncement did not impact the basic financial statements.
- GASB Statement #61, *The Financial Reporting Entity: Omnibus*. The implementation of this pronouncement did not impact the basic financial statements.
- GASB Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Financial statement changes include net assets changing to net position and invested in capital assets, net of related debt changing to net investment in capital assets. Notes to the basic financial statements were changed to provide additional disclosure on deferred outflows of resources and deferred inflows of resources.
- GASB Statement #66, *Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62*. 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 #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2014.
- 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.
- The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented in fiscal year 2015.
- The GASB issued Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which is required to be implemented in fiscal year 2014.

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, 2013

	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.....	\$ -	\$ 76,905,201	\$ 76,905,201	\$ 76,905,201	\$ 77,100,120	\$ -	\$ 194,919	
Tax liens.....	-	-	-	-	352,743	-	352,743	
Motor vehicle and other excise taxes.....	-	2,960,000	2,960,000	2,960,000	3,113,058	-	153,058	
Hotel/motel tax and meals taxes.....	-	1,160,000	1,160,000	1,160,000	1,224,849	-	64,849	
Charges for services.....	-	1,050,000	1,050,000	1,050,000	1,990,257	-	940,257	
Penalties and interest on taxes.....	-	403,000	403,000	403,000	396,661	-	(6,339)	
Payments in lieu of taxes.....	-	1,384,835	1,384,835	1,384,835	1,462,692	-	77,857	
Licenses and permits.....	-	450,000	450,000	450,000	484,184	-	34,184	
Fines and forfeitures.....	-	760,000	760,000	760,000	1,230,762	-	470,762	
Intergovernmental.....	-	31,168,464	31,168,464	31,168,464	31,217,082	-	48,618	
Departmental and other.....	-	2,220,000	2,220,000	2,220,000	3,039,777	-	819,777	
Investment income.....	-	70,000	70,000	70,000	110,089	-	40,089	
TOTAL REVENUES.....	-	118,531,500	118,531,500	118,531,500	121,722,274	-	3,190,774	
EXPENDITURES:								
Current:								
General government								
City Council								
Personnel.....	-	119,700	119,700	119,700	119,451	-	249	
Non - Personnel.....	-	52,627	52,627	52,627	30,378	5,000	17,249	
Total.....	-	172,327	172,327	172,327	149,829	5,000	17,498	
Mayor								
Personnel.....	-	272,298	272,298	272,298	267,327	-	4,971	
Non - Personnel.....	10,520	110,000	120,520	120,520	95,161	15,200	10,159	
Total.....	10,520	382,298	392,818	392,818	362,488	15,200	15,130	
Finance/Auditing								
Personnel.....	-	251,983	251,983	253,841	248,420	5,400	21	
Non - Personnel.....	6,955	40,700	47,655	47,655	31,635	15,254	766	
Total.....	6,955	292,683	299,638	301,496	280,055	20,654	787	
Purchasing								
Personnel.....	-	102,366	102,366	103,820	103,797	-	23	
Non - Personnel.....	-	18,350	18,350	17,044	16,241	-	803	
Fixed Costs.....	-	50,726	50,726	52,432	48,888	-	3,544	
Total.....	-	171,442	171,442	173,296	168,926	-	4,370	
Assessors								
Personnel.....	-	258,799	258,799	261,801	247,442	12,000	2,359	
Non - Personnel.....	-	27,677	27,677	27,677	20,266	5,000	2,411	
Total.....	-	286,476	286,476	289,478	267,708	17,000	4,770	
Treasurer								
Personnel.....	-	208,510	208,510	210,364	209,368	-	996	
Non - Personnel.....	60,200	73,310	133,510	133,510	97,647	28,900	6,963	
Total.....	60,200	281,820	342,020	343,874	307,015	28,900	7,959	
Collector								
Personnel.....	-	202,055	202,055	207,539	205,275	-	2,264	
Non - Personnel.....	1,050	6,500	7,550	7,550	6,108	-	1,442	
Total.....	1,050	208,555	209,605	215,089	211,383	-	3,706	
Solicitor								
Personnel.....	-	218,007	218,007	219,912	215,896	-	4,016	
Non - Personnel.....	-	78,400	78,400	78,400	78,004	-	396	
Total.....	-	296,407	296,407	298,312	293,900	-	4,412	

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2013

	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.....	-	751,452	751,452	703,379	657,572	-	45,807
Non - Personnel.....	-	30,950	30,950	36,950	36,093	-	857
Total.....	-	782,402	782,402	740,329	693,665	-	46,664
Data Processing							
Personnel.....	-	114,028	114,028	138,028	137,914	-	114
Non - Personnel.....	25,858	21,449	47,307	47,307	36,152	9,470	1,685
Fixed Costs.....	-	332,116	332,116	308,116	305,853	-	2,263
Total.....	25,858	467,593	493,451	493,451	479,919	9,470	4,062
City Clerk Record Maintenance							
Personnel.....	-	254,030	254,030	254,873	251,685	-	3,188
Non - Personnel.....	-	7,000	7,000	7,000	5,720	879	401
Total.....	-	261,030	261,030	261,873	257,405	879	3,589
Elections & Registrations							
Personnel.....	-	97,729	97,729	109,116	108,007	-	1,109
Non - Personnel.....	-	50,100	50,100	77,950	69,161	-	8,789
Total.....	-	147,829	147,829	187,066	177,168	-	9,898
Conservation Commission							
Personnel.....	-	25,432	25,432	25,432	24,960	-	472
Non - Personnel.....	-	425	425	425	425	-	-
Total.....	-	25,857	25,857	25,857	25,385	-	472
Subdivision, Planning, and Zoning Board							
Personnel.....	-	24,275	24,275	24,275	22,633	-	1,642
Non - Personnel.....	-	3,000	3,000	3,000	2,850	-	150
Total.....	-	27,275	27,275	27,275	25,483	-	1,792
Board of Appeals							
Personnel.....	-	3,000	3,000	3,000	2,825	-	175
Non - Personnel.....	-	550	550	550	131	-	419
Total.....	-	3,550	3,550	3,550	2,956	-	594
Planning Department							
Personnel.....	-	276,969	276,969	276,969	265,133	-	11,836
Non - Personnel.....	-	7,275	7,275	21,675	6,957	14,400	318
Total.....	-	284,244	284,244	298,644	272,090	14,400	12,154
Public Property/Building Maintenance							
Fixed Costs.....	-	706,882	706,882	696,882	691,456	-	5,426
Market and Tourism.....	-	209,875	209,875	209,875	207,813	-	2,062
Total General Government.....	104,583	5,008,545	5,113,128	5,131,492	4,874,644	111,503	145,345

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2013

	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.....	-	7,960,787	7,960,787	8,194,731	8,109,427	85,000	304
Non - Personnel.....	6,088	522,945	529,033	542,478	527,112	789	14,577
Total.....	6,088	8,483,732	8,489,820	8,737,209	8,636,539	85,789	14,881
Fire							
Personnel.....	-	7,061,510	7,061,510	7,230,440	7,219,932	-	10,508
Non - Personnel.....	5,700	386,064	391,764	426,764	354,869	41,259	30,636
Total.....	5,700	7,447,574	7,453,274	7,657,204	7,574,801	41,259	41,144
Building, Plumbing, Gas Inspections							
Personnel.....	-	302,573	302,573	314,046	313,543	-	503
Non - Personnel.....	-	22,950	22,950	40,310	40,030	-	280
Total.....	-	325,523	325,523	354,356	353,573	-	783
Electrical Inspection and Maintenance							
Personnel.....	-	261,339	261,339	269,895	267,702	-	2,193
Non - Personnel.....	-	759,700	759,700	759,700	722,846	-	36,854
Total.....	-	1,021,039	1,021,039	1,029,595	990,548	-	39,047
Harbormaster							
Personnel.....	-	175,281	175,281	175,281	172,814	-	2,467
Non - Personnel.....	-	55,212	55,212	55,212	50,568	2,713	1,931
Total.....	-	230,493	230,493	230,493	223,382	2,713	4,398
Total Public Safety.....	11,788	17,508,361	17,520,149	18,008,857	17,778,843	129,761	100,253
Education							
School.....	429,179	50,508,040	50,937,219	52,010,292	51,220,406	758,965	30,921
NSRS/Charter/Choice.....	-	1,603,586	1,603,586	1,603,586	1,583,485	-	20,101
Total Education.....	429,179	52,111,626	52,540,805	53,613,878	52,803,891	758,965	51,022
Public Works							
Public Services							
Personnel.....	-	1,539,567	1,539,567	1,595,986	1,577,578	-	18,408
Non - Personnel.....	375,083	552,591	927,674	1,024,219	913,261	8,278	102,680
Total.....	375,083	2,092,158	2,467,241	2,620,205	2,490,839	8,278	121,088
Engineering							
Personnel.....	-	76,411	76,411	76,411	76,223	-	188
Non - Personnel.....	-	5,950	5,950	5,950	4,372	-	1,578
Total.....	-	82,361	82,361	82,361	80,595	-	1,766
Snow and Ice							
Personnel.....	-	50,000	50,000	50,000	93,144	-	(43,144)
Non - Personnel.....	36,550	382,335	418,885	418,885	914,398	-	(495,513)
Total.....	36,550	432,335	468,885	468,885	1,007,542	-	(538,657)
Parking Garage							
Personnel.....	-	578,052	578,052	591,028	575,910	-	15,118
Non - Personnel.....	12,062	164,500	176,562	176,562	162,419	7,789	6,354
Total.....	12,062	742,552	754,614	767,590	738,329	7,789	21,472
Total Public Works.....	423,695	3,349,406	3,773,101	3,939,041	4,317,305	16,067	(394,331)

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2013

	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.....	-	343,598	343,598	353,479	348,143	-	5,336
Non - Personnel.....	-	15,600	15,600	17,100	14,286	-	2,814
Total.....	-	359,198	359,198	370,579	362,429	-	8,150
Council on Aging							
Personnel.....	-	255,467	255,467	257,321	253,189	-	4,132
Non - Personnel.....	-	30,100	30,100	30,100	27,445	1,916	739
Total.....	-	285,567	285,567	287,421	280,634	1,916	4,871
Veterans Services							
Personnel.....	-	77,567	77,567	77,567	75,535	-	2,032
Non - Personnel.....	4,800	240,700	245,500	505,500	495,383	6,200	3,917
Total.....	4,800	318,267	323,067	583,067	570,918	6,200	5,949
Total Health and Human Services.....	4,800	963,032	967,832	1,241,067	1,213,981	8,116	18,970
Culture and Recreation							
Library							
Personnel.....	-	881,383	881,383	883,340	867,418	-	15,922
Non - Personnel.....	-	300,145	300,145	300,145	290,160	4,500	5,485
Total.....	-	1,181,528	1,181,528	1,183,485	1,157,578	4,500	21,407
Parks and Recreation							
Personnel.....	-	339,642	339,642	341,593	318,233	-	23,360
Non - Personnel.....	9,865	151,610	161,475	164,890	138,736	15,127	11,027
Total.....	9,865	491,252	501,117	506,483	456,969	15,127	34,387
Golf Course							
Personnel.....	-	233,922	233,922	236,202	236,202	-	-
Non - Personnel.....	317	128,900	129,217	175,732	160,350	12,695	2,687
Total.....	317	362,822	363,139	411,934	396,552	12,695	2,687
Witch House							
Personnel.....	-	74,066	74,066	74,066	70,867	-	3,199
Non - Personnel.....	1,510	64,280	65,790	65,790	58,130	1,262	6,398
Total.....	1,510	138,346	139,856	139,856	128,997	1,262	9,597
Historical Commission							
Personnel.....	-	8,166	8,166	8,166	8,076	-	90
Non - Personnel.....	-	1,030	1,030	1,030	956	-	74
Total.....	-	9,196	9,196	9,196	9,032	-	164
Winter Island							
Personnel.....	-	114,951	114,951	114,951	109,483	-	5,468
Non - Personnel.....	-	49,500	49,500	49,500	36,187	1,671	11,642
Total.....	-	164,451	164,451	164,451	145,670	1,671	17,110
Total Culture and Recreation.....	11,692	2,347,595	2,359,287	2,415,405	2,294,798	35,255	85,352

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2013

	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.....	-	4,398,098	4,398,098	3,913,627	3,866,915	-	46,712
Interest.....	-	2,058,448	2,058,448	1,799,281	1,765,699	-	33,582
Short Term Interest.....	-	39,797	39,797	106,797	77,232	-	29,565
Total.....	-	6,496,343	6,496,343	5,819,705	5,709,846	-	109,859
State and county charges.....	-	5,550,473	5,550,473	5,510,721	5,141,397	-	369,324
Pension benefits							
Contributory Retirement.....	-	9,167,161	9,167,161	9,186,991	9,186,991	-	-
Non-Contributory Retirement.....	-	72,650	72,650	72,650	62,158	-	10,492
Total.....	-	9,239,811	9,239,811	9,259,641	9,249,149	-	10,492
Workmen's Compensation.....	-	435,000	435,000	562,316	561,800	-	516
Unemployment Compensation.....	-	356,000	356,000	350,000	173,644	-	176,356
Group Insurance.....	-	11,885,068	11,885,068	12,071,075	11,647,207	-	423,868
Medicare.....	-	797,239	797,239	943,983	943,983	-	-
Municipal Insurance.....	-	302,500	302,500	238,184	164,043	-	74,141
TOTAL EXPENDITURES.....	985,737	116,350,999	117,336,736	119,105,365	116,874,531	1,059,667	1,171,167
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(985,737)	2,180,501	1,194,764	(573,865)	4,847,743	(1,059,667)	4,361,941
OTHER FINANCING SOURCES (USES):							
Proceeds from bonds and notes.....	-	-	-	-	996	-	996
Premium from issuance of bonds.....	-	-	-	-	191,693	-	191,693
Transfers in.....	-	2,500,032	2,500,032	3,002,291	3,031,316	-	29,025
Transfers out.....	-	(4,680,533)	(4,680,533)	(5,900,240)	(5,900,240)	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	-	(2,180,501)	(2,180,501)	(2,897,949)	(2,676,235)	-	221,714
NET CHANGE IN FUND BALANCE.....	(985,737)	-	(985,737)	(3,471,814)	2,171,508	(1,059,667)	4,583,655
BUDGETARY FUND BALANCE, Beginning of year.....	-	6,979,302	6,979,302	6,979,302	6,979,302	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ (985,737)	\$ 6,979,302	\$ 5,993,565	\$ 3,507,488	\$ 9,150,810	\$ (1,059,667)	\$ 4,583,655

(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
2013	\$ 10,941,379	\$ 10,941,379	100%	\$ 9,337,442	85.34%
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 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
2013	\$ 10,003,723	\$ 4,681,685	47%
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**

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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 during May and June, and the first fifteen days of July, 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 2013 approved budget authorized approximately \$122,017,269 million in appropriations and other amounts to be raised. During the fiscal year, increases to the original budget were approved totaling approximately \$2,988,336 million. The most notable components of this increase include an additional \$2.5 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, 2013, is presented below:

Net change in fund balance - budgetary basis.....	\$	2,171,508
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Perspective differences:

Reclassification of enterprise fund revenue budgeted in the general fund.....	(2,580,262)
Reclassification of enterprise fund expenditures budgeted in the general fund.....	1,263,529
Reclassification of enterprise fund transfers budgeted in the general fund.....	1,316,733
Activity of the Salem Community Charter School.....	120,818
Activity of the stabilization funds recorded in the general fund for GAAP.....	49,645

Basis of accounting differences:

Net change in revenues in recording tax refunds payable.....	(81,155)
Recognition of revenue for on-behalf payments.....	10,522,000
Recognition of expenditures for on-behalf payments.....	(10,522,000)
Net difference in recognition of expenditures.....	<u>(73,654)</u>

Net change in fund balances - GAAP basis.....	\$	<u><u>2,187,162</u></u>
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3. Appropriation Deficits

During fiscal year 2013, expenditures exceeded budgeted appropriations for snow and ice. This over expenditure is allowable and will be funded in fiscal year 2014 through real estate taxes or with other available funds.

**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 January 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 participation in the Group Insurance Commission of the Commonwealth of Massachusetts (GIC) which covers both active and retired members.

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 and Individual Fund Statements***

# ***Nonmajor Governmental Funds***

## ***Special Revenue Funds***

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

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

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

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

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

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

*Donations 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***

*Capital Improvement Plan Fund* – These funds are used to account for the budgeted capital improvements voted on an annual basis.

*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, 2013

Special Revenue Funds							
	City Grants	School Grants	Community Development Grants	School Lunch	Highway Grants	Donations and Gifts	Receipts Reserved
<b>ASSETS</b>							
Cash and cash equivalents.....	\$ 2,728,064	\$ 1,864,158	\$ 64,287	\$ 141,818	\$ -	\$ 661,096	\$ 713,123
Deposits held in escrow.....	-	-	-	-	-	-	-
Investments.....	-	-	-	-	-	1,009,787	-
Receivables, net of uncollectibles:							
Departmental and other.....	-	-	-	-	-	-	90,834
Intergovernmental.....	366,790	120,551	6,825	-	900,711	-	-
Loans.....	-	-	286,340	-	-	-	-
Due from other funds.....	53,611	-	-	-	-	-	-
<b>TOTAL ASSETS.....</b>	<b>\$ 3,148,465</b>	<b>\$ 1,984,709</b>	<b>\$ 357,452</b>	<b>\$ 141,818</b>	<b>\$ 900,711</b>	<b>\$ 1,670,883</b>	<b>\$ 803,957</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>LIABILITIES:</b>							
Warrants payable.....	\$ 248,202	\$ 206,343	\$ -	\$ 18,479	\$ -	\$ -	\$ 30,083
Accrued payroll.....	25,315	111,440	5,394	19,493	-	-	-
Deferred revenues.....	-	-	286,340	-	853,600	-	90,834
Due to other funds.....	-	-	6,500	-	47,111	-	-
Notes payable.....	-	-	-	-	-	-	-
<b>TOTAL LIABILITIES.....</b>	<b>273,517</b>	<b>317,783</b>	<b>298,234</b>	<b>37,972</b>	<b>900,711</b>	<b>-</b>	<b>120,917</b>
<b>FUND BALANCES:</b>							
Nonspendable.....	-	-	-	-	-	-	-
Restricted.....	2,874,948	1,666,926	59,218	103,846	-	1,670,883	683,040
Unassigned.....	-	-	-	-	-	-	-
<b>TOTAL FUND BALANCES.....</b>	<b>2,874,948</b>	<b>1,666,926</b>	<b>59,218</b>	<b>103,846</b>	<b>-</b>	<b>1,670,883</b>	<b>683,040</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 3,148,465</b>	<b>\$ 1,984,709</b>	<b>\$ 357,452</b>	<b>\$ 141,818</b>	<b>\$ 900,711</b>	<b>\$ 1,670,883</b>	<b>\$ 803,957</b>

(Continued)

**NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET**

JUNE 30, 2013

	Special Revenue Funds			Capital Project Funds		
	City Revolving Accounts	School Revolving Accounts	Subtotal	Capital Improvement Plan	Other	Subtotal
<b>ASSETS</b>						
Cash and cash equivalents.....	\$ 1,096,577	\$ 340,248	\$ 7,609,371	\$ 1,678,911	\$ 80,389	\$ 1,759,300
Deposits held in escrow.....	-	-	-	200,450	-	200,450
Investments.....	-	-	1,009,787	-	-	-
Receivables, net of uncollectibles:						
Departmental and other.....	-	-	90,834	-	-	-
Intergovernmental.....	825	-	1,395,702	-	591,802	591,802
Loans.....	170,843	-	457,183	-	-	-
Due from other funds.....	-	-	53,611	577,805	-	577,805
<b>TOTAL ASSETS.....</b>	<b>\$ 1,268,245</b>	<b>\$ 340,248</b>	<b>\$ 10,616,488</b>	<b>\$ 2,457,166</b>	<b>\$ 672,191</b>	<b>\$ 3,129,357</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES:</b>						
Warrants payable.....	\$ 24,095	\$ -	\$ 527,202	\$ 201,985	\$ 80,589	\$ 282,574
Accrued payroll.....	545	6,006	168,193	-	-	-
Deferred revenues.....	170,842	-	1,401,616	-	-	-
Due to other funds.....	-	-	53,611	-	577,805	577,805
Notes payable.....	-	-	-	1,790,000	37,738	1,827,738
<b>TOTAL LIABILITIES.....</b>	<b>195,482</b>	<b>6,006</b>	<b>2,150,622</b>	<b>1,991,985</b>	<b>696,132</b>	<b>2,688,117</b>
<b>FUND BALANCES:</b>						
Nonspendable.....	-	-	-	-	-	-
Restricted.....	1,072,763	334,242	8,465,866	465,181	88,467	553,648
Unassigned.....	-	-	-	-	(112,408)	(112,408)
<b>TOTAL FUND BALANCES.....</b>	<b>1,072,763</b>	<b>334,242</b>	<b>8,465,866</b>	<b>465,181</b>	<b>(23,941)</b>	<b>441,240</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 1,268,245</b>	<b>\$ 340,248</b>	<b>\$ 10,616,488</b>	<b>\$ 2,457,166</b>	<b>\$ 672,191</b>	<b>\$ 3,129,357</b>

(Continued)

Permanent Funds				Total Nonmajor Governmental Funds
Cemetery Fund	Human Service Fund	Other	Subtotal	
\$ 417,072	\$ 193,458	\$ 133,395	\$ 743,925	\$ 10,112,596
-	-	-	-	200,450
2,724,878	1,274,243	1,027,772	5,026,893	6,036,680
-	-	-	-	90,834
-	-	-	-	1,987,504
-	-	-	-	457,183
-	-	-	-	631,416
<u>\$ 3,141,950</u>	<u>\$ 1,467,701</u>	<u>\$ 1,161,167</u>	<u>\$ 5,770,818</u>	<u>\$ 19,516,663</u>
\$ -	\$ -	\$ -	\$ -	809,776
-	-	-	-	168,193
-	-	-	-	1,401,616
-	-	-	-	631,416
-	-	-	-	1,827,738
-	-	-	-	4,838,739
995,009	221,174	858,806	2,074,989	2,074,989
2,146,941	1,246,527	302,361	3,695,829	12,715,343
-	-	-	-	(112,408)
<u>3,141,950</u>	<u>1,467,701</u>	<u>1,161,167</u>	<u>5,770,818</u>	<u>14,677,924</u>
<u>\$ 3,141,950</u>	<u>\$ 1,467,701</u>	<u>\$ 1,161,167</u>	<u>\$ 5,770,818</u>	<u>\$ 19,516,663</u>

(Concluded)



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

FISCAL YEAR ENDED JUNE 30, 2013

	Special Revenue Funds					
	City Grants	School Grants	Community Development Grants	School Lunch	Highway Grants	Donations and Gifts
<b>REVENUES:</b>						
Charges for services.....	\$ 21,281	\$ 118,264	\$ -	\$ -	\$ -	\$ -
Penalties and interest on taxes.....	-	-	-	-	-	-
Intergovernmental.....	4,856,538	6,208,171	1,333,148	1,613,889	1,504,443	-
Departmental and other.....	778,136	897,906	105,142	-	-	-
Contributions.....	78,164	26,178	-	-	-	119,446
Investment income.....	345	-	209	-	-	55,708
<b>TOTAL REVENUES.....</b>	<b>5,734,464</b>	<b>7,250,519</b>	<b>1,438,499</b>	<b>1,613,889</b>	<b>1,504,443</b>	<b>175,154</b>
<b>EXPENDITURES:</b>						
Current:						
General government.....	137,965	-	-	-	-	1,010
Public safety.....	378,796	-	-	-	-	4,725
Education.....	102,574	7,524,349	-	1,676,829	-	21,005
Public works.....	662,347	-	-	-	1,504,443	-
Community development.....	-	-	1,415,305	-	-	-
Health and human services.....	4,303,518	-	-	-	-	13,932
Culture and recreation.....	53,308	-	-	-	-	29,341
Debt service:						
Principal.....	-	-	35,000	-	-	-
Interest.....	-	-	2,616	-	-	-
<b>TOTAL EXPENDITURES.....</b>	<b>5,638,508</b>	<b>7,524,349</b>	<b>1,452,921</b>	<b>1,676,829</b>	<b>1,504,443</b>	<b>70,013</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>95,956</b>	<b>(273,830)</b>	<b>(14,422)</b>	<b>(62,940)</b>	<b>-</b>	<b>105,141</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Issuance of bonds and notes.....	-	-	-	-	-	-
Capital lease financing.....	-	-	-	-	-	-
Transfers in.....	886,194	7,702	-	49,968	-	-
Transfers out.....	(68,222)	(7,744)	-	(50,205)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)....</b>	<b>817,972</b>	<b>(42)</b>	<b>-</b>	<b>(237)</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>913,928</b>	<b>(273,872)</b>	<b>(14,422)</b>	<b>(63,177)</b>	<b>-</b>	<b>105,141</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>1,961,020</b>	<b>1,940,798</b>	<b>73,640</b>	<b>167,023</b>	<b>-</b>	<b>1,565,742</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 2,874,948</b>	<b>\$ 1,666,926</b>	<b>\$ 59,218</b>	<b>\$ 103,846</b>	<b>\$ -</b>	<b>\$ 1,670,883</b>

(Continued)

Special Revenue Funds				Capital Project Funds		
Receipts Reserved	City Revolving Accounts	School Revolving Accounts	Subtotal	Capital Improvement Plan	Other	Subtotal
\$ -	\$ -	\$ -	\$ 139,545	\$ -	\$ -	\$ -
2,650	-	-	2,650	-	-	-
7,601	-	-	15,523,790	-	3,915,829	3,915,829
736,144	658,002	782,650	3,957,980	-	-	-
-	5,249	-	229,037	-	26,334	26,334
-	931	193	57,386	-	-	-
746,395	664,182	782,843	19,910,388	-	3,942,163	3,942,163
49,610	65,633	-	254,218	764,678	-	764,678
-	6,000	-	389,521	1,330,789	-	1,330,789
-	-	888,774	10,213,531	284,857	-	284,857
-	117,142	-	2,283,932	1,022,074	1,226,046	2,248,120
-	222,036	-	1,637,341	-	2,966,310	2,966,310
-	7,066	-	4,324,516	-	-	-
8,600	471,722	-	562,971	209,390	-	209,390
-	-	-	35,000	38,085	-	38,085
-	-	-	2,616	-	-	-
58,210	889,599	888,774	19,703,646	3,649,873	4,192,356	7,842,229
688,185	(225,417)	(105,931)	206,742	(3,649,873)	(250,193)	(3,900,066)
-	-	-	-	3,447,500	-	3,447,500
-	-	-	-	472,500	-	472,500
-	-	-	943,864	-	-	-
(521,195)	-	-	(647,366)	-	-	-
(521,195)	-	-	296,498	3,920,000	-	3,920,000
166,990	(225,417)	(105,931)	503,240	270,127	(250,193)	19,934
516,050	1,298,180	440,173	7,962,626	195,054	226,252	421,306
\$ 683,040	\$ 1,072,763	\$ 334,242	\$ 8,465,866	\$ 465,181	\$ (23,941)	\$ 441,240

(Continued)

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

FISCAL YEAR ENDED JUNE 30, 2013

	Permanent Funds				Total Nonmajor Governmental Funds
	Cemetery Fund	Human Service Fund	Other	Subtotal	
<b>REVENUES:</b>					
Charges for services.....	\$ -	\$ -	\$ -	\$ -	\$ 139,545
Penalties and interest on taxes.....	-	-	-	-	2,650
Intergovernmental.....	-	-	-	-	19,439,619
Departmental and other.....	-	-	-	-	3,957,980
Contributions.....	23,250	-	68,650	91,900	347,271
Investment income.....	346,463	164,267	147,488	658,218	715,604
<b>TOTAL REVENUES.....</b>	<b>369,713</b>	<b>164,267</b>	<b>216,138</b>	<b>750,118</b>	<b>24,602,669</b>
<b>EXPENDITURES:</b>					
Current:					
General government.....	-	-	-	-	1,018,896
Public safety.....	-	-	63,158	63,158	1,783,468
Education.....	-	-	-	-	10,498,388
Public works.....	57,174	-	37,743	94,917	4,626,969
Community development.....	-	-	-	-	4,603,651
Health and human services.....	-	44,990	-	44,990	4,369,506
Culture and recreation.....	-	-	-	-	772,361
Debt service:					
Principal.....	-	-	-	-	73,085
Interest.....	-	-	-	-	2,616
<b>TOTAL EXPENDITURES.....</b>	<b>57,174</b>	<b>44,990</b>	<b>100,901</b>	<b>203,065</b>	<b>27,748,940</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>312,539</b>	<b>119,277</b>	<b>115,237</b>	<b>547,053</b>	<b>(3,146,271)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Issuance of bonds and notes.....	-	-	-	-	3,447,500
Capital lease financing.....	-	-	-	-	472,500
Transfers in.....	-	-	-	-	943,864
Transfers out.....	-	-	-	-	(647,366)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,216,498</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>312,539</b>	<b>119,277</b>	<b>115,237</b>	<b>547,053</b>	<b>1,070,227</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>2,829,411</b>	<b>1,348,424</b>	<b>1,045,930</b>	<b>5,223,765</b>	<b>13,607,697</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 3,141,950</b>	<b>\$ 1,467,701</b>	<b>\$ 1,161,167</b>	<b>\$ 5,770,818</b>	<b>\$ 14,677,924</b>

(Concluded)

# ***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 POSITION**

JUNE 30, 2013

		Private Purpose Trust Funds		
		Trust Fund Commissioners	Scholarship Funds	Total
<b>ASSETS</b>				
Cash and cash equivalents.....	\$	203,980	\$ 108,392	\$ 312,372
Investments.....		1,033,429	-	1,033,429
<b>TOTAL ASSETS.....</b>		<b>1,237,409</b>	<b>108,392</b>	<b>1,345,801</b>
<b>NET POSITION</b>				
Held in trust for other purposes.....	\$	1,237,409	\$ 108,392	\$ 1,345,801

**PRIVATE PURPOSE TRUST FUNDS**  
COMBINING STATEMENT OF CHANGES IN NET POSITION

FISCAL YEAR ENDED JUNE 30, 2013

	Private Purpose Trust Funds		
	Trust Fund Commissioners	Scholarship Funds	Total
<b>ADDITIONS:</b>			
Contributions:			
Private donations.....	\$ 2,102	\$ 17,624	\$ 19,726
Net investment income:			
Net change in fair value of investments.....	142,927	-	142,927
Interest.....	44	79	123
Total Net Investment Income.....	142,971	79	143,050
TOTAL ADDITIONS.....	145,073	17,703	162,776
<b>DEDUCTIONS:</b>			
Educational scholarships.....	9,306	12,150	21,456
Housing subsidies.....	84,789	-	84,789
TOTAL DEDUCTIONS.....	94,095	12,150	106,245
CHANGE IN NET POSITION.....	50,978	5,553	56,531
NET POSITION AT BEGINNING OF YEAR.....	1,186,431	102,839	1,289,270
NET POSITION AT END OF YEAR.....	\$ 1,237,409	\$ 108,392	\$ 1,345,801

# ***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, 2013

	Beginning of Year	Additions	Deletions	End of Year
<b>ASSETS</b>				
CURRENT:				
Cash and cash equivalents.....	\$ 1,391,068	\$ 15,800,246	\$ (16,461,424)	\$ 729,890
<b>LIABILITIES</b>				
Accrued payroll.....	\$ 56,752	\$ 43,757	\$ (56,752)	\$ 43,757
Liabilities due depositors.....	1,334,316	39,889,543	(40,537,726)	686,133
TOTAL LIABILITIES.....	\$ 1,391,068	\$ 39,933,300	\$ (40,594,478)	\$ 729,890



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# ***Statistical Section***

## **Winter Island**

During the 1930's, the United States Coast Guard created a Search & Rescue Base here on Winter Island Park. The Frigate USS Essex was built and launched in 1799 from this location. It served General George Washington in the U.S. Navy. The three bunkers located in historic Fort Pickering once stored ammunition as early as the Civil War. Winter Island had Salem's first tavern and first shipyard. A fort was erected as early as 1643. In 1867, the War department "turned over" to the city "for public use" the part of the island not occupied by the fort, 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](http://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 Position By Component**

**Last Ten Fiscal Years**

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental activities										
Net investment in capital assets.....	\$ 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	\$ 169,750,602
Restricted.....	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	12,499,976
Unrestricted.....	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)	(22,562,824)
Total governmental activities net position.....	<u>\$ 95,009,036</u>	<u>\$ 118,808,144</u>	<u>\$ 117,461,490</u>	<u>\$ 139,466,080</u>	<u>\$ 139,963,706</u>	<u>\$ 140,869,168</u>	<u>\$ 136,298,790</u>	<u>\$ 137,456,738</u>	<u>\$ 137,273,061</u>	<u>\$ 159,687,754</u>
Business-type activities										
Net investment in capital assets.....	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	9,562,558
Unrestricted.....	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	4,857,190
Total business-type activities net position.....	<u>\$ 15,685,773</u>	<u>\$ 13,705,583</u>	<u>\$ 13,740,483</u>	<u>\$ 14,748,335</u>	<u>\$ 14,484,442</u>	<u>\$ 13,310,381</u>	<u>\$ 12,166,726</u>	<u>\$ 12,614,418</u>	<u>\$ 12,690,483</u>	<u>\$ 14,419,748</u>
Primary government										
Net investment in capital assets.....	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	179,313,160
Restricted.....	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	12,499,976
Unrestricted.....	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)	(17,705,634)
Total primary government net position.....	<u>\$ 110,694,809</u>	<u>\$ 132,513,727</u>	<u>\$ 131,201,973</u>	<u>\$ 154,214,415</u>	<u>\$ 154,448,148</u>	<u>\$ 154,179,549</u>	<u>\$ 148,465,516</u>	<u>\$ 150,071,156</u>	<u>\$ 149,963,544</u>	<u>\$ 174,107,502</u>

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

**Changes in Net Position**

**Last Ten Fiscal Years**

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Expenses</b>										
Governmental activities:										
General government.....	\$ 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	\$ 10,574,021
Public safety.....	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	27,832,445
Education.....	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	95,924,303
Public works.....	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	8,848,271
Community development.....	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	1,347,731
Health and human services.....	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	6,140,975
Culture and recreation.....	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	3,429,452
Interest.....	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	1,277,709
Total government activities expenses.....	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	155,374,907
Business-type activities:										
Water services.....	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	4,287,422
Sewer services.....	(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	6,882,394
Golf course.....	320,632	292,187	279,981	363,651	386,099	278,007	399,023	363,625	438,613	465,210
Parking.....	665,458	664,686	800,506	792,903	936,826	905,834	844,615	991,722	1,042,610	1,052,780
Trash.....	(C)	(C)	(C)	(C)	3,230,500	2,558,263	2,573,421	2,617,948	2,744,963	2,648,564
Total business type activities expenses.....	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	15,336,370
Total primary government expenses.....	\$ 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	\$ 170,711,277
<b>Program Revenues</b>										
Governmental activities:										
Education charges for services.....	\$ 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	\$ 1,171,221
Public Safety charges for services.....	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	2,780,253
Other charges for services.....	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	2,264,412
Operating grants and contributions.....	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	49,028,512
Capital grant and contributions.....	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	30,643,446
Total government activities program revenues.....	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	85,887,844
Business-type activities:										
Charges for services - Water.....	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	5,118,557
Charges for services - Sewer.....	(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	8,573,466
Charges for services - Golf.....	543,467	502,770	525,404	546,841	570,142	547,301	589,345	548,805	648,916	697,232
Charges for services - Parking.....	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	2,580,262
Charges for services - Trash.....	(C)	(C)	(C)	(C)	908,577	720,193	740,511	692,089	675,916	684,262
Capital grants and contributions.....	-	-	-	-	49,707	43,796	41,820	39,804	-	-
Total business-type activities program revenues.....	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	17,653,779
Total primary government program revenues.....	\$ 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	\$ 103,541,623
<b>Net (Expense)/Revenue</b>										
Governmental activities.....	\$ (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)	\$ (69,487,063)
Business-type activities.....	3,183,126	562,254	2,663,734	3,445,547	(289,906)	(471,827)	(81,075)	1,698,751	1,061,742	2,317,409
Total primary government net expense.....	\$ (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)	\$ (67,169,654)
<b>General Revenues and other Changes in Net Position</b>										
Governmental activities:										
Real estate and personal property taxes, net of tax refunds payable.....	\$ 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	\$ 76,770,134
Tax liens.....	(B)	690,557	635,624	182,650	752,178	527,492	234,353	510,973	795,443	589,138
Motor vehicle and other excise taxes.....	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	3,052,229
Hotel/motel tax.....	(B)	219,628	263,962	282,324	373,655	324,622	294,214	955,092	1,161,007	1,224,849
Penalties and interest on taxes.....	322,003	288,874	350,651	266,246	353,952	412,572	437,361	438,487	490,242	399,311
Payments in lieu of taxes.....	(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	1,462,692
Grants and contributions not restricted to specific programs.....	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	6,610,413
Unrestricted investment income.....	568,503	521,585	183,980	965,694	462,275	(35,188)	435,769	1,095,518	103,015	828,974
Miscellaneous.....	431,558	77,454	214,067	248,905	168,417	203,848	250,681	358,720	453,416	375,872
Transfers.....	2,466,477	2,542,444	2,628,834	2,437,695	(26,013)	702,234	1,062,580	1,251,059	985,677	588,144
Total governmental activities.....	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	91,901,756
Business-type activities:										
Transfers.....	(2,466,477)	(2,542,444)	(2,628,834)	(2,437,695)	26,013	(702,234)	(1,062,580)	(1,251,059)	(985,677)	(588,144)
Total primary government.....	\$ 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	\$ 91,313,612
<b>Changes in Net Position</b>										
Governmental activities.....	\$ (2,930,872)	\$ (5,775,504)	\$ (1,346,654)	\$ 23,103,724	\$ 497,626	\$ 905,462	\$ (4,570,378)	\$ 1,157,948	\$ (183,677)	\$ 22,414,693
Business-type activities.....	716,649	(1,980,190)	34,900	1,007,852	(263,893)	(1,174,061)	(1,143,655)	447,692	76,065	1,729,265
Total primary government.....	\$ (2,214,223)	\$ (7,755,694)	\$ (1,311,754)	\$ 24,111,576	\$ 233,733	\$ (268,599)	\$ (5,714,033)	\$ 1,605,640	\$ (107,612)	\$ 24,143,958

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

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

(C) In fiscal years 2004- 2007 the City reported Trash in the governmental funds.

**Fund Balances, Governmental Funds**

**Last Ten Fiscal Years**

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Fund										
Reserved.....	\$ 1,153,872	\$ 68,524	\$ 197,581	\$ 69,631	\$ 220,608	\$ 372,027	\$ 421,825	\$ -	\$ -	\$ -
Unreserved.....	3,398,534	335,643	1,162,714	(1,151,199)	1,321,397	749,849	1,211,094	-	-	-
Assigned.....	-	-	-	-	-	-	-	589,894	985,737	1,059,667
Unassigned.....	-	-	-	-	-	-	-	8,405,585	9,550,262	11,663,494
Total general fund.....	<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>	<u>\$ 12,723,161</u>
All Other Governmental Funds										
Reserved.....	\$ 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.....	6,618,566	7,763,007	5,474,128	5,477,136	3,768,323	5,602,931	5,819,702	-	-	-
Capital projects funds.....	(24,963,657)	(10,513,270)	(1,859,435)	(197,270)	2,806,105	(537,848)	3,969,207	-	-	-
Permanent funds.....	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	2,074,989
Restricted.....	-	-	-	-	-	-	-	11,329,632	14,344,418	12,942,168
Unassigned.....	-	-	-	-	-	-	-	(665,295)	(4,101,228)	(623,622)
Total all other governmental funds....	<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>	<u>\$ 14,393,535</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									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Revenues:</b>										
Real estate and personal property taxes,										
net of tax refunds.....	\$ 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	\$ 77,018,965
Motor vehicle and other excise taxes.....	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	3,113,058
Intergovernmental.....	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	84,640,597
Departmental and other.....	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	12,049,109
Investment income.....	568,503	828,933	927,302	925,771	462,585	(32,923)	436,686	1,096,747	129,773	828,974
Commonwealth school construction grants.....	- (B)	12,739,570	16,559,515	35,025,316	17,324,905	13,130,784	7,095,272	4,310,837	4,310,837	4,310,837
On-behalf pension payments by the Commonwealth (C).....	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	10,522,000
<b>Total Revenue.....</b>	<b>111,534,667</b>	<b>126,997,066</b>	<b>134,925,202</b>	<b>154,364,294</b>	<b>141,760,530</b>	<b>143,593,018</b>	<b>140,552,352</b>	<b>150,852,863</b>	<b>149,955,819</b>	<b>192,483,540</b>
<b>Expenditures:</b>										
General government.....	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	6,351,699
Public safety.....	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	18,207,275
Education.....	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	53,168,217
Public works.....	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	5,338,674
Community development.....	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	1,322,586
Health and human services.....	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	5,580,162
Culture and recreation.....	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	2,468,723
Pension benefits.....	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	19,771,148
Massachusetts teachers' retirement (C).....	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	10,522,000
Employee benefits.....	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	13,326,634
State and county charges.....	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	5,141,397
Capital outlay.....	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	38,287,997
Debt service										
Principal.....	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 (D)	19,454,000
Interest.....	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	1,816,117
<b>Total Expenditures.....</b>	<b>127,911,002</b>	<b>121,624,639</b>	<b>131,143,054</b>	<b>164,702,565</b>	<b>142,469,549</b>	<b>146,967,395</b>	<b>141,083,602</b>	<b>148,614,624</b>	<b>153,396,064</b>	<b>200,756,629</b>
<b>Excess of revenues over (under) expenditures.....</b>	<b>(16,376,335)</b>	<b>5,372,427</b>	<b>3,782,148</b>	<b>(10,338,271)</b>	<b>(709,019)</b>	<b>(3,374,377)</b>	<b>(531,250)</b>	<b>2,238,239</b>	<b>(3,440,245)</b>	<b>(8,273,089)</b>
<b>Other Financing Sources (Uses)</b>										
Issuance of debt.....	-	2,465,000	-	8,319,497	3,930,000	-	4,589,000	630,000	3,900,938	11,242,660
Premium from issuance of bonds.....	-	232,856	-	85,169	84,840	-	575,986	1,167,420	1,059	191,693
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	514,002
Sale of capital assets.....	-	-	-	-	-	-	-	-	-	-
Transfers in.....	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	5,343,327
Transfers out.....	(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)	(4,755,183)
<b>Total other financing sources (uses).....</b>	<b>2,466,477</b>	<b>6,047,583</b>	<b>3,675,453</b>	<b>11,220,530</b>	<b>4,383,606</b>	<b>869,688</b>	<b>5,872,066</b>	<b>3,234,194</b>	<b>4,926,439</b>	<b>12,536,499</b>
<b>Net change in fund balance.....</b>	<b>\$ (13,909,858)</b>	<b>\$ 11,420,010</b>	<b>\$ 7,457,601</b>	<b>\$ 882,259</b>	<b>\$ 3,674,587</b>	<b>\$ (2,504,689)</b>	<b>\$ 5,340,816</b>	<b>\$ 5,472,433</b>	<b>\$ 1,486,194</b>	<b>\$ 4,263,410</b>
Debt service as a percentage of noncapital expenditures.....	6.16%	5.95%	5.94%	5.39%	7.13%	5.34%	5.48%	6.60%	4.57%	13.09%

(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.

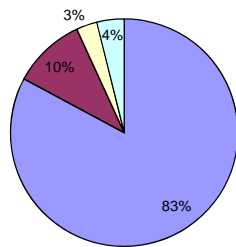
(D) The City retained a \$5.5 million grant from the Commonwealth to paydown \$15.6 million in school debt originally issued in 2003.

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

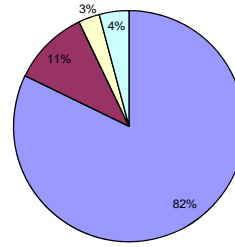
Last Ten Fiscal Years

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
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
2013	(1)	3,227,554,748	16.38	420,436,783	116,029,720	163,211,490	699,677,993	31.46	19.07	3,927,232,741

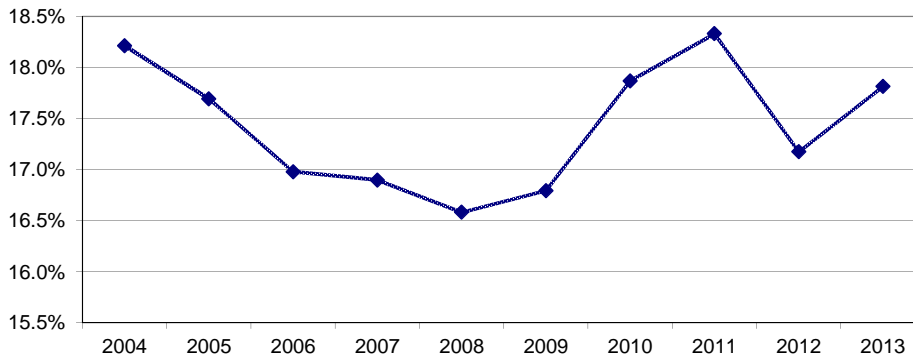
Total Assessed Value by Classification Fiscal Year Ended June 30, 2012



Total Assessed Value by Classification Fiscal Year Ended June 30, 2013



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	2013			2004		
		Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value	Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value
Footprint Power Salem	Personal & Industrial Property	\$49,756,000	1	1.3%	-	-	-
Salem Station LLC	Apartments	\$33,943,300	2	0.9%	\$35,841,800	2	0.9%
Massachusetts Electric	Personal Property	\$33,906,380	3	0.9%	-	-	-
New England Power Co.	Personal & Industrial Property	\$31,888,090	4	0.8%	\$15,893,945	7	0.4%
Princeton Crossing Apartments	Apartments	\$27,078,700	5	0.7%	\$26,802,200	3	0.7%
Shetland Properties	Industrial & Commercial	\$26,955,700	6	0.7%	\$25,649,600	4	-
National Grid	Industrial Property & PP	\$25,257,750	7	0.6%	-	-	-
Highlander Plazas	Commercial Property	\$21,699,700	8	0.6%	\$20,352,100	6	0.5%
Algonquin Gas Transmission	Personal Property	\$20,850,600	9	0.5%	-	-	-
Second Pickwick Trust	Commercial Property	\$13,244,900	10	0.3%	\$13,919,900	8	0.4%
US Gen New England	Personal & Industrial Property	-	-	-	\$199,198,110	1	5.0%
Boston Gas	Personal & Industrial Property	-	-	-	\$9,621,635	9	0.2%
Home Depot	Commercial Property	-	-	-	\$9,484,900	10	0.2%
Archstone Vinnin Square LLC	Apartments	-	-	-	\$22,604,900	5	0.6%
<b>Totals</b>		<u>\$284,581,120</u>		<u>7.2%</u>	<u>\$379,369,090</u>		<u>8.9%</u>

**Property Tax Levies and Collections**

**Last Ten Fiscal Years**

<b>Fiscal Year</b>		<b>Total Tax Levy</b>	<b>Less Abatements &amp; Exemptions</b>	<b>Net Tax Levy</b>	<b>Current Tax Collections</b>	<b>Percent of Net Levy Collected</b>	<b>Delinquent Tax Collections</b>	<b>Total Tax Collections</b>	<b>Percent of Total Tax Collections to Net Tax Levy</b>
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%	869,573	71,427,745	100.0%
2013	(1)	74,879,216	420,829	74,458,387	73,069,108	98.1%	-	73,069,108	98.1%

(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
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%
2013	41,654	1,285,525,748	3,927,232,741	35,291,962	619,317	862	2.79%	0.91%

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
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%
2013	16,670,824	0	52,582,103	1,262	4.09%	1.34%

Source: Audited Financial Statements, U. S. Census

## Direct and Overlapping Governmental Activities Debt

As of June 30, 2013

	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable (1)</u>	<u>Estimated Share of Overlapping Debt</u>
Overlapping debt:			
North Shore Regional Vocational School District..... \$	405,000	24.25%	\$ <u>98,213</u>
Direct debt:			
Capital Lease Obligations.....			619,317
General Governmental Debt .....			<u>35,291,962</u>
City total direct debt.....			<u>35,911,279</u>
Total direct and overlapping debt.....			\$ <u><u>36,009,492</u></u>

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. 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.

(1) The percentage applicable for the North Shore Regional Vocational School District is based on the number of students attending from the City of Salem as a percentage of all students at the Regional School

Source: Treasurer and North Shore Regional Vocational School District

**Computation of Legal Debt Margin**

**Last Ten Fiscal Years**

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Equalized Valuation.....	\$ 4,223,735,800	\$ 4,223,735,800	\$ 4,923,330,400	\$ 4,923,330,400	\$ 5,168,060,200	\$ 5,168,060,200	\$ 4,568,374,700	\$ 4,568,374,700	\$ 4,256,808,900	\$ 4,256,808,900
Debt Limit -5% of Equalized Valuation.....	\$ 211,186,790	\$ 211,186,790	\$ 246,166,520	\$ 246,166,520	\$ 258,403,010	\$ 258,403,010	\$ 228,418,735	\$ 228,418,735	\$ 212,840,445	\$ 212,840,445
Less:										
Outstanding debt applicable to limit.....	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	19,976,500
Authorized and unissued debt.....	<u>70,336,913</u>	<u>39,296,218</u>	<u>48,682,895</u>	<u>54,169,239</u>	<u>28,769,240</u>	<u>28,769,240</u>	<u>11,128,240</u>	<u>13,725,802</u>	<u>72,303,161</u>	<u>46,646,035</u>
Legal debt margin.....	\$ <u>136,682,877</u>	\$ <u>165,195,125</u>	\$ <u>191,419,625</u>	\$ <u>186,562,281</u>	\$ <u>217,629,770</u>	\$ <u>217,629,770</u>	\$ <u>206,405,595</u>	\$ <u>198,023,233</u>	\$ <u>125,632,284</u>	\$ <u>146,217,910</u>
Total debt applicable to the limit as a percentage of debt limit.....	35.28%	21.78%	22.24%	24.21%	15.78%	15.78%	9.64%	13.31%	40.97%	31.30%

Source: Audited Financial Statements; Statement of Indebtedness; and the Massachusetts Department of Revenue, Bureau of Local Assessment.

## Demographic and Economic Statistics

### Last Ten Fiscal Years

Fiscal Year	Population Estimates	Personal Income	Per Capita Personal Income	Median Age	School Enrollment	Unemployment Rate
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%
2013	41,654	1,285,525,748	30,862	36.5	4,501	7.6%

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	2013			2004		
		Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
North Shore Medical Center	Healthcare	3,180	1	14.12%	3,680	1	16.3%
Salem State College	Higher Education	1,467	2	6.52%	1,699	2	7.5%
City of Salem	Municipal Government	1,263	3	5.61%	1,661	3	7.3%
Shaughnessy	Health Care	557	4	2.47%	-	-	-
Market Basket	Food Market	350	5	1.55%	250	7	1.1%
Commonwealth of Massachusetts	State Government	344	6	1.53%	655	4	2.9%
Salem Five Savings	Banking	275	7	1.22%	356	5	1.6%
Peabody Essex Museum	Cultural Tourism	255	8	1.13%	285	6	1.3%
Grosvenor Park Nursing Center	Health Care	250	9	1.11%	200	8	0.9%
Salem YMCA	Social Service Agency	166	10	0.74%	-	-	-
Home Depot	Retail	-	-	-	200	9	0.9%
Perkin Elmer Opto Electronics	Analytical Systems	-	-	-	180	10	0.8%
		<u>8,107</u>		<u>36.0%</u>	<u>9,166</u>		<u>40.5%</u>

Source: The City Planning Department

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Function										
General government.....	62	64	40	34	36	35	35	35	35	35
Public safety.....	180	190	181	190	185	187	191	190	194	203
Education.....	756	756	752	752	753	752	752	752	776	890
Public works.....	45	55	35	38	40	37	38	39	40	39
Engineering.....	-	-	-	1	3	1	1	1	1	1
Health and human services.....	21	21	21	20	17	14	17	15	14	15
Culture and recreation.....	31	31	34	23	21	22	22	23	23	23
Total .....	<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>	<u>1,206</u>

Source: Various City Departments



## Operating Indicators by Function/Program

### Last Ten Fiscal Years

<b>Function/Program</b>	<b>Fiscal Year</b>									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General government										
Marriage recordings.....	330	327	375	322	306	276	243	381	321	324
Birth recordings.....	1,839	1,761	2,044	2,043	1,712	1,614	1,774	1,599	1,433	1,452
Death recordings.....	935	847	737	755	520	535	557	492	436	484
Police										
Physical arrests.....	965	685	2,792	2,793	2,502	2,502	2,072	2,629	1,627	1,307
Motor vehicle violations.....	5,238	4,334	6,477	8,672	6,604	191	6,631	10,309	8,497	6,161
Police personnel and officers.....	85	85	81	84	85	85	87	89	93	98.5
Fire										
Inspections.....	3,231	2,789	1,187	1,562	886	886	935	1,077	973	1,307
Emergency responses.....	4,281	4,572	6,235	6,719	6,330	17	6,409	6,079	5,952	6,161
Fire personnel and officers.....	78	78	75	76	81	81	79	83	90	86
Education										
Number of students.....	4,727	4,676	4,744	4,573	4,404	4,474	4,647	4,585	4,541	4,501
Number of graduates.....	257	246	255	269	254	273	283	246	240	275
Number of teachers.....	415	409	477	484	479	479	488	507	517	540
Water										
Service connections.....	10,516	10,568	11,000	11,811	11,701	11,737	11,719	11,719	11,719	11,729
Consumption in gallons.....	2,111	2,136	2,000	2,056	2,123	1,994	2,103	2,025	1,921	1,934
Daily consumption (MG).....	5.78	6.43	6.84	6.74	5.80	5.44	6.00	6.00	5.00	5.00
Sewer										
Service connections.....	10,516	10,568	11,000	11,811	11,701	11,727	11,709	11,706	11,719	11,719
Health and human services										
Number of persons using COA transportation....	44,500	45,976	37,497	39,052	18,678	15,526	16,076	16,908	19,630	16,170
Libraries										
Volumes in circulation.....	125,516	128,569	141,595	143,052	148,752	145,634	143,512	148,634	158,011	162,486
Total volumes borrowed.....	464,453	490,116	508,728	500,907	514,708	538,184	508,507	508,293	493,315	471,416

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>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>	<u>2013</u>
General government										
Number of buildings.....	2	2	2	2	2	2	2	2	2	2
Police										
Number of stations.....	1	1	1	1	1	1	1	1	1	1
Fire										
Number of stations.....	4	4	4	4	4	4	4	4	4	4
Education										
Number of elementary schools.....	7	7	7	7	7	38	7	7	7	7
Number of middle schools.....	1	1	1	1	1	1	1	1	1	1
Number of high schools.....	1	1	1	1	1	17	1	1	1	1
Public Works										
Water mains (miles).....	108	108	108	108	108	102	102	102	102	102
Health and human services										
Number of personnel.....	17	17	17	17	17	17	17	15	14.7	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).....	128	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>
FY2013.....	\$ 5,498,710	\$ 3,438,799
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

Source: City Records