

CITY OF SALEM

MASSACHUSETTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT



For the Fiscal Year Ended June 30, 2009

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

Prepared by the City of Salem Finance Department

On the Cover:

Salem Common

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

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



Pickering Wharf Light House

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JUNE 30, 2009

TABLE OF CONTENTS

Introductory Section.....	1
Letter of Transmittal	3
Organizational Chart	11
Principal Executive Officers	12
Certificate of Achievement for Excellence in Financial Reporting	13
Distinguished Budget Presentation Award	14
Financial Section	15
Independent Auditors' Report	17
Management's Discussion and Analysis	19
Basic Financial Statements.....	30
Statement of net assets.....	31
Statement of activities	32
Governmental funds – balance sheet	34
Reconciliation of the governmental funds balance sheet total fund balances to the statement of net assets.....	35
Governmental funds – statement of revenues, expenditures and changes in fund balances	36
Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities.....	37
Proprietary funds – statement of net assets.....	38
Proprietary funds – statement of revenues, expenses and changes in fund net assets	39
Proprietary funds – statement of cash flows	40
Fiduciary funds – statement of fiduciary net assets	41
Fiduciary funds – statement of changes in fiduciary net assets.....	42
Notes to basic financial statements.....	43
Required Supplementary Information	75
General fund budgetary comparison schedule	76
Schedule of revenues, expenditures and changes in fund balance – general fund – budget and actual.....	77
Other post-employment benefit plan schedules.....	82
Other post-employment benefit plan schedule of funding progress and employer contributions	83
Other post-employment benefit plan actuarial methods and assumptions	84
Notes to required supplementary information	85

Combining Statements.....	87
Nonmajor governmental funds	88
Nonmajor governmental funds – combining balance sheet	91
Nonmajor governmental funds – combining statement of revenues, expenditures, and changes in fund balances	94
Private purpose trust funds	97
Private purpose trust funds – combining statement of net assets.....	98
Private purpose trust funds – combining statement of changes in net assets	99
Agency Fund	100
Agency fund – statement of changes in assets and liabilities	101
Statistical Section.....	103
Net assets by component – last eight fiscal years.....	104
Changes in net assets – last eight fiscal years.....	105
Fund balances, governmental funds – last ten fiscal years.....	106
Changes in fund balances, governmental funds – last ten fiscal years.....	107
Assessed value and actual value of taxable property by classification and tax rates – last ten fiscal years	108
Principal taxpayers – current year and nine years ago	109
Property tax levies and collections – last ten fiscal years.....	110
Ratios of outstanding debt and general bonded debt – last ten fiscal years	111
Direct and overlapping governmental activities debt – as of June 30, 2009	112
Computation of legal debt margin – last ten fiscal years	113
Demographic and economic statistics – last ten fiscal years	114
Principal employers (excluding City) – current year and nine years ago.....	115
Full-time equivalent City employees by function – last ten fiscal years.....	116
Operating indicators by function/program – last ten fiscal years	117
Capital asset statistics by function/program – last ten fiscal years.....	118
Free cash & stabilization fund balances – last ten fiscal years	119

Introductory Section



Salem Willows Park

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

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

Introductory Section

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City of Salem, Massachusetts

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Letter of Transmittal

Kimberley L. Driscoll, Mayor
Richard Viscay, Finance Director

December 14, 2009

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

At the close of each fiscal year, state law requires the City of Salem to publish a complete set of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), and that are audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) of the City of Salem, Massachusetts, for the fiscal year ending June 30, 2009 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, 2009, are fairly presented in conformity with GAAP.

The City of Salem's financial statements have been audited by Powers & Sullivan, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2009, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principals used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2009 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

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

Profile of the City

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

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

The City Council is primarily the legislative branch of the City government. As the legislative body, the Council confirms appointments made by the Mayor and appropriates all monies necessary to City operation. It can approve, disapprove, or reduce the amount of appropriations, but not add to the appropriation. The Council receives orders of recommendation by the Mayor and petitions from the public, and acts on them after committee study. The City Council also has the power to enact the Ordinances and other regulations. A majority of the City Council constitutes a quorum, and the affirmative vote of a majority of all the members of the Council is necessary for the adoption of any motion resolution, or ordinance. In some 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 percent of the City is connected to the sewerage system; the entire area of the City is served by the municipal water system. Both the Salem and Beverly Water Supply Board and the South Essex Sewerage District qualify as joint ventures. Accordingly, the City's equity interest in both entities has been included in the City's basic financial statements. The Salem Housing Authority is responsible for managing 1,462 units of low income housing for the City. Buildings are either owned by the Authority, or are part of the rental subsidy program or the voucher program. Of the 1,462 units, 715 are included

in twelve elderly developments, nine family developments, and one handicapped accessible family development. These units are owned and operated by the Authority. The Salem Housing Authority does not meet the criteria to be considered a component unit of the City. The principal highways serving the City are state Routes 1A, 107, and 114, all of which provide immediate access to Routes 1 and 128 and other major highways serving the greater Boston area. The City is a member municipality of the Massachusetts Bay Commuter Railroad, which provides passenger and freight service.

Within 170 days after the annual organization of the City government (which is ordinarily in early January), the Mayor is required to submit a budget of proposed expenditures for the fiscal year beginning on the next July 1. The City Council may make appropriations for the recommended purposes and may reduce or reject any item. Without recommendation of the Mayor, the City Council may not increase any item or make an appropriation for a purpose not included in the proposed budget (except by a two-thirds vote in case of the failure of the Mayor to recommend an appropriation for such a purpose within 7 days after a request from the City Council, pursuant to state statute). If the Council fails to act on any item of the proposed budget within 45 days, that item takes effect. The amount raised on the tax recapitulation sheet approved by the Department of Revenue for fiscal year 2009 totaled approximately \$114 million, which includes Real & Personal Property tax revenue, State Revenues, MSBA Revenue, local revenues, transfers in of \$855,267 from Receipts Reserved Harbormaster, Witch House and Golf Course (to reduce tax rate), \$2,148,662 from free cash supplemental appropriations, other receipts reserved transfers, School Deficit Bond Revenue and \$1,289,080 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 86% of the members of the System. The System was established to provide retirement benefits to its members, including employees and beneficiaries of the City of Salem, the Salem-Beverly Water Supply Board, the Salem Housing Authority, the South Essex Sewerage District, and the North Shore Regional Vocational School System. Per the Public Employee Retirement Administration Commission (PERAC) 2008 annual report, the market value of the System's assets is \$71,900,000 with 97% of the funds invested in the State's Pension Reserve Investment Trust's (PRIT) Core Fund.

Factors Affecting Economic Condition

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

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

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

Museum, and a host of banks and other financial institutions. It is the educational, medical, legal, cultural and banking hub of the North Shore.

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

The City also enjoys a mix of commercial businesses and markets. Commercial development has been prominent in the Highland Avenue and Vinnin Square areas. Additionally, construction is underway on the new \$106 million J. Michael Ruane Judicial Center, as well as the \$12 million redevelopment of the Old Salem Jail, which will include 23 residential units, a restaurant, a jail history exhibit, and one affordable artist live/work unit. These projects, as well as the \$7.5 million redevelopment of the former Salem News building, will ensure long term vibrancy to Downtown Salem.

The City has also developed a comprehensive Capital Improvement Program (CIP), which identifies both short term and long term capital needs for the City. As part of the FY2009 CIP, the City will begin the first phases of building a state-of-the-art Senior Center. The Senior Center will be on the first floor of a three-story multi-use building that will be located in a vacant lot on the corner of Boston and Bridge Streets. Other highlights of the FY2009 CIP include the investment of \$1.5 million in neighborhood roadway improvements, \$515 thousand of vehicle and equipment replacement for the police, fire, and department of public services, \$100 thousand in technological advancements for the parking department, and \$75 thousand for the installation of new playground equipment and repair of gazebo roofs for the park department.

The Salem waterfront is also experiencing a great deal of investment from the addition of the Waterfront Hotel at Pickering Wharf to the South River Harborwalk waterfront development, which will include seawall and bulkhead improvements from Derby Street to Congress Street. The City received a \$1.3 million grant from the Governor's Seaport Council for this project, which, when completed, will create a stronger nexus between the downtown and the waterfront.

Salem is also the home of Salem State College, the largest institution of higher education on the North Shore of Massachusetts. Recent expansion at the College includes the construction of the college's newest campus on the former GTE Sylvania site. Central Campus, as it is currently known, houses the Bertolon School of Business, a recital hall, a 'green' and sustainable residence hall, and a small business incubator for the region. Expansion of the college continues currently, including the ongoing construction of a new 525 bed residence hall and dining facility, as well as the construction of a new library, set to begin construction in 2010.

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

According to the Massachusetts Workforce Development Agency, the City had a labor force of 23,448, of whom 21,357 were employed and 2,091, or 8.9% were unemployed. The Commonwealth, for the same period, had an unadjusted unemployment rate of 9.7%.

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 much 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.

Included in the budget was the City's Five Year Financial Forecast. This is the third 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.

In January of 2009, the Governor reduced local aid to municipalities in accordance with G.L. c. 29, S. 9c (9c cuts). These 9c cuts put the City's operating budget out of balance by \$836,631 midway through fiscal year 2009. These mid-year budget cuts forced the City to take action to rebalance the budget. In order to keep the budget balanced, the City immediately froze spending on all non-essential spending as well as implementing a hiring freeze. These actions saved the City \$558,000; however, we still needed to close an additional \$278,000 gap. This gap was eventually closed with a combination of layoffs, revenue enhancements and an early retirement incentive proposed to all employees who were willing to retire during FY2009. The retirements helped us save in salary and health insurance, and by not filling some of these positions, helped us in balancing our FY2010 budget as well.

Also, in May of 2009, the Governor again reduced the City's Chapter 70 funds and allowed municipalities to transfer eligible spending to the State's Special Revenue Fund – Federal American Recovery and Reinvestment Act (ARRA) Grant Fund. The City's total reduction in Chapter 70 money was \$1,511,335 and the expenses that were moved from the General Fund to the ARRA Grant Fund were from Health Insurance (\$1,000,000), Out of District Special Education Tuition (\$236,335), School Transportation (\$145,046) and Special Education Transportation (\$129,954).

Fixed Costs ~ Health Insurance and Pension Assessment

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

Another significant change in the health insurance budget for FY2009 was the City's Police Superior Officer's union agreeing to modification of the contribution rates that mirror the City and School's AFSCME unions, the Teacher's union, and the Firefighters Union. All bargaining units, as well as all non-union and management positions, contribute 23% of health insurance costs in FY2009 and 25% of health insurance costs in FY2010. The only group that is not contributing 23% is the Police Patrolmen's Union, who are currently at the Joint Labor Management Committee (JLMC) with the City in an attempt to keep the 20% contribution that was in place in

FY2007 for all employees. The City is hopeful that the JLMC will ultimately decide in favor of the City on the contribution rates and that ultimately we will have uniformity in the contribution rates with all collective bargaining units. This will help stabilize the ever increasing cost of providing health benefits to the employees of the City in FY2010 and further.

The City also introduced a third product to compliment its HMO and PPO plans, the HMO Value Plus plan. This plan is offered to all City employees at a premium that is 9% less than the HMO and 19% less than the PPO. This third option, with slightly higher co-pays for office visits, Rx, and ER visits, allows the employees more options in choosing their health plan. The HMO Value Plus plan is intended to mirror the co-pays found in the Commonwealth's Group Insurance Commission (GIC) plan design. During the FY2010 budget process, the City required all non-union and management personnel to join the HMO Value Plus plan, and encouraged all collective bargaining units to do the same, with the goal of preserving jobs. We were successful in migrating over 200 employees to the less expensive HMO Value Plus plan, which helped avoid further layoffs in 2010.

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 fiscal year 2009, the Retirement Board moved all available funds into the State's Public Reserve Investment Trust (PRIT) to take advantage of its higher returns and lower administrative fees. Because of its size, the PRIT can diversify assets for maximum possible return. The Retirement Board shifted these assets voluntarily to the PRIT after a complete analysis and a vote of the Retirement Board. Over the last 10 years (as of June 30, 2008), the PRIT fund has returned 8.16% annually compared to the public fund median return of 6.00% over the same 10 year time period. This places the PRIT in the top one percentile ranking of all public pension plans with over one billion dollars in assets per the Trust Universe Comparison Services (TUCS) master trust report.

However, because of a global economic downturn, the investments of the City's retirement funds decreased by 28% in 2008. While this decrease did not have an adverse affect on either the FY2009 or FY2010 budgets (due to the fixed contribution rates set by the Salem Retirement Board's 2008 actuarial report), it will certainly have an adverse affect on the FY11 budget once the 2010 actuarial report considers that effect of the 2008 downturn. As of the 2008 annual report of the Public Employee Retirement Administration Commission (PERAC) report, the Salem Retirement Board's unfunded liability is \$79.4 million with a funding schedule of 2025 to be fully funded. The City of Salem represents 86% of the Salem Contributory Retirement System.

Other Significant Financial Matters

The City implemented a trash fee for fiscal year 2007 which went into effect in September 2006. The revenue received from the trash fees totaled \$450,000, for the ten months of collections during fiscal year 2007 and \$909,000 and \$720,000 a year for the twelve months of collections in fiscal years 2008 and 2009, respectively. These amounts are based on the number of residential and commercial units that are currently being billed for trash. The fees collected are used to offset the cost of collecting solid waste. The City adopted an Enterprise Fund for solid waste collections in fiscal year 2008.

Our contract for solid waste collection was set to expire on June 30, 2008. As such, a committee was formed to develop a Request for Proposal (RFP) for trash collection for a term of five years. As a result of the procurement, the City was able to reduce its cost of collection by 20%, approximately \$600,000 in total. As a result of this, the City has reduced its fee by 20% for trash collection as well, reducing non-owner occupied tenements from \$20 per unit to \$16 per unit, and businesses from \$30 per unit to \$24 per unit. The City continues to offset the costs of solid waste collection for FY2009 by the collection of the trash fee.

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

Financial Policy

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

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

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

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

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

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement of Excellence in Financial Reporting to the City of Salem for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2008. This was the fourth 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, 2008. 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. The City has also submitted its budget document for fiscal year beginning July 1, 2009 for consideration of the award for the second year.

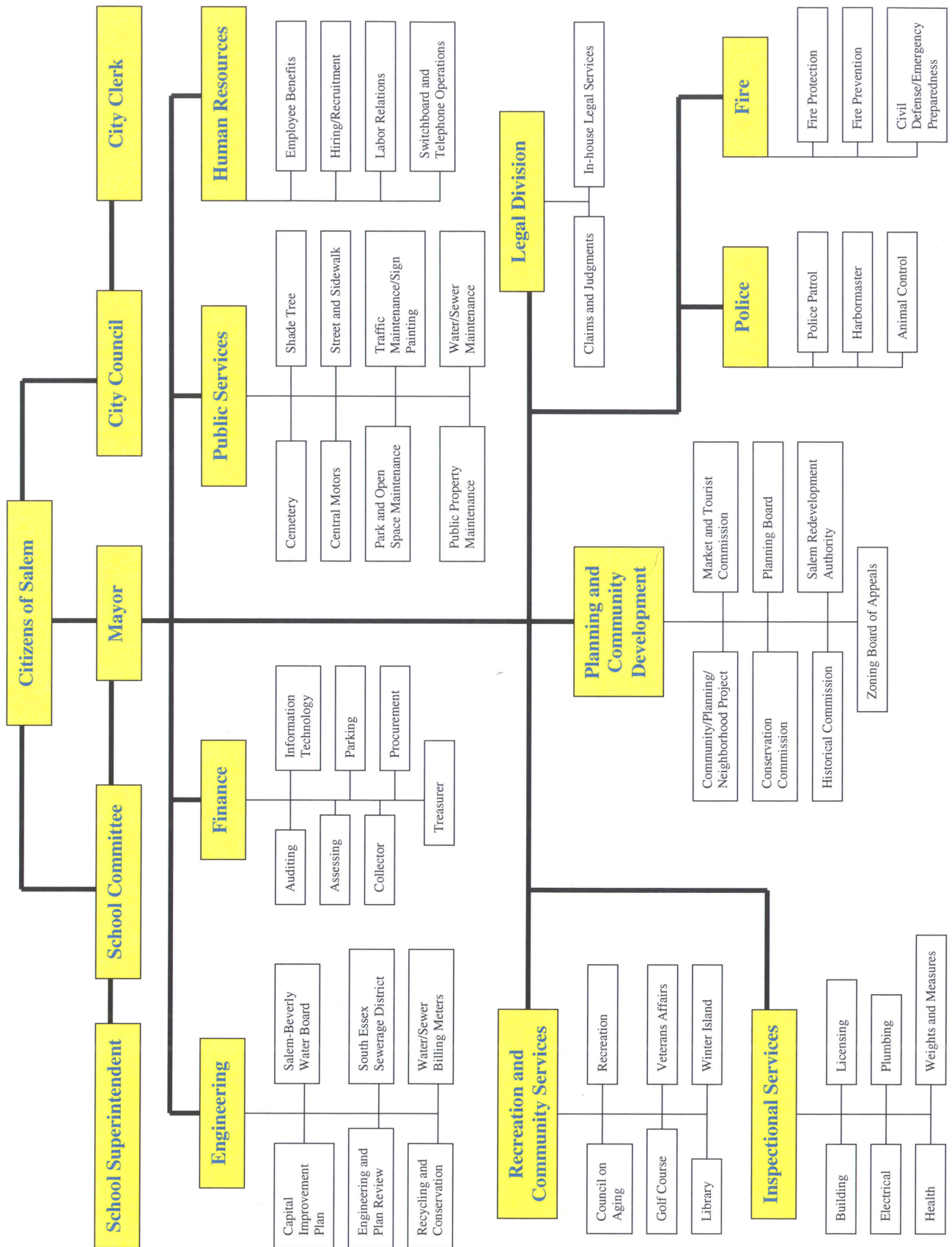
It should be noted that the Distinguished Budget Award was awarded to only nine of the 351 communities in the Commonwealth for the fiscal period beginning 2006 and that only five entities in the entire Commonwealth received both the Certificate of Achievement of Excellence in Financial Reporting and the Distinguished Budget Presentation Award in 2007.

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

Respectfully submitted,



Richard Viscay
Finance Director



Principal Executive Officers

TITLE	NAME	FIRST TOOK OFFICE	TERM EXPIRES
Mayor	Kimberley L. Driscoll	1/2/2006	12/31/2013
President, City Council	Paul C. Prevey	1/1/2009	12/31/2009
Finance Director	Richard Viscay	3/6/2006	1/31/2009*
Treasurer	Anne L. Busteed	5/22/2000	1/31/2007*
Collector	Bonnie Celi	3/11/2004	1/31/2009*
City Clerk	Cheryl LaPointe	7/15/2004	11/9/2009*
City Solicitor	Elizabeth Rennard	1/10/2006	Indefinite
Asst. Finance Director	Nina Bridgman	1/22/2004	1/31/2008*

*Terms have not been extended.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Salem
Massachusetts

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

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



President

Executive Director



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**City of Salem
Massachusetts**

For the Fiscal Year Beginning

July 1, 2008

President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the **City of Salem, Massachusetts** for the Annual Budget beginning **July 1, 2008**. 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.

This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

Financial Section



Downtown Salem

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

Financial Section

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salem, Massachusetts, as of and for the fiscal year ended June 30, 2009 (except for the Salem Contributory Retirement System which is as of and for the year ended December 31, 2008), which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Salem, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salem, Massachusetts, as of June 30, 2009 (except for the Salem Contributory Retirement System which is as of December 31, 2008), and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

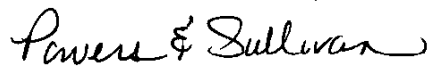
In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2009 on our consideration of the City of Salem, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis, located on the following pages, and schedule of revenues, expenditures and changes in fund balance – general fund – budgetary basis, other post-employment benefit plan schedule of funding progress, and other post-employment benefit plan actuarial methods and assumptions located after the notes to the basic financial statements, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the

methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

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

Wakefield, Massachusetts
December 14, 2009

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, 2009. We encourage readers to consider the information presented in this report in conjunction with additional information that we have furnished in our letter of transmittal.

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

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

Proprietary funds. The City maintains two types of 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. This fund is used to account for risk financing activities related to retirees' health insurance. In fiscal year 2009, the City changed to a premium based insurance plan for Medex coverage. The internal service fund will be used to account for run-out claims for liabilities incurred prior to July 1, 2008.

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

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

Government-wide Financial Analysis

Governmental Activities

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City of Salem's governmental assets exceeded liabilities by \$141 million at the close of fiscal year 2009. This represents an increase of \$905,000 from the prior fiscal year. This is an indication that the overall financial position of the City has improved during the current fiscal year.

Net assets of \$147 million (105%) reflects the City's investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related debt used to acquire those assets that are still

outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Invested in capital assets, net of related debt, increased by approximately \$6.7 million during fiscal year 2009, primarily due to the City's school renovation projects for which the City recorded capital grants from the Massachusetts School Building Authority totaling \$7.8 million.

An additional portion of the governmental net assets, \$6.9 million (5%), represents resources that are subject to external restrictions on how they may be used. The balance of *unrestricted net assets* has a year end deficit of \$13.5 million. The primary reason for this deficit balance is the recognition of other post-employment benefit liabilities of \$11 million, due to the implementation of Governmental Auditing Standards Board (GASB) Statement 45. Fiscal year 2008 was the City's initial year for the implementation of GASB Statement 45. This statement required the City to obtain an actuarial valuation of the City's liability to pay other post-employment benefits to current employees and retirees. The City is allowed to amortize the liability, which totaled \$160 million, over 30 years. Since there is no legal obligation to fund the liability at this time, the City has opted to continue to fund other post-employment benefits on a pay-as-you go basis. As a result, the City is required to record the difference between the current year pay-as-you go cost and the current year actuarial determined cost plus interest on any prior unfunded liability as a liability in the full accrual financial statements. This difference totaled \$4.3 million for governmental activities for fiscal year 2009.

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

	Governmental Activities	
	Fiscal 2009	Fiscal 2008
Assets:		
Current assets.....	\$ 25,148,453	\$ 29,975,519
Noncurrent assets (excluding capital).....	26,229,450	25,750,071
Capital assets.....	169,690,214	161,393,672
Total assets.....	221,068,117	217,119,262
Liabilities:		
Current liabilities (excluding debt).....	9,650,973	8,296,834
Noncurrent liabilities (excluding debt).....	17,267,976	13,154,225
Current debt.....	7,520,000	4,594,497
Noncurrent debt.....	45,760,000	51,110,000
Total liabilities.....	80,198,949	77,155,556
Net Assets:		
Capital assets net of related debt.....	147,373,757	140,683,360
Restricted.....	6,968,580	6,948,839
Unrestricted.....	(13,473,169)	(7,668,493)
Total net assets.....	\$ 140,869,168	\$ 139,963,706

	<u>Fiscal 2009</u>	<u>Fiscal 2008</u>
Program revenues:		
Charges for services.....	\$ 5,623,554	\$ 5,568,333
Operating grants and contributions.....	43,744,124	41,168,760
Capital grants and contributions.....	8,762,642	9,615,336
General Revenues:		
Real estate and personal property taxes.....	66,672,653	63,230,976
Motor vehicle and other excise taxes.....	2,978,961	3,286,119
Nonrestricted grants.....	8,064,486	9,163,777
Unrestricted investment income.....	(35,188)	462,275
Other revenues.....	2,789,479	2,877,637
Total revenues.....	<u>138,600,711</u>	<u>135,373,213</u>
Expenses:		
General government.....	10,914,012	9,924,960
Public safety.....	27,421,538	26,136,489
Education.....	79,410,738	78,079,492
Public works.....	6,705,986	6,669,054
Community development.....	2,093,618	1,567,381
Health and human services.....	6,226,498	5,756,666
Culture and recreation.....	3,228,906	3,047,444
Interest.....	2,396,187	2,503,461
Total expenses.....	<u>138,397,483</u>	<u>133,684,947</u>
Excess (Deficiency) before transfers.....	203,228	1,688,266
Transfers.....	<u>702,234</u>	<u>(26,013)</u>
Change in net assets.....	\$ <u>905,462</u>	\$ <u>1,662,253</u>

The governmental expenses totaled \$138 million of which \$58 million (42%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. With the exception of interest costs, all functional expenses showed modest increases. Community development expenses showed the largest increase at approximately 25%. This is the result of increased activity in grants and loan to grant programs to finance first time homebuyer assistance programs and economic and community development programs. General revenues totaled \$80.5 million, primarily coming from property taxes, motor vehicle and other excise, and non-restricted state aid.

Business-type Activities

For the City's business-type activities, assets exceeded liabilities by \$13.3 million at the close of fiscal year 2009.

	Business-type Activities	
	Fiscal 2009	Fiscal 2008
Assets:		
Current assets.....	\$ 8,775,456	\$ 7,727,919
Capital assets.....	16,105,731	15,375,825
Total assets.....	24,881,187	23,103,744
Liabilities:		
Current liabilities (excluding debt).....	1,098,107	681,411
Noncurrent liabilities (excluding debt).....	456,791	313,650
Current debt.....	4,134,806	1,373,333
Noncurrent debt.....	5,881,102	6,250,908
Total liabilities.....	11,570,806	8,619,302
Net Assets:		
Invested in capital assets, net of related debt.....	6,939,001	8,836,475
Unrestricted.....	6,371,380	5,647,967
Total net assets.....	\$ 13,310,381	\$ 14,484,442

Business-type net assets of \$7 million (52%) represent investments in capital assets net of related debt. The remaining \$6.4 million (48%) is available to be used for the ongoing operation of the City's water, sewer, parking, trash and the municipal golf course activities. There was a decrease of \$1.2 million in net assets reported in connection with the enterprise funds.

The water enterprise fund's net assets of \$1.7 million (32%) represent the investment in capital assets while \$3.7 million (68%) is unrestricted. The water department experienced a net decrease of \$520,000 in net assets from the prior year. The water fund pays an annual assessment to the Salem Beverly Water Supply Board, which totaled \$2.2 million, or 59% of the funds expenses for fiscal year 2009. The decrease in net assets is partially the result of a decrease in water usage and billings in fiscal year 2009. It is the City's policy to recover 100% of the cost of operations through rates while still maintaining adequate reserves.

The sewer enterprise fund's net assets of \$666,000 (20%) represent the investment in capital assets net of related debt, and \$2.6 million (80%) is unrestricted. The unrestricted balance includes the City's \$530,000 equity interest in the South Essex Sewerage District. The sewer department operations experienced a net decrease of \$473,000 during the current fiscal year. Approximately 87% of the expenses in the sewer fund consist of the annual assessments paid to the South Essex Sewerage District. The change in net assets is the result of the increase in district assessments for fiscal year 2009.

The golf course enterprise fund's net assets of \$383,000 (68%) represent the investment in capital assets while \$178,000 (32%) is unrestricted. Overall, revenues and expenses were down at the golf course during fiscal year 2009. The operation experienced an overall increase in net assets of \$93,000 during the fiscal year. The golf course also used available funds to purchase approximately \$100,000 in capital assets, including mowers and an aerator.

The parking enterprise fund's net assets of \$4.2 million (105%) represent the investment in capital assets net of related debt while a deficit balance of \$191,000 (less than 5%) is reported as unrestricted. The parking operations experienced a net decrease of \$207,000 during fiscal year 2009, which is consistent with prior years, and is mostly attributable to recording depreciation on previously purchased capital assets totaling approximately \$225,000. The City reports this fee-for-service activity an enterprise fund however any cash based surplus generated is transferred back to the general fund to support City programs. In fiscal year 2009, \$996,000 was transferred back to the general fund. Consequently, the funds remaining in the enterprise fund at year end represent non-current assets and liabilities and the assets and liabilities related to the enterprise funds capital construction projects.

During fiscal year 2008, the City voted to establish a trash enterprise fund. 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 cash basis deficit in the fund at June 30th. At fiscal year-end a \$1.8 million transfer was made from the general fund to cover the deficit. As of June 30, 2009, the trash fund's statement of net assets is comprised only of non-cash assets and liabilities which results in unrestricted net assets of \$37,000.

	Business-type Activities	
	Fiscal 2009	Fiscal 2008
Program revenues:		
Charges for services.....	\$ 14,715,349	\$ 14,004,233
Capital grants and contributions.....	43,796	49,707
Total revenues.....	14,759,145	14,053,940
Expenses:		
Cost of service and administration.....	5,717,758	6,445,788
District assessment.....	8,591,925	7,148,484
Depreciation.....	527,748	487,355
Interest.....	393,541	262,219
Total expenses.....	15,230,972	14,343,846
Excess (Deficiency) before transfers.....	(471,827)	(289,906)
Transfers.....	(702,234)	26,013
Change in net assets.....	\$ (1,174,061)	\$ (263,893)

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$10.5 million of which \$1.1 million is reported in the general fund, \$1.5 million is reported in the stabilization major fund, \$722,000 is reported in the school capital projects major fund, and \$7.2 million is reported in the nonmajor governmental funds. Cumulatively there was a decrease of \$2.5 million in fund balances from the prior year.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund totaled \$750,000, while total fund balance was \$1.1 million. The general fund balance decreased by \$420,000 in fiscal year 2009. The majority of this decrease relates to a decrease in state aid to the City which occurred midway through the year.

The stabilization major fund is used to account for the accumulation of resources to be used for general and/or capital purposes upon approval of City Council. The fund increased by \$841,000 in fiscal 2009, due to investment earnings and an \$828,000 budgeted transfer in from the general fund.

The ARRA state fiscal stabilization fund is used to account for federal education funds that were received through the American Recovery and Reinvestment Act. During the last three months of the fiscal year, the City's state aid was reduced by \$1.5 million. However, the state aid payment was replaced with a like amount of federal funds. Eligible expenditures were reclassified to the state fiscal stabilization major fund to be recorded against the federal grant revenue, the intergovernmental revenue was under budget in the general fund by the \$1.5 million, and education and employee benefit expenditures in the general fund were less than the appropriation by the same amount, resulting in no net impact on the general fund's results of operations.

The school capital projects fund is used to account for the City's ongoing major school construction projects. The fund decreased by \$2 million in fiscal 2009 as funds have been expended on major school renovation projects that have been funded by long-term debt in prior years and current year capital grants.

Cumulatively, nonmajor governmental funds had a net decrease of \$918,000. This represents the activity of other, small capital projects, grants, and permanent trust funds.

General Fund Budgetary Highlights

During fiscal year 2009, the Governor implemented reductions in state aid to Cities and Towns in response to lower than anticipated state revenues. These reductions for the City of Salem totaled approximately \$836,000 thousand. In response to the reduction in state aid, the City reduced multiple budgeted appropriations and increased fees to partially offset the cuts.

During the last two months of the fiscal year, additional cuts in state aid were approved by the state, which reduced the June 30th state aid payment to the City by \$1,511,335 and replaced it with a like amount of federal stimulus funds. As discussed above, the City's general fund budget was not adjusted for the late adjustment in state funding; rather, eligible expenditures were transferred from the general fund to a state fiscal stabilization grant fund where the federal revenues were also recorded. The revenues recorded in the general fund were under the budgeted amount and the expenditures recorded in the general fund were also under the budgeted amount to compensate for the change in revenue.

The \$1.9 million increase between the original budget and the final amended budget was due to several council orders issued throughout the fiscal year to utilize available funds to address budget issues. The most notable components of this increase include an additional \$1.5 million in tax revenues appropriated to fund education, stabilization reserves, revolving fund deficits, veteran's benefits, health insurance, and tax foreclosure services; and \$892,000 in available funds (free cash) appropriated to fund stabilization reserves, capital improvements, and various additional appropriations.

The City experienced a \$1.1 million short-fall of actual revenues compared to budgeted revenues. The surplus in real estate and personal property taxes, of \$466,000, was due to higher than anticipated collection rates. This did not include the surplus in collections in tax liens of \$522,000. The deficit in intergovernmental revenue of \$1.9 million was mainly due to the Governor's use of State Fiscal Stabilization Funds to replace state aid to Cities and Towns (\$1.5 million). Additionally, charter school reimbursements came in higher than anticipated by approximately \$284,000 and Medicaid receipts were lower than anticipated by approximately \$602,000.

Due to recent budget cuts, most departments, with the exception of the schools, ended the year with a minimal amount of unspent funds. State and county assessments were lower than anticipated by \$183,000, which mainly related to the charter school assessments. The City's snow and ice removal account ended the year in a deficit of \$803,000, which is allowable under state law. This deficit is required to be funded in the subsequent year's tax levy. The City also reported a surplus in its group insurance account of approximately \$1 million which related to the City's portion of the State Fiscal Stabilization Fund transfer. The appropriation budget for the school department reported expenditures under appropriation by \$606,000. This is the result of the School's portion of the State Fiscal Stabilization Fund transfer.

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, 2009, amounts to \$185.8 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, system improvements, machinery and equipment, and infrastructure related to governmental and business-type activities. The City's total investment in capital assets for the current year was \$13.5 million for governmental activities and \$1.3 million for business-type activities.

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

Debt Administration. Outstanding long-term debt of the general government, as of June 30, 2009, totaled \$51,145,000, of which \$47,796,000 is related to school projects, and \$855,000 is related to the school deficit funding loan, leaving a balance of \$2,459,000 for other CIP related projects.

The Commonwealth of Massachusetts is obligated to provide school construction assistance for approved school projects through a grant program administered by the Massachusetts School Building Authority (MSBA). The assistance is paid to support construction costs and reduce the total debt service of the City. At June 30, 2009 the City has recorded a receivable from the MSBA of \$29 million, which is equal to 90% of approved construction and interest costs incurred by the City to date, less amounts that have been reimbursed to the City by the MSBA.

The City has \$2.1 million in governmental related short-term notes remaining which came due on October 23, 2009, with an interest rate of 3.60%. The City's short-term notes represent temporary financing for school construction projects, fire and police equipment, and parks and recreation projects.

Outstanding long-term debt of the water, golf and parking enterprise funds totaled \$6.2 million, \$230,000 and \$800,000, respectively, and funded various repairs, maintenance and infrastructure projects.

At year end the water and sewer enterprise funds have \$1,825,000 and \$940,000, respectively, of outstanding short-term debt, which is fully supported by fees and does not rely on a general fund subsidy.

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.

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Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2009

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 13,772,764	\$ 5,300,929	\$ 19,073,693
Investments.....	3,819,967	-	3,819,967
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	720,220	-	720,220
Tax liens.....	1,297,603	-	1,297,603
Motor vehicle and other excise taxes.....	453,526	-	453,526
User fees.....	-	2,811,402	2,811,402
Trash fees.....	-	107,297	107,297
Departmental and other.....	82,190	25,362	107,552
Intergovernmental.....	4,832,759	-	4,832,759
Loans.....	169,424	-	169,424
Investment in joint venture.....	-	530,466	530,466
Total current assets.....	<u>25,148,453</u>	<u>8,775,456</u>	<u>33,923,909</u>
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	25,849,838	-	25,849,838
Loans.....	379,612	-	379,612
Capital assets, non depreciable.....	65,877,493	276,422	66,153,915
Capital assets, net of accumulated depreciation.....	<u>103,812,721</u>	<u>15,829,309</u>	<u>119,642,030</u>
Total noncurrent assets.....	<u>195,919,664</u>	<u>16,105,731</u>	<u>212,025,395</u>
TOTAL ASSETS.....	<u>221,068,117</u>	<u>24,881,187</u>	<u>245,949,304</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	1,384,232	465,136	1,849,368
Accrued liabilities.....	777,129	372,482	1,149,611
Accrued payroll.....	3,304,168	26,569	3,330,737
Health claims payable.....	304,917	-	304,917
Tax refunds payable.....	219,000	-	219,000
Accrued interest.....	1,005,241	180,587	1,185,828
Capital lease obligations.....	219,132	-	219,132
Compensated absences.....	2,297,230	53,333	2,350,563
Workers' compensation.....	139,924	-	139,924
Bonds and notes payable.....	<u>7,520,000</u>	<u>4,134,806</u>	<u>11,654,806</u>
Total current liabilities.....	<u>17,170,973</u>	<u>5,232,913</u>	<u>22,403,886</u>
NONCURRENT:			
Capital lease obligations.....	311,639	-	311,639
Compensated absences.....	5,558,253	67,395	5,625,648
Other post-employment benefits.....	11,052,081	389,396	11,441,477
Workers' compensation.....	346,003	-	346,003
Bonds and notes payable.....	<u>45,760,000</u>	<u>5,881,102</u>	<u>51,641,102</u>
Total noncurrent liabilities.....	<u>63,027,976</u>	<u>6,337,893</u>	<u>69,365,869</u>
TOTAL LIABILITIES.....	<u>80,198,949</u>	<u>11,570,806</u>	<u>91,769,755</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	147,373,757	6,939,001	154,312,758
Restricted for:			
Loans.....	549,036	-	549,036
Permanent funds:			
Expendable.....	2,678,043	-	2,678,043
Nonexpendable.....	1,688,851	-	1,688,851
Grants and gifts.....	2,052,650	-	2,052,650
Unrestricted.....	<u>(13,473,169)</u>	<u>6,371,380</u>	<u>(7,101,789)</u>
TOTAL NET ASSETS.....	<u>\$ 140,869,168</u>	<u>\$ 13,310,381</u>	<u>\$ 154,179,549</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2009

		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 10,914,012	\$ 650,040	\$ 197,468	\$ 234,271	\$ (9,832,233)
Public safety.....	27,421,538	2,456,341	1,119,698	8,200	(23,837,299)
Education.....	79,410,738	1,473,880	35,233,017	7,842,384	(34,861,457)
Public works.....	6,705,986	201,936	74,330	646,787	(5,782,933)
Community development.....	2,093,618	3,533	1,932,937	-	(157,148)
Health and human services.....	6,226,498	135,028	4,404,394	-	(1,687,076)
Culture and recreation.....	3,228,906	702,796	153,819	31,000	(2,341,291)
Interest.....	2,396,187	-	628,461	-	(1,767,726)
Total Governmental Activities...	138,397,483	5,623,554	43,744,124	8,762,642	(80,267,163)
<i>Business-Type Activities:</i>					
Water.....	4,021,536	4,085,103	-	43,796	107,363
Sewer.....	7,467,332	7,668,044	-	-	200,712
Golf Course.....	278,007	547,301	-	-	269,294
Parking.....	905,834	1,694,708	-	-	788,874
Trash.....	2,558,263	720,193	-	-	(1,838,070)
Total Business-Type Activities..	15,230,972	14,715,349	-	43,796	(471,827)
Total Primary Government.....	\$ 153,628,455	\$ 20,338,903	\$ 43,744,124	\$ 8,806,438	\$ (80,738,990)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2009

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ <u>(80,267,163)</u>	\$ <u>(471,827)</u>	\$ <u>(80,738,990)</u>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	66,672,653	-	66,672,653
Tax liens.....	527,492	-	527,492
Motor vehicle and other excise taxes.....	2,978,961	-	2,978,961
Hotel/motel tax.....	324,622	-	324,622
Penalties and interest on taxes.....	412,572	-	412,572
Payments in lieu of taxes.....	1,320,945	-	1,320,945
Grants and contributions not restricted to specific programs.....	8,064,486	-	8,064,486
Unrestricted investment income.....	(35,188)	-	(35,188)
Miscellaneous.....	203,848	-	203,848
<i>Transfers, net</i>	<u>702,234</u>	<u>(702,234)</u>	<u>-</u>
Total general revenues and transfers.....	<u>81,172,625</u>	<u>(702,234)</u>	<u>80,470,391</u>
Change in net assets.....	905,462	(1,174,061)	(268,599)
<i>Net Assets:</i>			
Beginning of year.....	<u>139,963,706</u>	<u>14,484,442</u>	<u>154,448,148</u>
End of year.....	\$ <u><u>140,869,168</u></u>	\$ <u><u>13,310,381</u></u>	\$ <u><u>154,179,549</u></u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2009

	General	Stabilization	School Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents.....	\$ 4,917,225	\$ 1,489,907	\$ 1,237,401	\$ 5,935,904	\$ 13,580,437
Investments.....	-	-	-	3,819,967	3,819,967
Receivables, net of uncollectibles:					
Real estate and personal property taxes.....	720,220	-	-	-	720,220
Tax liens.....	1,297,603	-	-	-	1,297,603
Motor vehicle and other excise taxes.....	453,526	-	-	-	453,526
Departmental and other.....	82,190	-	-	-	82,190
Intergovernmental.....	29,042,162	-	-	1,640,435	30,682,597
Loans.....	-	-	-	549,036	549,036
Due from other funds.....	-	-	-	693,669	693,669
TOTAL ASSETS.....	\$ 36,512,926	\$ 1,489,907	\$ 1,237,401	\$ 12,639,011	\$ 51,879,245
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable.....	\$ -	\$ -	\$ 515,671	\$ 868,561	\$ 1,384,232
Accrued liabilities.....	777,129	-	-	-	777,129
Accrued payroll.....	3,107,117	-	-	197,051	3,304,168
Tax refunds payable.....	219,000	-	-	-	219,000
Accrued interest on short-term debt.....	51,240	-	-	-	51,240
Deferred revenues.....	31,236,564	-	-	1,524,390	32,760,954
Due to other funds.....	-	-	-	693,669	693,669
Notes payable.....	-	-	-	2,135,000	2,135,000
TOTAL LIABILITIES.....	35,391,050	-	515,671	5,418,671	41,325,392
FUND BALANCES:					
Reserved for:					
Encumbrances and continuing appropriations.....	372,027	-	-	-	372,027
Perpetual permanent funds.....	-	-	-	1,688,851	1,688,851
Unreserved:					
Undesignated, reported in:					
General fund.....	749,849	-	-	-	749,849
Special revenue funds.....	-	1,489,907	-	4,113,024	5,602,931
Capital projects funds.....	-	-	721,730	(1,259,578)	(537,848)
Permanent funds.....	-	-	-	2,678,043	2,678,043
TOTAL FUND BALANCES.....	1,121,876	1,489,907	721,730	7,220,340	10,553,853
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 36,512,926	\$ 1,489,907	\$ 1,237,401	\$ 12,639,011	\$ 51,879,245

See notes to basic financial statements.

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

JUNE 30, 2009

Total governmental fund balances.....		\$ 10,553,853
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		169,690,214
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		32,760,954
Internal service funds are used by management to account for health insurance activities.		
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.....		(112,590)
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(954,001)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds and notes payable.....	(51,145,000)	
Workers' compensation.....	(485,927)	
Capital leases.....	(530,771)	
Compensated absences.....	(7,855,483)	
Other post-employment benefits.....	(11,052,081)	
Net effect of reporting long-term liabilities.....		<u>(71,069,262)</u>
Net assets of governmental activities.....		<u>\$ 140,869,168</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2009

	General	Stabilization	ARRA - State Fiscal Stabilization Fund	School Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:						
Real estate and personal property taxes, net of tax refunds.....	\$ 66,717,968	\$ -	\$ -	\$ -	\$ -	\$ 66,717,968
Tax liens.....	522,100	-	-	-	-	522,100
Motor vehicle and other excise taxes.....	3,154,642	-	-	-	-	3,154,642
Hotel/motel tax.....	324,622	-	-	-	-	324,622
Charges for services.....	1,373,581	-	-	-	43,744	1,417,325
Penalties and interest on taxes.....	412,572	-	-	-	-	412,572
Payments in lieu of taxes.....	1,320,945	-	-	-	-	1,320,945
Licenses and permits.....	567,166	-	-	-	-	567,166
Fines and forfeitures.....	1,296,698	-	-	-	-	1,296,698
Intergovernmental.....	37,358,380	-	1,511,335	7,842,384	17,658,772	64,370,871
Departmental and other.....	78,751	-	-	-	2,165,687	2,244,438
Contributions.....	-	-	-	-	1,276,594	1,276,594
Investment income.....	211,490	13,066	-	-	(257,479)	(32,923)
TOTAL REVENUES.....	113,338,915	13,066	1,511,335	7,842,384	20,887,318	143,593,018
EXPENDITURES:						
Current:						
General government.....	4,578,885	-	-	-	1,090,910	5,669,795
Public safety.....	15,711,059	-	-	-	1,428,259	17,139,318
Education.....	46,756,523	-	511,335	9,850,058	9,379,275	66,497,191
Public works.....	3,190,135	-	-	-	2,457,640	5,647,775
Community development.....	-	-	-	-	2,402,149	2,402,149
Health and human services.....	835,100	-	-	-	4,731,834	5,566,934
Culture and recreation.....	1,786,891	-	-	-	815,286	2,602,177
Pension benefits.....	16,206,240	-	-	-	-	16,206,240
Employee benefits.....	10,805,651	-	1,000,000	-	-	11,805,651
State and county charges.....	6,302,025	-	-	-	-	6,302,025
Debt service:						
Principal.....	4,414,497	-	-	-	145,000	4,559,497
Interest.....	2,563,584	-	-	-	5,059	2,568,643
TOTAL EXPENDITURES.....	113,150,590	-	1,511,335	9,850,058	22,455,412	146,967,395
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	188,325	13,066	-	(2,007,674)	(1,568,094)	(3,374,377)
OTHER FINANCING SOURCES (USES):						
Issuance of refunding bonds.....	3,785,000	-	-	-	-	3,785,000
Refunding bonds redeemed.....	(3,785,000)	-	-	-	-	(3,785,000)
Capital lease financing.....	167,454	-	-	-	-	167,454
Transfers in.....	3,269,550	827,894	-	-	1,131,086	5,228,530
Transfers out.....	(4,045,458)	-	-	-	(480,838)	(4,526,296)
TOTAL OTHER FINANCING SOURCES (USES).....	(608,454)	827,894	-	-	650,248	869,688
NET CHANGE IN FUND BALANCES.....	(420,129)	840,960	-	(2,007,674)	(917,846)	(2,504,689)
FUND BALANCES AT BEGINNING OF YEAR.....	1,542,005	648,947	-	2,729,404	8,138,186	13,058,542
FUND BALANCES AT END OF YEAR.....	\$ 1,121,876	\$ 1,489,907	\$ -	\$ 721,730	\$ 7,220,340	\$ 10,553,853

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, 2009

Net change in fund balances - total governmental funds.....	\$	(2,504,689)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay.....	13,552,655	
Depreciation expense.....	<u>(5,256,113)</u>	

Net effect of reporting capital assets.....		8,296,542
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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..... (4,900,187)

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Capital lease principal payments.....	312,637	
Capital lease issuance.....	(167,454)	
Debt service principal payments.....	<u>4,559,497</u>	

Net effect of reporting long-term debt.....		4,704,680
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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.....	(875,080)	
Net change in workers' compensation.....	54,088	
Net change in accrued interest on long-term debt.....	172,456	
Net change in other post-employment benefits.....	<u>(4,188,435)</u>	

Net effect of recording long-term liabilities and amortizing deferred losses.....		(4,836,971)
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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>146,087</u>
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Change in net assets of governmental activities.....	\$	<u><u>905,462</u></u>
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See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2009

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Parking	Trash	Total	
ASSETS							
CURRENT:							
Cash and cash equivalents.....	\$ 3,983,112	\$ 879,435	\$ 285,268	\$ 14,984	\$ 138,130	\$ 5,300,929	\$ 192,327
Receivables, net of allowance for uncollectibles:							
User fees.....	994,156	1,817,246	-	-	-	2,811,402	-
Trash fees.....	-	-	-	-	107,297	107,297	-
Departmental and other.....	-	-	-	-	25,362	25,362	-
Investment in joint venture.....	-	530,466	-	-	-	530,466	-
Total current assets.....	4,977,268	3,227,147	285,268	14,984	270,789	8,775,456	192,327
NONCURRENT:							
Capital assets, non depreciable.....	10,589	99,552	118,067	48,214	-	276,422	-
Capital assets, net of accumulated depreciation.....	8,909,204	1,533,163	495,100	4,891,842	-	15,829,309	-
Total noncurrent assets.....	8,919,793	1,632,715	613,167	4,940,056	-	16,105,731	-
TOTAL ASSETS.....	13,897,061	4,859,862	898,435	4,955,040	270,789	24,881,187	192,327
LIABILITIES							
CURRENT:							
Warrants payable.....	44,711	420,425	-	-	-	465,136	-
Accrued liabilities.....	118,704	48,639	-	-	205,139	372,482	-
Accrued payroll.....	11,458	13,303	-	-	1,808	26,569	-
Health claims payable.....	-	-	-	-	-	-	304,917
Accrued interest.....	136,246	22,560	5,537	16,244	-	180,587	-
Compensated absences.....	9,958	9,958	10,948	22,469	-	53,333	-
Bonds and notes payable.....	3,089,806	940,000	30,000	75,000	-	4,134,806	-
Total current liabilities.....	3,410,883	1,454,885	46,485	113,713	206,947	5,232,913	304,917
NONCURRENT:							
Compensated absences.....	7,988	7,988	34,323	17,096	-	67,395	-
Other post-employment benefits obligation.....	85,637	85,345	56,353	135,246	26,815	389,396	-
Bonds and notes payable.....	4,956,102	-	200,000	725,000	-	5,881,102	-
Total noncurrent liabilities.....	5,049,727	93,333	290,676	877,342	26,815	6,337,893	-
TOTAL LIABILITIES.....	8,460,610	1,548,218	337,161	991,055	233,762	11,570,806	304,917
NET ASSETS							
Invested in capital assets, net of related debt.....	1,735,153	665,641	383,167	4,155,040	-	6,939,001	-
Unrestricted.....	3,701,298	2,646,003	178,107	(191,055)	37,027	6,371,380	(112,590)
TOTAL NET ASSETS.....	\$ 5,436,451	\$ 3,311,644	\$ 561,274	\$ 3,963,985	\$ 37,027	\$ 13,310,381	\$ (112,590)

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2009

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Parking	Trash	Total	
OPERATING REVENUES:							
Employer contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 399,266
Charges for services	4,085,103	7,068,044	547,301	1,694,708	720,193	14,115,349	-
Intergovernmental	-	600,000	-	-	-	600,000	-
Other	-	-	-	-	-	-	68,287
TOTAL OPERATING REVENUES	4,085,103	7,668,044	547,301	1,694,708	720,193	14,715,349	467,553
OPERATING EXPENSES:							
Cost of services and administration	1,291,222	987,357	233,516	647,400	2,558,263	5,717,758	-
District Assessment	2,168,075	6,423,850	-	-	-	8,591,925	-
Depreciation	237,484	33,565	31,878	224,821	-	527,748	-
Employee benefits	-	-	-	-	-	-	321,466
TOTAL OPERATING EXPENSES	3,696,781	7,444,772	265,394	872,221	2,558,263	14,837,431	321,466
OPERATING INCOME (LOSS)	388,322	223,272	281,907	822,487	(1,838,070)	(122,082)	146,087
NONOPERATING REVENUES (EXPENSES):							
Interest expense	(324,755)	(22,560)	(12,613)	(33,613)	-	(393,541)	-
Intergovernmental	43,796	-	-	-	-	43,796	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET	(280,959)	(22,560)	(12,613)	(33,613)	-	(349,745)	-
INCOME (LOSS) BEFORE TRANSFERS	107,363	200,712	269,294	788,874	(1,838,070)	(471,827)	146,087
TRANSFERS:							
Transfers in	-	-	355,249	-	1,771,834	2,127,083	-
Transfers out	(627,940)	(673,807)	(531,217)	(996,353)	-	(2,829,317)	-
TOTAL TRANSFERS	(627,940)	(673,807)	(175,968)	(996,353)	1,771,834	(702,234)	-
CHANGE IN NET ASSETS	(520,577)	(473,095)	93,326	(207,479)	(66,236)	(1,174,061)	146,087
NET ASSETS AT BEGINNING OF YEAR	5,957,028	3,784,739	467,948	4,171,464	103,263	14,484,442	(258,677)
NET ASSETS AT END OF YEAR	\$ 5,436,451	\$ 3,311,644	\$ 561,274	\$ 3,963,985	\$ 37,027	\$ 13,310,381	\$ (112,590)

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2009

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Parking	Trash	Total	Funds
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from customers and users.....	\$ 4,056,197	\$ 6,975,597	\$ 547,301	\$ 1,694,708	\$ 715,844	\$ 13,989,647	\$ -
Receipts from interfund services provided.....	-	-	-	-	-	-	508,436
Receipts from other governments.....	-	600,000	-	-	-	600,000	-
Payments to vendors.....	(2,949,541)	(6,654,303)	(13,624)	(186,900)	(2,287,023)	(12,091,391)	-
Payments to employees.....	(412,635)	(394,974)	(198,184)	(410,067)	(56,909)	(1,472,769)	-
Payments for interfund services used.....	-	-	-	-	-	-	(127,330)
NET CASH FROM OPERATING ACTIVITIES.....	694,021	526,320	335,493	1,097,741	(1,628,088)	1,025,487	381,106
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:							
Transfers in.....	-	-	355,249	-	1,771,834	2,127,083	-
Transfers out.....	(627,940)	(673,807)	(531,217)	(996,353)	-	(2,829,317)	-
Advances from other funds.....	-	-	-	-	(5,616)	(5,616)	(188,779)
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(627,940)	(673,807)	(175,968)	(996,353)	1,766,218	(707,850)	(188,779)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Proceeds from the issuance of bonds and notes.....	1,903,030	940,000	-	-	-	2,843,030	-
Acquisition and construction of capital assets.....	(342,751)	(431,835)	(99,966)	-	-	(874,552)	-
Principal payments on bonds and notes.....	(268,333)	-	(30,000)	(75,000)	-	(373,333)	-
Interest expense.....	(287,602)	-	(13,476)	(34,738)	-	(335,816)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	1,004,344	508,165	(143,442)	(109,738)	-	1,259,329	-
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	1,070,425	360,678	16,083	(8,350)	138,130	1,576,966	192,327
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	2,912,687	518,757	269,185	23,334	-	3,723,963	-
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 3,983,112	\$ 879,435	\$ 285,268	\$ 14,984	\$ 138,130	\$ 5,300,929	\$ 192,327
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:							
Operating income (loss).....	\$ 388,322	\$ 223,272	\$ 281,907	\$ 822,487	\$ (1,838,070)	\$ (122,082)	\$ 146,087
Adjustments to reconcile operating income (loss) to net cash from operating activities:							
Depreciation.....	237,484	33,565	31,878	224,821	-	527,748	-
Changes in assets and liabilities:							
User fees.....	(28,906)	(92,447)	-	-	-	(121,353)	-
Trash fees.....	-	-	-	-	21,013	21,013	-
Investment in joint venture.....	-	582,717	-	-	-	582,717	-
Departmental and other.....	-	-	-	-	(25,362)	(25,362)	40,883
Warrants payable.....	(1,075)	37,323	-	-	-	36,248	-
Accrued liabilities.....	66,216	(292,352)	-	-	201,071	(25,065)	(7,421)
Accrued payroll.....	2,287	4,534	-	-	438	7,259	-
Health claims payable.....	-	-	-	-	-	-	201,557
Other post-employment benefits.....	28,071	28,086	21,370	51,287	12,822	141,636	-
Accrued compensated absences.....	1,622	1,622	338	(854)	-	2,728	-
Total adjustments.....	305,699	303,048	53,586	275,254	209,982	1,147,569	235,019
NET CASH FROM OPERATING ACTIVITIES.....	\$ 694,021	\$ 526,320	\$ 335,493	\$ 1,097,741	\$ (1,628,088)	\$ 1,025,487	\$ 381,106

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2009

	Pension Trust Fund (as of December 31, 2008)	Private Purpose Trust Funds	Agency Fund
ASSETS			
Cash and cash equivalents.....	\$ 5,704,822	\$ 244,466	\$ 757,183
Investments:			
Corporate bonds.....	-	1,056,205	-
Real estate and alternative investment mutual funds...	1,980,951	-	-
PRIT.....	64,272,221	-	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	253,820	-	-
TOTAL ASSETS	<u>72,211,814</u>	<u>1,300,671</u>	<u>757,183</u>
LIABILITIES			
Warrants payable.....	15,284	-	22,219
Liabilities due depositors.....	-	-	734,964
TOTAL LIABILITIES	<u>15,284</u>	<u>-</u>	<u>757,183</u>
NET ASSETS			
Held in trust for pension benefits and other purposes.....	<u>\$ 72,196,530</u>	<u>\$ 1,300,671</u>	<u>\$ -</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2009

	Pension Trust Fund (as of December 31, 2008)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer.....	\$ 9,257,251	\$ -
Plan member.....	3,085,776	-
Private donations.....	-	17,140
Total contributions.....	12,343,027	17,140
Net investment income (loss):		
Net change in fair value of investments.....	(31,655,877)	(147,658)
Interest.....	3,021,400	1,477
Total investment income (loss).....	(28,634,477)	(146,181)
Less: investment expense.....	(463,012)	-
Net investment income (loss).....	(29,097,489)	(146,181)
Intergovernmental.....	368,264	-
Transfers from other systems.....	147,213	-
TOTAL ADDITIONS.....	(16,238,985)	(129,041)
DEDUCTIONS:		
Administration.....	365,144	-
Transfers to other systems.....	298,131	-
Retirement benefits and refunds.....	11,763,875	-
Educational scholarships.....	-	28,403
Housing subsidies.....	-	86,181
TOTAL DEDUCTIONS.....	12,427,150	114,584
CHANGE IN NET ASSETS.....	(28,666,135)	(243,625)
NET ASSETS AT BEGINNING OF YEAR.....	100,862,665	1,544,296
NET ASSETS AT END OF YEAR.....	\$ 72,196,530	\$ 1,300,671

See notes to basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

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

The City is a member of the South Essex Sewerage District (the District), a joint venture with the Cities of Salem and Beverly and the Towns of Danvers and Marblehead, for the operation of a septage disposal facility. The members share in overseeing the operations of the District. Each member is responsible for its proportionate share of the operational costs of the District, which are paid in the form of assessments. As of June 30, 2009, the City's equity interest in the operations of the District totaled \$530,466, 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,

2009 totaled approximately \$2,168,000. Complete financial information for the Water Board can be obtained by contacting them at 50 Arlington Avenue, Beverly, MA 01915.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units.

Governmental activities, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

Fund Financial Statements

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

Major Fund Criteria

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

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

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

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

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

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

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

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

The *state fiscal stabilization fund* is used to account for funds received through the Federal American Recovery Reinvestment Act.

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

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

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

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

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

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

The following major proprietary funds are reported:

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

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

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

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

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

Additionally, the following proprietary fund type is reported:

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

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

The *agency fund* is used to account for assets held in a purely custodial capacity. The City's agency funds consist primarily of payroll withholdings, police and fire details, escrow deposits and unclaimed property.

Government-Wide and Fund Financial Statements

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

D. Cash and Investments

Government-Wide and Fund Financial Statements

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

Investments are carried at fair value. The fair values were determined by the closing price for those securities traded on national stock exchanges and at the average bid-and-asked quotation for those securities traded in the over-the-counter market. Investments that do not have an established market are reported at estimated fair values.

E. Accounts Receivable

Government-Wide and Fund Financial Statements

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

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

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

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

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

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

Motor Vehicle and Other Excise Taxes

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

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

User Fees

Water and Sewer user fees are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Unbilled user fees are estimated at year-end and are recorded as revenue in the current period. The City abides by a strict policy for unpaid user fees which includes 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. Unpaid trash fees are subject to interest and demand fees; any fees not paid within thirty (30) days may be lienied to the property in the following fiscal years' real estate bill.

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

Departmental and Other

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

Intergovernmental

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

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

Loans

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

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

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

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

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

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

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

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

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

Governmental Fund Financial Statements

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

H. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

I. Interfund Transfers

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

J. Deferred Revenue

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

K. Net Assets and Fund Equity*Government-Wide Financial Statements (Net Assets)*

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

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

Net assets have been “restricted for” the following:

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

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

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

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

Fund Financial Statements (Fund Balances)

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

Fund balances have been “reserved for” the following:

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

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

L. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

M. Investment Income

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

N. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

O. Fund Deficits and Appropriation Deficits

Individual fund deficits exist at June 30, 2009 in the School Lunch, Highway Grants, other capital project funds and the internal service fund. These deficits will be funded by grants, departmental revenues and available fund balance.

Actual expenditures exceeded appropriations for snow and ice and state and county charges. These over-expenditures will be funded through available funds during fiscal year 2010. In the snow and ice removal appropriation line, the general law allows deficits to occur and to be raised in the subsequent fiscal year.

P. Use of Estimates

Government-Wide and Fund Financial Statements

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

Q. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

NOTE 2 – CASH AND INVESTMENTS

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

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Treasurer and Trust Fund Commission may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth; provided, that not more than fifteen percent of any trust fund may be invested in bank stocks and insurance company stocks, and not more than one and one-half percent of any trust fund can be invested in the stock of any one bank or insurance company.

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

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

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

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk. At fiscal year-end, the carrying amount of deposits totaled \$17,316,424 and the bank balance totaled \$20,648,955. Of the bank balance, \$1,253,310 was covered by Federal Depository Insurance, \$16,098,487 was covered by the FDIC Transaction Account Guarantee Program, \$1,269,028 was covered by the Depositors Insurance Fund, and \$2,028,130 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 \$362,052 and the bank balance totaled \$398,820. The entire bank balance was covered by Federal Depository Insurance.

Investments

As of June 30, 2009, the City had the following investments:

Investment Type	Fair Value	Maturity		
		Under 1 Year	1-5 Years	6-10 Years
<u>Debt Securities:</u>				
Federal Home Loan Bank.....	\$ 110,250	\$ -	\$ 110,250	\$ -
Corporate Bonds.....	1,147,157	104,872	831,842	210,443
Total Debt Securities.....	1,257,407	\$ 104,872	\$ 942,092	\$ 210,443
<u>Other Investments:</u>				
Equity Securities.....	2,605,596			
Equity Mutual Funds.....	1,013,169			
Money Market Mutual Funds.....	638,123			
MMDT.....	2,120,795			
Total Investments.....	\$ 7,635,090			

As of December 31, 2008, the System had the following investments:

	<u>Fair Value</u>	<u>Maturity</u> <u>Under 1 Year</u>
Investment Type		
<u>Debt Securities:</u>		
Repurchase Agreements.....	\$ 5,021,530	\$ 5,021,530
Total Debt Securities.....	5,021,530	\$ 5,021,530
<u>Other Investments:</u>		
Government Short-term Investment Funds...	321,240	
Venture Capital and Limited Partnerships.....	973,967	
Real Estate Investment Trust.....	1,006,984	
Pension Reserve Investment Trust (PRIT)....	<u>64,272,221</u>	
Total Investments.....	\$ 71,595,942	

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

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from .08 to 9.42 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, \$110,250 in Federal Home Loan Bank securities, \$1,147,157 in corporate bonds, and \$2,605,597 in equity securities are exposed to custodial credit risk because the related securities are uninsured, unregistered and are held by the counterparty. The City does not have a formal investment policy related to custodial credit risk.

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

Interest Rate Risk

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

Credit Risk

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

	Fair Value	Rating				
		AAA	AA	A	BBB	Unrated
<u>Debt Securities:</u>						
Federal Home Loan Bank...	\$ 110,250	\$ 110,250	\$ -	\$ -	\$ -	\$ -
Corporate Bonds.....	<u>1,147,157</u>	<u>-</u>	<u>265,198</u>	<u>769,712</u>	<u>104,872</u>	<u>7,375</u>
Total Debt Securities.....	<u>\$ 1,257,407</u>	<u>\$ 110,250</u>	<u>\$ 265,198</u>	<u>\$ 769,712</u>	<u>\$ 104,872</u>	<u>\$ 7,375</u>

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

Concentration of Credit Risk

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

NOTE 3 – RECEIVABLES

At June 30, 2009, 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.....	\$ 720,220	\$ -	\$ 720,220
Tax liens.....	1,297,603	-	1,297,603
Motor vehicle and other excise taxes.....	869,003	415,477	453,526
Departmental and other.....	82,190	-	82,190
Intergovernmental.....	30,682,597	-	30,682,597
Loans.....	549,036	-	549,036
Total.....	<u>\$ 34,200,649</u>	<u>\$ 415,477</u>	<u>\$ 33,785,172</u>

At June 30, 2009, 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.....	\$ 994,156	\$ -	\$ 994,156
Sewer user fees.....	1,817,246	-	1,817,246
Trash fees.....	107,297	-	107,297
Total.....	<u>\$ 2,918,699</u>	<u>\$ -</u>	<u>\$ 2,918,699</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.....	\$ 443,273	\$ -	\$ 443,273
Tax liens.....	1,297,603	-	1,297,603
Motor vehicle and other excise taxes.....	453,526	-	453,526
Intergovernmental.....	29,042,162	975,354	30,017,516
Loans.....	-	549,036	549,036
Total.....	<u>\$ 31,236,564</u>	<u>\$ 1,524,390</u>	<u>\$ 32,760,954</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 4,684,753	\$ 40,139	\$ -	\$ 4,724,892
Construction in progress.....	51,208,330	9,944,271	-	61,152,601
Total capital assets not being depreciated.....	55,893,083	9,984,410	-	65,877,493
<u>Capital assets being depreciated:</u>				
Land improvements.....	3,050,302	411,203	-	3,461,505
Buildings and improvements.....	110,071,198	230,130	(44,461)	110,256,867
Equipment.....	7,413,414	905,056	(147,369)	8,171,101
Infrastructure.....	51,755,679	1,945,910	-	53,701,589
Vehicles.....	6,053,061	75,946	(313,495)	5,815,512
Total capital assets being depreciated.....	178,343,654	3,568,245	(505,325)	181,406,574
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(1,464,292)	(119,458)	-	(1,583,750)
Buildings and improvements.....	(38,745,302)	(2,813,455)	44,461	(41,514,296)
Equipment.....	(3,543,231)	(544,885)	147,369	(3,940,747)
Infrastructure.....	(24,895,967)	(1,415,020)	-	(26,310,987)
Vehicles.....	(4,194,273)	(363,295)	313,495	(4,244,073)
Total accumulated depreciation.....	(72,843,065)	(5,256,113)	505,325	(77,593,853)
Total capital assets being depreciated, net.....	105,500,589	(1,687,868)	-	103,812,721
Total governmental activities capital assets.....	\$ 161,393,672	\$ 8,296,542	\$ -	\$ 169,690,214

	Beginning Balance	Increases	Decreases	Ending Balance
Water Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 10,589	\$ -	\$ -	\$ 10,589
<u>Capital assets being depreciated:</u>				
Land improvements.....	114,550	-	-	114,550
Equipment.....	296,290	-	-	296,290
Vehicles.....	48,794	-	-	48,794
Infrastructure.....	14,403,287	342,751	-	14,746,038
Total capital assets being depreciated.....	14,862,921	342,751	-	15,205,672
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(37,229)	(5,728)	-	(42,957)
Equipment.....	(23,943)	(29,629)	-	(53,572)
Vehicles.....	(4,879)	(9,759)	-	(14,638)
Infrastructure.....	(5,992,933)	(192,368)	-	(6,185,301)
Total accumulated depreciation.....	(6,058,984)	(237,484)	-	(6,296,468)
Total capital assets being depreciated, net.....	8,803,937	105,267	-	8,909,204
Total water activities capital assets.....	\$ 8,814,526	\$ 105,267	\$ -	\$ 8,919,793
	Beginning Balance	Increases	Decreases	Ending Balance
Sewer Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 99,552	\$ -	\$ -	\$ 99,552
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	5,425	-	-	5,425
Vehicles.....	174,282	-	(125,486)	48,796
Infrastructure.....	1,783,317	814,937	-	2,598,254
Total capital assets being depreciated.....	1,963,024	814,937	(125,486)	2,652,475
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(5,222)	(136)	-	(5,358)
Vehicles.....	(130,366)	(9,759)	125,486	(14,639)
Infrastructure.....	(1,075,645)	(23,670)	-	(1,099,315)
Total accumulated depreciation.....	(1,211,233)	(33,565)	125,486	(1,119,312)
Total capital assets being depreciated, net.....	751,791	781,372	-	1,533,163
Total sewer activities capital assets.....	\$ 851,343	\$ 781,372	\$ -	\$ 1,632,715

	Beginning Balance	Increases	Decreases	Ending Balance
Golf Course Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 118,067	\$ -	\$ -	\$ 118,067
<u>Capital assets being depreciated:</u>				
Land improvements.....	312,852	-	-	312,852
Buildings and improvements.....	453,988	-	-	453,988
Equipment.....	284,256	99,966	(41,989)	342,233
Total capital assets being depreciated.....	1,051,096	99,966	(41,989)	1,109,073
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(301,443)	(1,201)	-	(302,644)
Buildings and improvements.....	(107,488)	(11,000)	-	(118,488)
Equipment.....	(215,153)	(19,677)	41,989	(192,841)
Total accumulated depreciation.....	(624,084)	(31,878)	41,989	(613,973)
Total capital assets being depreciated, net.....	427,012	68,088	-	495,100
Total golf course activities capital assets.....	\$ 545,079	\$ 68,088	\$ -	\$ 613,167
	Beginning Balance	Increases	Decreases	Ending Balance
Parking Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 48,214	\$ -	\$ -	\$ 48,214
<u>Capital assets being depreciated:</u>				
Land improvements.....	1,338,366	-	-	1,338,366
Buildings and improvements.....	7,625,100	-	-	7,625,100
Equipment.....	5,100	-	-	5,100
Total capital assets being depreciated.....	8,968,566	-	-	8,968,566
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(107,853)	(33,500)	-	(141,353)
Buildings and improvements.....	(3,739,205)	(191,066)	-	(3,930,271)
Equipment.....	(4,845)	(255)	-	(5,100)
Total accumulated depreciation.....	(3,851,903)	(224,821)	-	(4,076,724)
Total capital assets being depreciated, net.....	5,116,663	(224,821)	-	4,891,842
Total parking activities capital assets.....	\$ 5,164,877	\$ (224,821)	\$ -	\$ 4,940,056

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

Governmental Activities:

General government.....	\$	357,147
Public safety.....		457,319
Education.....		2,726,080
Public works.....		1,541,368
Health and human services.....		2,233
Culture and recreation.....		171,966

Total depreciation expense - governmental activities..... \$ 5,256,113

Business-Type Activities:

Water.....	\$	237,484
Sewer.....		33,565
Golf Course.....		31,878
Parking.....		224,821

Total depreciation expense - business-type activities..... \$ 527,748

NOTE 5 – INTERFUND TRANSFERS AND BALANCES

Interfund transfers for the fiscal year ended June 30, 2009, are summarized as follows:

Transfers Out:	Transfers In:					Total
	General Fund	Stabilization Fund	Golf Course Enterprise Fund	Trash Enterprise Fund	Nonmajor Governmental Funds	
General Fund.....	\$ -	\$ 827,894	\$ 355,249	\$ 1,771,834	\$ 1,090,481	\$ 4,045,458 (1)
Nonmajor Governmental Funds.....	440,233	-	-	-	40,605	480,838 (2)
Parking Enterprise Fund.....	996,353	-	-	-	-	996,353 (3)
Golf Course Enterprise Fund.....	531,217	-	-	-	-	531,217 (4)
Sewer Enterprise Fund.....	673,807	-	-	-	-	673,807 (5)
Water Enterprise Fund.....	627,940	-	-	-	-	627,940 (6)
Total.....	\$ <u>3,269,550</u>	\$ <u>827,894</u>	\$ <u>355,249</u>	\$ <u>1,771,834</u>	\$ <u>1,131,086</u>	\$ <u>7,355,613</u>

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

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

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

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

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

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

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

The City's interfund balances at June 30, 2009 consisted of \$693,669 in balances within the nonmajor governmental funds all representing interfund borrowings for cash flow purposes.

NOTE 6 – CAPITAL AND OPERATING LEASES

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

The assets acquired through capital leases are as follows:

<u>Asset:</u>	<u>Governmental Activities</u>
Machinery and equipment.....	\$ 590,937
Vehicles.....	780,153
Less: accumulated depreciation.....	<u>(170,625)</u>
Total.....	<u>\$ 1,200,465</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2009, were as follows:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2010.....	\$ 307,144
2011.....	117,902
2012.....	117,902
2013.....	57,264
2014.....	<u>57,264</u>
Total minimum lease payments.....	657,476
Less: amounts representing interest.....	<u>(126,705)</u>
Present value of minimum lease payments.....	<u>\$ 530,771</u>

The City leases office space for the City Hall Annex under an operating lease that expires on February 28, 2011. The cost of the lease for the fiscal year ended June 30, 2009, totaled \$360,000, and is reported as a general government expenditure in the general fund.

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

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2010.....	\$ 360,000
2011.....	<u>240,000</u>
Total.....	<u>\$ 600,000</u>

NOTE 7 – SHORT-TERM FINANCING

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

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

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

Details related to the short-term debt activity for the fiscal year ended June 30, 2009, are as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2008	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2009
BAN	Electrical Department Fire Alarm Receiver.....	3.60%	10/23/09	\$ -	\$ 30,000	\$ -	\$ 30,000
BAN	Traffic Signal.....	3.60%	10/23/09	-	100,000	-	100,000
BAN	Fire Pumper Truck.....	3.60%	10/23/09	-	375,000	-	375,000
BAN	Fire Equipment.....	3.60%	10/23/09	-	35,000	-	35,000
BAN	Witch House Roof.....	3.60%	10/23/09	-	50,000	-	50,000
BAN	Recreation Department Equipment.....	3.60%	10/23/09	-	50,000	-	50,000
BAN	Forrest River Park Pool.....	3.60%	10/23/09	-	165,000	-	165,000
BAN	Forrest River Park.....	3.60%	10/23/09	-	50,000	-	50,000
BAN	Willows Bathroom.....	3.60%	10/23/09	-	100,000	-	100,000
BAN	Police Vehicle.....	3.60%	10/23/09	-	70,000	-	70,000
BAN	Police Equipment.....	3.60%	10/23/09	-	50,000	-	50,000
BAN	Police Equipment - Radar.....	3.60%	10/23/09	-	25,000	-	25,000
BAN	Police - Range Repair.....	3.60%	10/23/09	-	40,000	-	40,000
BAN	Dump Truck.....	3.60%	10/23/09	-	65,000	-	65,000
BAN	Utility Truck.....	3.60%	10/23/09	-	65,000	-	65,000
BAN	DPW Equipment.....	3.60%	10/23/09	-	65,000	-	65,000
BAN	Engineering - Infrastructure.....	3.60%	10/23/09	-	150,000	-	150,000
BAN	Engineering - Equipment.....	3.60%	10/23/09	-	50,000	-	50,000
BAN	School - Fire Alarm System.....	3.60%	10/23/09	-	130,000	-	130,000
BAN	School - Buses.....	3.60%	10/23/09	-	135,000	-	135,000
BAN	School - Infrastructure.....	3.60%	10/23/09	-	150,000	-	150,000
BAN	School - Equipment.....	3.60%	10/23/09	-	35,000	-	35,000
BAN	Golf Course Equipment.....	3.60%	10/23/09	-	100,000	-	100,000
BAN	Parking Meters.....	3.60%	10/23/09	-	50,000	-	50,000
Sub-total governmental notes.....				-	2,135,000	-	2,135,000
BAN	Water Meters.....	3.60%	10/23/09	-	925,000	-	925,000
BAN	Water Transmission Main.....	3.60%	10/23/09	-	900,000	-	900,000
BAN	Sewer Pump Station Upgrade.....	3.60%	10/23/09	-	190,000	-	190,000
BAN	South River Basin Upgrade.....	3.60%	10/23/09	-	450,000	-	450,000
BAN	Sewer Drain Improvements.....	3.60%	10/23/09	-	300,000	-	300,000
Sub-total business-type notes.....				-	2,765,000	-	2,765,000
Total notes payable.....				\$ -	\$ 4,900,000	\$ -	\$ 4,900,000

Subsequent to year end, the City issued a new BAN totaling \$14,585,000 at an interest rate of 1.5%. The \$4,900,000 of BANs issued in fiscal 2009 along with the \$3,930,000 of long-term BAN's issued in fiscal 2008, not due until fiscal 2010, were either paid down with \$440,000 of available funds (\$300,000 in sewer drain improvements; \$75,000 in school infrastructure; and a \$65,000 utility truck) or rolled over in October 2009. The additional BAN proceeds of \$6,195,000 will be used to finance water projects (\$2,600,000); sewer projects (\$1,001,000); and the Capital Improvement Program in the general government (\$2,594,000).

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, 2009, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2008	Issued	Redeemed	Outstanding at June 30, 2009
School Construction.....	5.13-5.75%	\$ 1,030,000	\$ -	\$ 35,000	\$ 995,000
School Construction.....	5.13-5.75%	740,000	-	95,000	645,000
HUD Section 108.....	9.00%	210,000	-	-	210,000
School Construction.....	4.50-6.75%	8,080,000	-	475,000	7,605,000
Swimming Pool.....	4.50-6.75%	160,000	-	40,000	120,000
School Construction.....	3.50-4.00%	1,555,000	-	530,000	1,025,000
School Construction.....	3.50-4.00%	2,553,000	-	662,000	1,891,000
Police Station.....	3.50-4.00%	1,172,000	-	293,000	879,000
School Construction.....	3.00-5.00%	14,505,000	-	710,000	13,795,000
School Construction.....	3.00-5.00%	7,825,000	-	385,000	7,440,000
School Construction.....	3.00-5.00%	1,160,000	-	75,000	1,085,000
School Construction.....	2.25-4.50%	2,380,000	-	495,000	1,885,000
School Construction.....	3.00-5.00%	1,600,000	-	95,000	1,505,000
School Construction.....	3.00-5.00%	485,000	-	30,000	455,000
School Construction.....	3.00-5.00%	6,885,633	-	345,633	6,540,000
Police Equipment.....	3.00-5.00%	658,864	-	88,864	570,000
Ferry Boat.....	3.00-5.00%	775,000	-	60,000	715,000
School Deficit Funding Loan.....	3.60%	1,000,000	855,000	1,000,000	855,000
School Long-term BAN.....	3.60%	2,930,000	2,930,000	2,930,000	2,930,000
Total governmental bonds payable.....		\$ 55,704,497	\$ 3,785,000	\$ 8,344,497	\$ 51,145,000

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

The \$855,000 in reissued State Qualified Bonds, along with \$2,930,000 in school long-term bans outstanding on July 1, 2008, which were also refinanced during the fiscal year, have been classified as a current refunding of debt. The current refunding did not have an economic gain or loss.

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

Fiscal Year	Principal	Interest	Total
2010.....	\$ 5,385,000	\$ 2,189,482	\$ 7,574,482
2011.....	7,510,000	1,859,730	9,369,730
2012.....	4,125,000	1,653,541	5,778,541
2013.....	3,270,000	1,474,969	4,744,969
2014.....	3,445,000	1,328,362	4,773,362
2015.....	2,960,000	1,205,677	4,165,677
2016.....	2,985,000	1,080,058	4,065,058
2017.....	2,925,000	953,117	3,878,117
2018.....	3,050,000	821,850	3,871,850
2019.....	3,170,000	683,656	3,853,656
2020.....	3,295,000	527,197	3,822,197
2021.....	2,320,000	389,578	2,709,578
2022.....	2,345,000	288,878	2,633,878
2023.....	2,420,000	183,646	2,603,646
2024.....	460,000	72,982	532,982
2025.....	460,000	54,079	514,079
2026.....	340,000	35,062	375,062
2027.....	340,000	21,038	361,038
2028.....	340,000	7,013	347,013
Total.....	\$ <u>51,145,000</u>	\$ <u>14,829,915</u>	\$ <u>65,974,915</u>

The Commonwealth has approved school construction assistance to the City. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding along with direct capital grants. During fiscal year 2009, \$4,369,000 of such assistance was received. Approximately \$38,112,000 will be received in future fiscal years. Of the \$38,112,000, \$9,070,000 represents reimbursement of long-term interest costs, and \$29,042,000 represents reimbursement of approved construction costs. Accordingly, a \$29,042,000 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental fund financial statements. Deferred revenue has been eliminated in the conversion to the government-wide financial statements and reported as net assets.

The MSBA offers a construction grant program which pays the City the State's share of approved school construction costs and therefore eliminates the need for the City to fund the State's share through long-term debt. The Salem High School project is being funded by this grant program. The final payment of \$7,842,000 in MSBA grant revenue was reported during fiscal year 2009.

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

Bonds and Notes Payable Schedule – Golf Course Enterprise Fund

Project	Interest Rate (%)	Outstanding at June 30, 2008	Issued	Redeemed	Outstanding at June 30, 2009
Golf Course.....	4.50-6.75%	\$ 260,000	\$ -	\$ 30,000	\$ 230,000

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

Fiscal Year	Principal	Interest	Total
2010.....	\$ 30,000	\$ 10,401	\$ 40,401
2011.....	30,000	9,036	39,036
2012.....	30,000	7,641	37,641
2013.....	30,000	6,216	36,216
2014.....	30,000	4,761	34,761
2015.....	30,000	3,276	33,276
2016.....	30,000	1,776	31,776
2017.....	20,000	513	20,513
Total.....	\$ 230,000	\$ 43,620	\$ 273,620

Bonds and Notes Payable Schedule – Parking Enterprise Fund

Project	Interest Rate (%)	Outstanding at June 30, 2008	Issued	Redeemed	Outstanding at June 30, 2009
Parking Garage Repairs.....	3.00-5.00%	\$ 875,000	\$ -	\$ 75,000	\$ 800,000

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

Fiscal Year	Principal	Interest	Total
2010.....	\$ 75,000	\$ 32,488	\$ 107,488
2011.....	75,000	30,238	105,238
2012.....	75,000	27,800	102,800
2013.....	75,000	25,250	100,250
2014.....	75,000	21,500	96,500
2015.....	75,000	17,750	92,750
2016.....	75,000	14,000	89,000
2017.....	75,000	11,000	86,000
2018.....	75,000	8,000	83,000
2019.....	75,000	5,000	80,000
2020.....	50,000	2,000	52,000
Total.....	\$ 800,000	\$ 195,026	\$ 995,026

Bonds and Notes Payable Schedule – Water Enterprise Fund

Project	Interest Rate (%)	Outstanding at June 30, 2008	Issued	Redeemed	Outstanding at June 30, 2009
Water Project - MWPAT.....	2.00%	\$ 2,238,738	\$ -	\$ 97,830	\$ 2,140,908
Water Project.....	3.75-5.00%	3,250,503	-	170,503	3,080,000
Water System Long-term BAN.....	3.60%	1,000,000	-	-	1,000,000
Total Water Enterprise Fund.....		<u>\$ 6,489,241</u>	<u>\$ -</u>	<u>\$ 268,333</u>	<u>\$ 6,220,908</u>

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

Fiscal Year	Principal	Interest	Total
2010.....	\$ 1,264,806	\$ 203,882	\$ 1,468,688
2011.....	266,822	157,615	424,437
2012.....	268,880	147,309	416,189
2013.....	270,978	136,961	407,939
2014.....	273,119	127,395	400,514
2015.....	275,303	118,611	393,914
2016.....	277,532	109,989	387,521
2017.....	279,805	101,322	381,127
2018.....	277,124	92,502	369,626
2019.....	279,490	83,735	363,225
2020.....	281,904	74,921	356,825
2021.....	284,367	66,059	350,426
2022.....	286,880	57,147	344,027
2023.....	289,443	48,184	337,627
2024.....	292,058	39,169	331,227
2025.....	294,726	30,001	324,727
2026.....	297,447	20,679	318,126
2027.....	300,224	11,302	311,526
2028.....	160,000	3,300	163,300
Total.....	<u>\$ 6,220,908</u>	<u>\$ 1,630,083</u>	<u>\$ 7,850,991</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, 2009, the City had the following authorized and unissued debt:

Purpose	Amount
School Construction.....	\$ 101,032
School Deficit Bond.....	855,000
School Equipment.....	170,000
School Infrastructure.....	150,000
Equipment.....	345,000
Police.....	185,000
Fire.....	410,000
Engineering.....	300,000
Recreation.....	415,000
Fire Alarms.....	160,000
Water Systems Improvements.....	5,328,208
Water Meters.....	3,000,000
Water Transmission Main.....	2,500,000
Sewers.....	5,350,000
Refunding Bonds.....	9,500,000
Total.....	<u>\$ 28,769,240</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2009, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Capital leases.....	\$ 675,954	\$ 167,454	\$ (312,637)	\$ 530,771	\$ 219,132
Long-term bonds and notes.....	55,704,497	3,785,000	(8,344,497)	51,145,000	5,385,000
Compensated absences.....	6,980,403	2,377,145	(1,502,065)	7,855,483	2,297,230
Workers' compensation.....	540,015	101,751	(155,839)	485,927	139,924
Other post-employment benefits.....	6,863,646	10,795,581	(6,607,146)	11,052,081	-
Total governmental activity long-term liabilities.....	<u>\$ 70,764,515</u>	<u>\$ 17,226,931</u>	<u>\$ (16,922,184)</u>	<u>\$ 71,069,262</u>	<u>\$ 8,041,286</u>
Business-Type Activities:					
Long-term bonds and notes.....	\$ 7,624,241	\$ -	\$ (373,333)	\$ 7,250,908	\$ 1,369,806
Compensated absences.....	118,000	52,110	(49,382)	120,728	53,333
Other post-employment benefits.....	247,760	362,041	(220,405)	389,396	-
Total business-type activity long-term liabilities.....	<u>\$ 7,990,001</u>	<u>\$ 414,151</u>	<u>\$ (643,120)</u>	<u>\$ 7,761,032</u>	<u>\$ 1,423,139</u>

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

NOTE 9 – 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 Town participates in premium-based health care plans for its active employees. As of July 1, 2008 the City changed to a premium based plan for Medex coverage. The remaining claims that were incurred prior to July 1, 2008 are accounted for in the City's internal service fund where revenues are recorded when earned and expenses are recorded when the liability is incurred.

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.

Medex

Medex claims are administered by a third party administrator and are funded on an as needed basis from the City's internal service fund. The estimate of Incurred But Not Reported (IBNR) claims is based on 1 month of the annual claims. At June 30, 2009, the City's estimated future liability for unreported claims is \$304,917. This liability is the best estimate based on available information.

Changes in the City's liability since July 1, 2007, when the City was self-insured for Medex coverage only, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claim Payments	Balance at Fiscal Year-End	Current Portion
Fiscal Year 2008..... \$	118,211	\$ 1,656,892	\$ (1,639,092)	\$ 136,011	\$ 136,011
Fiscal Year 2009.....	136,011	296,236	(127,330)	304,917	304,917

Workers' Compensation

Workers' compensation claims are administered by the City and are funded on a pay-as-you-go basis from annual appropriations. The estimated future workers' compensation liability is based on history and injury type. At June 30, 2009, the amount of the liability for workers' compensation claims totaled \$394,442.

Changes in the reported liability since July 1, 2007, 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 2008..... \$	405,303	\$ 397,088	\$ (262,376)	\$ 540,015	\$ 114,354
Fiscal Year 2009.....	540,015	279,702	(425,275)	394,442	139,924

NOTE 10 – 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 \$8,277,958 for the fiscal year ended June 30, 2009, 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, 2008, the System's membership consists of the following:

Active members.....	882
Inactive members.....	171
Retirees and beneficiaries currently receiving benefits.....	<u>592</u>
Total.....	<u><u>1,645</u></u>

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

Annual Pension Cost - The City's contributions to the System for the fiscal years ended June 30, 2009, 2008, and 2007, were \$7,952,910, \$7,693,291, and \$7,209,359, respectively, which equaled its required contribution for each fiscal year. The required contribution was determined as part of the January 1, 2008, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included an inflation rate of 3.5%, 8.25% investment rate of return and projected salary increases of 5.5% per year. The actuarial value of the System's assets was determined using the fair value of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining open amortization period at January 1, 2009 was 16 years.

Schedule of Funding Progress

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

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

Noncontributory Retirement Allowance – The City pays the entire retirement allowance for certain retirees who are eligible for noncontributory benefits and are not members of the System. The general fund expenditure for fiscal year 2009 totaled approximately \$124,003.

NOTE 11 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

Plan Description – The City of Salem administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the City’s group health insurance plan, which covers both active and retired members. Chapter 32b of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the City and the unions representing City employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report. Additionally, retired teachers and their spouses receive health insurance through the Group Insurance Commission of the Commonwealth of Massachusetts (GIC). Each participating municipality is assessed for the governmental share of health and life insurance premiums paid on behalf of its teacher retirees by the state. The employer’s share is 90% of the total premium; the retiree’s co-payment is 10% of the total premium as well as full payment for catastrophic illness coverage. The City’s assessment of the employer’s share by the GIC, for retired teachers, for fiscal year 2009, totaled \$2,045,538.

Funding Policy – Contribution requirements are also negotiated between the City and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The City contributes 79% of the cost of current-year premiums for retirees in active plans and 65% for those in senior plans. The City contributes 50% for surviving spouses. The City will contribute 70% in fiscal year 2010, 65% in fiscal year 2011, and 65% in fiscal year 2012, for retirees in active plans. Plan members receiving benefits contribute the remainder of their premium

costs. For fiscal year 2009, the City contributed \$4,753,856 to the plan, and total member contributions totaled \$812,047.

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

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

Normal cost.....	\$ 4,813,401
Amortization of unfunded actuarial accrued liability.....	6,254,868
*Adjustment for timing.....	61,196
Annual OPEB cost (expense).....	<u>11,129,465</u>
Contributions made (including retired teachers).....	<u>(6,799,394)</u>
Increase in net OPEB obligation.....	4,330,071
Net OPEB obligation--beginning of year.....	<u>7,111,406</u>
Net OPEB obligation--end of year.....	<u>\$ 11,441,477</u>

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

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2009 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2009	\$ 11,129,465	61%	\$ 11,441,477
6/30/2008	10,554,680	33%	7,111,406

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

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

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

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

NOTE 12 – MAJOR TAXPAYER

The City receives a significant portion of its real estate and personal property tax revenue from one taxpayer under a Real and Personal Property Tax Appeal Settlement Agreement (the Agreement). The Agreement was entered into in July 1997 and covered fiscal years 1997 through 2007. The City and the taxpayer agreed on a real and personal property tax assessment amount for fiscal years 1997 through 2004. For fiscal years 2005 through 2007, the City and the taxpayer agreed that a portion of the property would be assessed at fair market value as calculated by the City and that, in the absence of an agreement by the parties, the remaining property will be assessed at fair market value of the existing facilities as determined in binding arbitration, resulting in tax revenue not to exceed \$4.5 million in each fiscal year. The parties further agreed if additional facilities are constructed during this period, the total assessment would be based on the fair market value of the new facilities and existing facilities, resulting in a tax revenue not to exceed \$4.5 million plus 50% of any such taxes in excess of \$4.5 million resulting from the aggregate assessed valuation of any new facilities. On December 14, 2007, the City and the taxpayer signed an agreement stipulating that the taxpayer would make a tax payment for fiscal year 2008 in the amount of \$3,500,000, 7% of total real estate and personal property tax revenue, and an additional agreement was signed stipulating that the taxpayer would make an additional contribution to the City of \$1,250,000, to be used exclusively for public purposes. Subsequent to year end, the City and the taxpayer have entered into a three-year agreement that mirrors the agreement signed in December 2007, which would provide total payments of \$4,750,000 in fiscal years 2009, 2010, and 2011, in the form of annual tax payments of \$3,000,000, and annual additional contributions of \$1,750,000.

NOTE 13 – COMMITMENTS

The City is in the process of completing school construction projects and improvements to its water system. The City has entered into one contract totaling approximately \$280,000 for the cleanup of South River and is in the process of surveying and consulting with an engineering company on sewer improvements.

NOTE 14 – 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, 2009, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2009, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2009.

NOTE 15 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2009, the following GASB pronouncements were implemented:

- The GASB issued Statement #55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which was implemented in fiscal year 2009. The basic financial statements were not impacted by this pronouncement.
- The GASB issued Statement #56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which was implemented in fiscal year 2009. This statement establishes accounting and financial reporting standards for related party transactions, subsequent events, and going concern considerations. The basic financial statements were not impacted by this pronouncement.

Future Implementation of GASB Pronouncements:

- The GASB issued Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is required to be implemented in fiscal year 2011. Management believes this pronouncement will require additional disclosure and impact 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, 2009

	Budgeted Amounts						
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
REVENUES:							
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 64,829,775	\$ 64,829,775	\$ 66,366,447	\$ 66,832,497	\$ -	\$ 466,050
Tax liens.....	-	-	-	-	522,100	-	522,100
Motor vehicle and other excise taxes.....	-	3,370,000	3,370,000	3,370,000	3,154,642	-	(215,358)
Hotel/motel tax.....	-	401,034	401,034	401,034	324,622	-	(76,412)
Charges for services.....	-	1,543,000	1,543,000	1,543,000	1,373,581	-	(169,419)
Trash disposal.....	-	-	-	-	-	-	-
Penalties and interest on taxes.....	-	332,000	332,000	332,000	412,572	-	80,572
Payments in lieu of taxes.....	-	1,280,000	1,280,000	1,280,000	1,320,945	-	40,945
Licenses and permits.....	-	510,000	510,000	510,000	567,166	-	57,166
Fines and forfeitures.....	-	1,215,000	1,215,000	1,215,000	1,296,698	-	81,698
Intergovernmental.....	-	31,667,842	31,667,842	31,002,744	29,080,422	-	(1,922,322)
Departmental and other.....	-	1,700,000	1,700,000	1,700,000	1,773,459	-	73,459
Investment income.....	-	225,000	225,000	225,000	211,490	-	(13,510)
TOTAL REVENUES.....	-	107,073,651	107,073,651	107,945,225	106,870,194	-	(1,075,031)
EXPENDITURES:							
Current:							
General government							
City Council							
Personnel.....	-	119,700	119,700	119,700	119,700	-	-
Non - Personnel.....	2,642	38,650	41,292	34,292	33,335	-	957
Total.....	2,642	158,350	160,992	153,992	153,035	-	957
Mayor							
Personnel.....	-	238,325	238,325	238,637	238,637	-	-
Non - Personnel.....	27,665	115,250	142,915	132,603	105,739	19,000	7,864
Total.....	27,665	353,575	381,240	371,240	344,376	19,000	7,864
Finance/Auditing							
Personnel.....	-	225,946	225,946	225,946	214,977	-	10,969
Non - Personnel.....	9,608	27,600	37,208	32,208	26,401	4,470	1,337
Total.....	9,608	253,546	263,154	258,154	241,378	4,470	12,306
Purchasing							
Personnel.....	-	100,469	100,469	100,472	100,472	-	-
Non - Personnel.....	-	16,750	16,750	29,911	26,798	-	3,113
Fixed Costs.....	-	54,181	54,181	64,981	62,625	-	2,356
Total.....	-	171,400	171,400	195,364	189,895	-	5,469
Assessors							
Personnel.....	-	241,800	241,800	238,800	237,760	-	1,040
Non - Personnel.....	-	31,000	31,000	81,000	21,508	50,000	9,492
Total.....	-	272,800	272,800	319,800	259,268	50,000	10,532
Treasurer							
Personnel.....	-	143,226	143,226	139,226	133,037	-	6,189
Non - Personnel.....	1,580	58,050	59,630	72,330	69,260	3,070	-
Total.....	1,580	201,276	202,856	211,556	202,297	3,070	6,189
Collector							
Personnel.....	-	188,840	188,840	190,690	183,965	-	6,725
Non - Personnel.....	-	32,875	32,875	26,775	25,412	1,270	93
Total.....	-	221,715	221,715	217,465	209,377	1,270	6,818
Solicitor							
Personnel.....	-	152,269	152,269	147,269	139,317	-	7,952
Non - Personnel.....	-	72,000	72,000	97,000	91,161	-	5,839
Total.....	-	224,269	224,269	244,269	230,478	-	13,791

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2009

	Budgeted Amounts				Actual Budgetary Amounts	Amounts	
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget		Carried Forward To Next Year	Variance To Final Budget
Human Resources							
Personnel.....	-	219,321	219,321	438,707	437,270	-	1,437
Non - Personnel.....	4,822	48,150	52,972	41,750	39,560	-	2,190
Total.....	4,822	267,471	272,293	480,457	476,830	-	3,627
Data Processing							
Personnel.....	-	160,085	160,085	160,085	159,306	-	779
Non - Personnel.....	588	19,000	19,588	14,588	14,380	-	208
Fixed Costs.....	581	293,741	294,322	224,322	222,409	-	1,913
GIS Expenses.....	-	11,650	11,650	41,154	40,834	-	320
GIS Personal.....	-	31,504	31,504	2,000	1,776	-	224
Total.....	1,169	515,980	517,149	442,149	438,705	-	3,444
City Clerk Record Maintenance							
Personnel.....	-	153,106	153,106	150,606	149,464	-	1,142
Non - Personnel.....	-	6,550	6,550	6,550	6,443	-	107
Total.....	-	159,656	159,656	157,156	155,907	-	1,249
Elections & Registrations							
Personnel.....	-	179,051	179,051	180,801	178,052	-	2,749
Non - Personnel.....	5,673	50,350	56,023	48,023	42,491	3,700	1,832
Total.....	5,673	229,401	235,074	228,824	220,543	3,700	4,581
Licensing							
Personnel.....	2,000	48,742	50,742	50,742	50,437	-	305
Non - Personnel.....	-	1,940	1,940	1,940	1,037	90	813
Total.....	2,000	50,682	52,682	52,682	51,474	90	1,118
Conservation Commission							
Personnel.....	-	23,562	23,562	23,562	22,717	-	845
Non - Personnel.....	-	425	425	425	382	-	43
Total.....	-	23,987	23,987	23,987	23,099	-	888
Subdivision, Planning, and Zoning Board							
Personnel.....	-	23,858	23,858	20,658	19,806	-	852
Non - Personnel.....	-	3,000	3,000	3,000	2,564	-	436
Total.....	-	26,858	26,858	23,658	22,370	-	1,288
Board of Appeals							
Personnel.....	-	3,000	3,000	3,000	2,943	-	57
Non - Personnel.....	-	900	900	900	604	-	296
Total.....	-	3,900	3,900	3,900	3,547	-	353
Planning Department							
Personnel.....	-	192,944	192,944	192,944	189,946	-	2,998
Non - Personnel.....	-	32,275	32,275	32,275	31,675	-	600
Total.....	-	225,219	225,219	225,219	221,621	-	3,598
Public Property/Building Maintenance							
Personnel.....	-	46,098	46,098	47,098	43,976	-	3,122
Non - Personnel.....	-	153,760	153,760	141,700	127,087	-	14,613
Fixed Costs.....	-	510,000	510,000	527,060	525,983	-	1,077
Total.....	-	709,858	709,858	715,858	697,046	-	18,812
Market and Tourism.....	-	83,000	83,000	83,000	82,967	-	33
Total General Government.....	55,159	4,152,943	4,208,102	4,408,730	4,224,213	81,600	102,917

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2009

	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.....	-	7,102,689	7,102,689	7,037,649	7,031,275	-	6,374
Non - Personnel.....	-	522,583	522,583	531,811	518,768	-	13,043
Total.....	-	7,625,272	7,625,272	7,569,460	7,550,043	-	19,417
Fire							
Personnel.....	-	6,257,371	6,257,371	6,188,407	6,143,038	-	45,369
Non - Personnel.....	-	416,545	416,545	462,045	416,275	22,000	23,770
Total.....	-	6,673,916	6,673,916	6,650,452	6,559,313	22,000	69,139
Building, Plumbing, Gas Inspections							
Personnel.....	-	339,543	339,543	331,443	317,703	-	13,740
Non - Personnel.....	-	31,000	31,000	28,100	27,723	-	377
Total.....	-	370,543	370,543	359,543	345,426	-	14,117
Electrical Inspection and Maintenance							
Personnel.....	-	252,446	252,446	249,446	249,039	-	407
Non - Personnel.....	-	749,000	749,000	773,874	770,425	-	3,449
Total.....	-	1,001,446	1,001,446	1,023,320	1,019,464	-	3,856
Harbormaster							
Personnel.....	-	195,836	195,836	195,836	185,533	-	10,303
Non - Personnel.....	-	37,300	37,300	54,500	51,280	-	3,220
Total.....	-	233,136	233,136	250,336	236,813	-	13,523
Total Public Safety.....	-	15,904,313	15,904,313	15,853,111	15,711,059	22,000	120,052
Education							
School.....	-	45,376,000	45,376,000	45,774,696	44,975,390	192,873	606,433
NSRS/Charter/Choice.....	-	1,649,661	1,649,661	1,632,899	1,632,836	-	63
Total Education.....	-	47,025,661	47,025,661	47,407,595	46,608,226	192,873	606,496
Public Works							
Public Services							
Personnel.....	-	1,418,051	1,418,051	1,312,310	1,294,295	-	18,015
Non - Personnel.....	40,938	563,165	604,103	692,034	619,666	31,919	40,449
Total.....	40,938	1,981,216	2,022,154	2,004,344	1,913,961	31,919	58,464
Engineering							
Personnel.....	-	76,450	76,450	76,537	76,532	-	5
Non - Personnel.....	-	3,500	3,500	2,063	1,920	-	143
Total.....	-	79,950	79,950	78,600	78,452	-	148
Snow and Ice							
Personnel.....	-	50,000	50,000	50,000	101,841	-	(51,841)
Non - Personnel.....	-	344,560	344,560	344,560	1,096,146	-	(751,586)
Total.....	-	394,560	394,560	394,560	1,197,987	-	(803,427)
Parking Garage							
Personnel.....	-	479,392	479,392	474,392	461,354	-	13,038
Non - Personnel.....	5,451	134,700	140,151	135,151	130,770	2,164	2,217
Total.....	5,451	614,092	619,543	609,543	592,124	2,164	15,255
Total Public Works.....	46,389	3,069,818	3,116,207	3,087,047	3,782,524	34,083	(729,560)

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2009

	Budgeted Amounts				Actual Budgetary Amounts	Amounts	
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget		Carried Forward To Next Year	Variance To Final Budget
Health and Human Services							
Board of Health							
Personnel.....	-	377,082	377,082	297,082	289,813	-	7,269
Non - Personnel.....	-	21,200	21,200	21,200	14,708	-	6,492
Total.....	-	398,282	398,282	318,282	304,521	-	13,761
Council on Aging							
Personnel.....	-	289,331	289,331	289,331	284,658	-	4,673
Non - Personnel.....	-	31,100	31,100	31,100	27,625	-	3,475
Total.....	-	320,431	320,431	320,431	312,283	-	8,148
Veterans Services							
Personnel.....	-	70,052	70,052	70,052	69,168	-	884
Non - Personnel.....	16,740	81,200	97,940	181,662	160,899	15,000	5,763
Total.....	16,740	151,252	167,992	251,714	230,067	15,000	6,647
Total Health and Human Services.....	16,740	869,965	886,705	890,427	846,871	15,000	28,556
Culture and Recreation							
Library							
Personnel.....	-	826,229	826,229	813,281	787,592	-	25,689
Non - Personnel.....	-	283,872	283,872	283,872	283,197	-	675
Total.....	-	1,110,101	1,110,101	1,097,153	1,070,789	-	26,364
Parks and Recreation							
Personnel.....	-	328,769	328,769	323,769	306,093	-	17,676
Non - Personnel.....	1,036	151,610	152,646	157,146	138,328	10,268	8,550
Total.....	1,036	480,379	481,415	480,915	444,421	10,268	26,226
Golf Course							
Personnel.....	-	228,008	228,008	228,008	219,892	-	8,116
Non - Personnel.....	2,554	99,500	102,054	102,054	93,598	4,585	3,871
Total.....	2,554	327,508	330,062	330,062	313,490	4,585	11,987
Witch House							
Personnel.....	-	74,066	74,066	69,066	67,899	-	1,167
Non - Personnel.....	1,514	64,280	65,794	65,794	47,807	9,068	8,919
Total.....	1,514	138,346	139,860	134,860	115,706	9,068	10,086
Historical Commission							
Personnel.....	-	7,064	7,064	7,139	7,139	-	-
Non - Personnel.....	-	1,350	1,350	1,275	1,122	-	153
Total.....	-	8,414	8,414	8,414	8,261	-	153
Winter Island							
Personnel.....	-	94,757	94,757	95,288	95,288	-	-
Non - Personnel.....	253	56,000	56,253	55,722	50,710	2,550	2,462
Total.....	253	150,757	151,010	151,010	145,998	2,550	2,462
Total Culture and Recreation.....	5,357	2,215,505	2,220,862	2,202,414	2,098,665	26,471	77,278
Debt service:							
Principal.....	-	4,519,497	4,519,497	4,519,497	4,519,497	-	-
Interest.....	-	2,405,999	2,405,999	2,405,999	2,405,995	-	4
Short Term Interest.....	7,600	137,200	144,800	154,562	154,562	-	-
Total.....	7,600	7,062,696	7,070,296	7,080,058	7,080,054	-	4
State and county charges.....	-	6,118,712	6,118,712	6,118,712	6,302,025	-	(183,313)
Pension benefits							
Contributory Retirement.....	-	7,790,999	7,790,999	7,809,253	7,804,279	-	4,974
Non-Contributory Retirement.....	-	130,692	130,692	130,692	124,003	-	6,689
Total.....	-	7,921,691	7,921,691	7,939,945	7,928,282	-	11,663

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2009

	Budgeted Amounts				Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget			
Workmen's Compensation.....	41,000	305,000	346,000	449,895	425,275	-	24,620
Unemployment Compensation.....	12,000	230,000	242,000	250,000	245,385	-	4,615
Group Insurance.....	-	10,029,642	10,029,642	10,061,844	9,044,766	-	1,017,078
Medicare.....	-	672,200	672,200	756,771	755,759	-	1,012
Municipal Insurance.....	36,363	326,300	362,663	339,866	339,129	-	737
TOTAL EXPENDITURES.....	220,608	105,904,446	106,125,054	106,846,415	105,392,233	372,027	1,082,155
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(220,608)	1,169,205	948,597	1,098,810	1,477,961	(372,027)	7,124
OTHER FINANCING SOURCES (USES):							
Transfers in.....	-	2,157,014	2,157,014	2,264,114	2,273,197	-	9,083
Transfers out.....	-	(2,837,491)	(2,837,491)	(4,024,675)	(4,024,675)	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	-	(680,477)	(680,477)	(1,760,561)	(1,751,478)	-	9,083
NET CHANGE IN FUND BALANCE.....	(220,608)	488,728	268,120	(661,751)	(273,517)	(372,027)	16,207
BUDGETARY FUND BALANCE, Beginning of year...	1,665,633	1,665,633	1,665,633	1,665,633	1,665,633	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ 1,445,025	\$ 2,154,361	\$ 1,933,753	\$ 1,003,882	\$ 1,392,116	\$ (372,027)	\$ 16,207

(concluded)

See notes to required supplementary information.

Other Post-Employment Benefit Plan Schedules

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

The Schedule of 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 POST-EMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

JUNE 30, 2009

Schedule of Funding Progress

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

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
2009	\$ 11,129,465	\$ 6,799,394	61%
2008	\$ 10,554,680	\$ 3,443,274	33%

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

See notes to required supplementary information.

OTHER POST-EMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

FISCAL YEAR ENDED JUNE 30, 2009

Actuarial Methods:

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

Actuarial Assumptions:

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

Plan Membership:

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

See notes to required supplementary information.

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

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

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

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

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

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

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2009 approved budget authorized approximately \$109 million in appropriations and other amounts to be raised. During the fiscal year, increases to the original budget were approved totaling approximately \$1.9 million.

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

2. Budgetary - GAAP Reconciliation

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

reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2009, is presented below:

Net change in fund balance - budgetary basis.....	\$ (273,517)
<u>Basis of accounting differences:</u>	
Net change in revenues in recording tax refunds payable.....	(114,529)
Net change in short-term debt service interest accrual.....	(51,240)
Recognition of revenue for on-behalf payments.....	8,277,958
Recognition of expenditures for on-behalf payments.....	(8,277,958)
Reclassification of enterprise fund revenue budgeted in the general fund.....	2,049,957
Reclassification of enterprise fund expenditures budgeted in the general fund.....	(2,049,957)
Net difference in recognition of expenditures.....	<u>19,157</u>
Net change in fund balances - GAAP basis.....	\$ <u>(420,129)</u>

3. Appropriation Deficits

During fiscal year 2009, expenditures exceeded budgeted appropriations for snow and ice and state and county charges. These deficits will be funded through the tax levy and available funds in fiscal year 2010.

NOTE B - OTHER POST-EMPLOYMENT BENEFITS

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

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

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

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

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

Combining Statements

Nonmajor Governmental Funds

Special Revenue Funds

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

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

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

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

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

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

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

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

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

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

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

Capital Project Funds

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

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

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, 2009

Special Revenue Funds								
	City Grants	School Grants	Community Development Grants	Salem Redevelopment Authority	School Lunch	Highway Grants	Donations & Gifts	Receipts Reserved
ASSETS								
Cash and cash equivalents.....	\$ 463,925	\$ 1,089,092	\$ -	\$ 45,535	\$ -	\$ -	\$ 524,439	\$ 353,495
Investments.....	-	-	-	-	-	-	-	-
Receivables, net of uncollectibles:								
Intergovernmental.....	-	-	195,983	-	121,559	1,322,893	-	-
Loans.....	-	-	-	-	-	-	-	-
Due from other funds.....	693,669	-	-	-	-	-	-	-
TOTAL ASSETS.....	\$ 1,157,594	\$ 1,089,092	\$ 195,983	\$ 45,535	\$ 121,559	\$ 1,322,893	\$ 524,439	\$ 353,495
LIABILITIES AND FUND BALANCES								
LIABILITIES:								
Warrants payable.....	\$ 402,313	\$ 6,000	\$ 7,605	\$ -	\$ -	\$ 250,303	\$ -	\$ -
Accrued payroll.....	50,567	104,213	9,984	-	22,473	-	2,412	-
Deferred revenues.....	-	-	-	-	-	975,354	-	-
Due to other funds.....	-	-	46,823	-	265,069	381,777	-	-
Notes payable.....	-	-	-	-	-	-	-	-
TOTAL LIABILITIES.....	452,880	110,213	64,412	-	287,542	1,607,434	2,412	-
FUND BALANCES:								
Reserved for:								
Perpetual permanent funds.....	-	-	-	-	-	-	-	-
Unreserved:								
Undesignated, reported in:								
Special revenue funds.....	704,714	978,879	131,571	45,535	(165,983)	(284,541)	522,027	353,495
Capital projects funds.....	-	-	-	-	-	-	-	-
Permanent funds.....	-	-	-	-	-	-	-	-
TOTAL FUND BALANCES.....	704,714	978,879	131,571	45,535	(165,983)	(284,541)	522,027	353,495
TOTAL LIABILITIES AND FUND BALANCES \$	1,157,594	1,089,092	195,983	45,535	121,559	1,322,893	524,439	353,495

(Continued)

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

JUNE 30, 2009

				Capital Project Funds			
	City Revolving Accounts	School Revolving Accounts	Subtotal	Police Station Equipment	Salem Ferry	Other	Subtotal
ASSETS							
Cash and cash equivalents.....	\$ 1,537,633	\$ 376,175	\$ 4,390,294	\$ 9,668	\$ 38,086	\$ 950,929	\$ 998,683
Investments.....	-	-	-	-	-	-	-
Receivables, net of uncollectibles:							
Intergovernmental.....	-	-	1,640,435	-	-	-	-
Loans.....	549,036	-	549,036	-	-	-	-
Due from other funds.....	-	-	693,669	-	-	-	-
TOTAL ASSETS.....	\$ 2,086,669	\$ 376,175	\$ 7,273,434	\$ 9,668	\$ 38,086	\$ 950,929	\$ 998,683
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Warrants payable.....	\$ 79,079	\$ -	\$ 745,300	\$ -	\$ -	\$ 123,261	\$ 123,261
Accrued payroll.....	773	6,629	197,051	-	-	-	-
Deferred revenues.....	549,036	-	1,524,390	-	-	-	-
Due to other funds.....	-	-	693,669	-	-	-	-
Notes payable.....	-	-	-	-	-	2,135,000	2,135,000
TOTAL LIABILITIES.....	628,888	6,629	3,160,410	-	-	2,258,261	2,258,261
FUND BALANCES:							
Reserved for:							
Perpetual permanent funds.....	-	-	-	-	-	-	-
Unreserved:							
Undesignated, reported in:							
Special revenue funds.....	1,457,781	369,546	4,113,024	-	-	-	-
Capital projects funds.....	-	-	-	9,668	38,086	(1,307,332)	(1,259,578)
Permanent funds.....	-	-	-	-	-	-	-
TOTAL FUND BALANCES.....	1,457,781	369,546	4,113,024	9,668	38,086	(1,307,332)	(1,259,578)
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 2,086,669	\$ 376,175	\$ 7,273,434	\$ 9,668	\$ 38,086	\$ 950,929	\$ 998,683

Permanent Funds				Total Nonmajor Governmental Funds
Cemetery Fund	Human Service Fund	Other	Subtotal	
\$ 298,810	\$ 133,287	\$ 114,830	\$ 546,927	\$ 5,935,904
2,032,436	1,018,505	769,026	3,819,967	3,819,967
-	-	-	-	1,640,435
-	-	-	-	549,036
-	-	-	-	693,669
<u>\$ 2,331,246</u>	<u>\$ 1,151,792</u>	<u>\$ 883,856</u>	<u>\$ 4,366,894</u>	<u>\$ 12,639,011</u>
\$ -	\$ -	\$ -	\$ -	\$ 868,561
-	-	-	-	197,051
-	-	-	-	1,524,390
-	-	-	-	693,669
-	-	-	-	2,135,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,418,671</u>
971,759	221,174	495,918	1,688,851	1,688,851
-	-	-	-	4,113,024
-	-	-	-	(1,259,578)
1,359,487	930,618	387,938	2,678,043	2,678,043
<u>2,331,246</u>	<u>1,151,792</u>	<u>883,856</u>	<u>4,366,894</u>	<u>7,220,340</u>
<u>\$ 2,331,246</u>	<u>\$ 1,151,792</u>	<u>\$ 883,856</u>	<u>\$ 4,366,894</u>	<u>\$ 12,639,011</u>

(Concluded)

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

FISCAL YEAR ENDED JUNE 30, 2009

	Special Revenue Funds						
	City Grants	School Grants	Community Development Grants	Salem Redevelopment Authority	School Lunch	Highway Grants	Donations & Gifts
REVENUES:							
Charges for services.....	\$ 18,424	\$ 25,320	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental.....	5,552,270	6,927,555	1,960,639	-	1,741,501	1,476,807	-
Departmental and other.....	173,443	-	57,510	3,000	28,450	-	7,224
Contributions.....	1,500	1,019,321	-	-	-	-	242,036
Investment income (loss).....	7,108	-	1,799	96	-	-	-
TOTAL REVENUES.....	5,752,745	7,972,196	2,019,948	3,096	1,769,951	1,476,807	249,260
EXPENDITURES:							
Current:							
General government.....	838,150	-	-	-	-	-	116,986
Public safety.....	803,051	-	-	-	-	-	22,207
Education.....	-	6,639,855	-	-	1,666,748	-	36,471
Public works.....	262,336	-	-	-	-	1,699,131	2,947
Community development.....	42,480	-	2,055,444	864	-	-	-
Health and human services.....	4,613,369	-	-	-	-	-	18,499
Culture and recreation.....	268,770	-	-	-	-	-	26,664
Debt service:							
Principal.....	145,000	-	-	-	-	-	-
Interest.....	-	-	5,059	-	-	-	-
TOTAL EXPENDITURES.....	6,973,156	6,639,855	2,060,503	864	1,666,748	1,699,131	223,774
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(1,220,411)	1,332,341	(40,555)	2,232	103,203	(222,324)	25,486
OTHER FINANCING SOURCES (USES):							
Transfers in.....	883,520	75	-	-	146,191	-	-
Transfers out.....	(40,552)	(75)	-	-	-	(9,061)	-
TOTAL OTHER FINANCING SOURCES (USES).....	842,968	-	-	-	146,191	(9,061)	-
NET CHANGE IN FUND BALANCES.....	(377,443)	1,332,341	(40,555)	2,232	249,394	(231,385)	25,486
FUND BALANCES AT BEGINNING OF YEAR.....	1,082,157	(353,462)	172,126	43,303	(415,377)	(53,156)	496,541
FUND BALANCES AT END OF YEAR.....	\$ 704,714	\$ 978,879	\$ 131,571	\$ 45,535	\$ (165,983)	\$ (284,541)	\$ 522,027

Special Revenue Funds				Capital Project Funds			
Receipts Reserved	City Revolving Accounts	School Revolving Accounts	Subtotal	Police Station Equipment	Salem Ferry	Other	Subtotal
\$ -	\$ -	\$ -	\$ 43,744	\$ -	\$ -	\$ -	\$ -
-	-	-	17,658,772	-	-	-	-
494,355	426,293	971,840	2,162,115	-	-	-	-
-	250	-	1,263,107	-	-	-	-
-	20,682	2,000	31,685	-	-	-	-
<u>494,355</u>	<u>447,225</u>	<u>973,840</u>	<u>21,159,423</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
51,000	84,774	-	1,090,910	-	-	-	-
-	-	-	825,258	28,947	-	574,054	603,001
-	-	901,201	9,244,275	-	-	135,000	135,000
-	39,224	-	2,003,638	-	-	250,858	250,858
-	303,361	-	2,402,149	-	-	-	-
-	-	-	4,631,868	-	-	-	-
-	172,432	-	467,866	-	-	347,420	347,420
-	-	-	145,000	-	-	-	-
-	-	-	5,059	-	-	-	-
<u>51,000</u>	<u>599,791</u>	<u>901,201</u>	<u>20,816,023</u>	<u>28,947</u>	<u>-</u>	<u>1,307,332</u>	<u>1,336,279</u>
<u>443,355</u>	<u>(152,566)</u>	<u>72,639</u>	<u>343,400</u>	<u>(28,947)</u>	<u>-</u>	<u>(1,307,332)</u>	<u>(1,336,279)</u>
-	-	101,300	1,131,086	-	-	-	-
(431,150)	-	-	(480,838)	-	-	-	-
<u>(431,150)</u>	<u>-</u>	<u>101,300</u>	<u>650,248</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
12,205	(152,566)	173,939	993,648	(28,947)	-	(1,307,332)	(1,336,279)
<u>341,290</u>	<u>1,610,347</u>	<u>195,607</u>	<u>3,119,376</u>	<u>38,615</u>	<u>38,086</u>	<u>-</u>	<u>76,701</u>
<u>\$ 353,495</u>	<u>\$ 1,457,781</u>	<u>\$ 369,546</u>	<u>\$ 4,113,024</u>	<u>\$ 9,668</u>	<u>\$ 38,086</u>	<u>\$ (1,307,332)</u>	<u>\$ (1,259,578)</u>

(Continued)

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

FISCAL YEAR ENDED JUNE 30, 2009

	Permanent Funds				Total Nonmajor Governmental Funds
	Cemetery Fund	Human Service Fund	Other	Subtotal	
REVENUES:					
Charges for services.....	\$ -	\$ -	\$ -	\$ -	43,744
Intergovernmental.....	-	-	-	-	17,658,772
Departmental and other.....	-	-	3,572	3,572	2,165,687
Contributions.....	11,750	-	1,737	13,487	1,276,594
Investment income (loss).....	(177,621)	(137,671)	26,128	(289,164)	(257,479)
TOTAL REVENUES.....	(165,871)	(137,671)	31,437	(272,105)	20,887,318
EXPENDITURES:					
Current:					
General government.....	-	-	-	-	1,090,910
Public safety.....	-	-	-	-	1,428,259
Education.....	-	-	-	-	9,379,275
Public works.....	133,879	-	69,265	203,144	2,457,640
Community development.....	-	-	-	-	2,402,149
Health and human services.....	-	57,918	42,048	99,966	4,731,834
Culture and recreation.....	-	-	-	-	815,286
Debt service:					
Principal.....	-	-	-	-	145,000
Interest.....	-	-	-	-	5,059
TOTAL EXPENDITURES.....	133,879	57,918	111,313	303,110	22,455,412
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(299,750)	(195,589)	(79,876)	(575,215)	(1,568,094)
OTHER FINANCING SOURCES (USES):					
Transfers in.....	-	-	-	-	1,131,086
Transfers out.....	-	-	-	-	(480,838)
TOTAL OTHER FINANCING SOURCES (USES).....	-	-	-	-	650,248
NET CHANGE IN FUND BALANCES.....	(299,750)	(195,589)	(79,876)	(575,215)	(917,846)
FUND BALANCES AT BEGINNING OF YEAR.....	2,630,996	1,347,381	963,732	4,942,109	8,138,186
FUND BALANCES AT END OF YEAR.....	\$ 2,331,246	\$ 1,151,792	\$ 883,856	\$ 4,366,894	\$ 7,220,340

(Concluded)

Private Purpose Trust Funds

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

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

PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF NET ASSETS

JUNE 30, 2009

Private Purpose Trust Funds				
	Trust Fund	Scholarship		Total
	Commissioners	Funds		
ASSETS				
Cash and cash equivalents.....	\$ 149,728	\$ 94,738	\$	244,466
Investments.....	1,056,205	-		1,056,205
TOTAL ASSETS.....	1,205,933	94,738		1,300,671
NET ASSETS				
Held in trust for other purposes.....	\$ 1,205,933	\$ 94,738	\$	1,300,671

PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2009

	Private Purpose Trust Funds		
	Trust Fund Commissioners	Scholarship Funds	Total
ADDITIONS:			
Contributions:			
Private donations.....	\$ 1,740	\$ 15,400	\$ 17,140
Net investment income (loss):			
Net change in fair value of investments.....	(147,658)	-	(147,658)
Interest.....	184	1,293	1,477
TOTAL ADDITIONS.....	(145,734)	16,693	(129,041)
DEDUCTIONS:			
Educational scholarships.....	12,095	16,308	28,403
Housing subsidies.....	86,181	-	86,181
TOTAL DEDUCTIONS.....	98,276	16,308	114,584
CHANGE IN NET ASSETS.....	(244,010)	385	(243,625)
NET ASSETS AT BEGINNING OF YEAR.....	1,449,943	94,353	1,544,296
NET ASSETS AT END OF YEAR.....	\$ 1,205,933	\$ 94,738	\$ 1,300,671

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, 2009

	Beginning of Year		Additions		Deletions		End of Year
ASSETS							
CURRENT:							
Cash and cash equivalents.....	\$ 724,874	\$	9,367,401	\$	(9,335,092)	\$	757,183
Receivables, net of allowance for uncollectibles:							
Departmental and other.....	34,681		-		(34,681)		-
TOTAL ASSETS.....	\$ 759,555	\$	9,367,401	\$	(9,369,773)	\$	757,183
LIABILITIES							
Warrants payable.....	\$ 44,663	\$	22,219	\$	(44,663)	\$	22,219
Liabilities due depositors.....	714,892		9,345,182		(9,325,110)		734,964
TOTAL LIABILITIES.....	\$ 759,555	\$	9,367,401	\$	(9,369,773)	\$	757,183

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

Statistical Section

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

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

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

Net Assets By Component

Last Eight Fiscal Years

		Fiscal Year							
		2002	2003	2004	2005	2006	2007	2008	2009
Governmental activities									
Invested in capital assets, net of related debt.....	\$	82,253,876	\$ 83,045,604	\$ 79,729,492	\$ 112,740,510	\$ 109,183,737	\$ 132,787,853	\$ 139,683,360	\$ 147,373,757
Restricted.....		5,755,817	5,237,908	8,759,761	9,734,998	8,649,700	8,868,048	6,948,839	6,968,580
Unrestricted.....		<u>4,546,625</u>	<u>9,656,396</u>	<u>6,519,783</u>	<u>(3,667,364)</u>	<u>(371,947)</u>	<u>(2,189,821)</u>	<u>(6,668,493)</u>	<u>(13,473,169)</u>
Total governmental activities net assets.....	\$	<u>92,556,318</u>	<u>\$ 97,939,908</u>	<u>\$ 95,009,036</u>	<u>\$ 118,808,144</u>	<u>\$ 117,461,490</u>	<u>\$ 139,466,080</u>	<u>\$ 139,963,706</u>	<u>\$ 140,869,168</u>
Business-type activities									
Invested in capital assets, net of related debt.....		8,782,331	8,319,902	8,147,378	9,212,891	9,018,231	9,138,929	8,836,475	6,939,001
Unrestricted.....		<u>7,754,552</u>	<u>6,649,222</u>	<u>7,538,395</u>	<u>4,492,692</u>	<u>4,722,252</u>	<u>5,609,406</u>	<u>5,647,967</u>	<u>6,371,380</u>
Total business-type activities net assets.....	\$	<u>16,536,883</u>	<u>\$ 14,969,124</u>	<u>\$ 15,685,773</u>	<u>\$ 13,705,583</u>	<u>\$ 13,740,483</u>	<u>\$ 14,748,335</u>	<u>\$ 14,484,442</u>	<u>\$ 13,310,381</u>
Primary government									
Invested in capital assets, net of related debt.....		91,036,207	91,365,506	87,876,870	121,953,401	118,201,968	141,926,782	148,519,835	154,312,758
Restricted.....		5,755,817	5,237,908	8,759,761	9,734,998	8,649,700	8,868,048	6,948,839	6,968,580
Unrestricted.....		<u>12,301,177</u>	<u>16,305,618</u>	<u>14,058,178</u>	<u>825,328</u>	<u>4,350,305</u>	<u>3,419,585</u>	<u>(1,020,526)</u>	<u>(7,101,789)</u>
Total primary government net assets.....	\$	<u>109,093,201</u>	<u>\$ 112,909,032</u>	<u>\$ 110,694,809</u>	<u>\$ 132,513,727</u>	<u>\$ 131,201,973</u>	<u>\$ 154,214,415</u>	<u>\$ 154,448,148</u>	<u>\$ 154,179,549</u>

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

Changes in Net Assets

Last Eight Fiscal Years

	Fiscal Year							
	2002	2003	2004	2005	2006	2007	2008	2009
Expenses								
Governmental activities:								
General government.....	\$ 8,640,622	\$ 8,514,423	\$ 9,454,148	\$ 9,373,119	\$ 9,867,573	\$ 9,641,318	\$ 10,598,174	\$ 10,914,012
Public safety.....	20,770,322	20,884,198	22,235,461	22,058,002	23,481,525	24,433,343	28,262,847	27,421,538
Education.....	59,420,837	59,386,206	61,775,760	67,483,676	67,258,196	75,513,149	75,874,227	79,410,738
Public works.....	5,397,486	6,464,257	6,517,047	8,421,997	7,991,774	9,229,479	6,846,006	6,705,986
Community development.....	5,856,034	4,954,608	5,767,362	2,066,749	1,891,386	1,804,554	1,567,381	2,093,618
Health and human services.....	1,416,802	1,388,761	1,410,712	4,856,306	5,016,513	4,675,688	5,904,063	6,226,498
Culture and recreation.....	3,694,420	4,022,880	4,186,622	3,689,992	3,718,183	2,448,265	3,293,415	3,228,906
Interest.....	3,046,692	3,366,107	3,136,763	2,689,312	2,889,116	2,604,390	2,503,461	2,396,187
Total government activities expenses.....	108,243,215	108,981,440	114,483,875	120,639,153	122,114,266	130,350,186	134,849,574	138,397,483
Business-type activities:								
Water services.....	10,967,114	10,196,489	9,619,356	3,186,840	3,197,864	3,562,372	3,895,551	4,021,536
Sewer services.....	(A)	(A)	(A)	6,616,318	5,686,595	5,612,230	5,894,870	7,467,332
Golf course.....	387,935	333,512	320,632	292,187	279,981	363,651	386,099	278,007
Parking.....	719,042	679,171	665,458	664,686	800,506	792,903	936,826	905,834
Trash.....	(C)	(C)	(C)	(C)	(C)	(C)	3,230,500	2,558,263
Total business type activities expenses.....	12,074,091	11,209,172	10,605,446	10,760,031	9,964,946	10,331,156	14,343,846	15,230,972
Total primary government expenses.....	\$ 120,317,306	\$ 120,190,612	\$ 125,089,321	\$ 131,399,184	\$ 132,079,212	\$ 140,681,342	\$ 149,193,420	\$ 153,628,455
Program Revenues								
Governmental activities:								
Education charges for services.....	\$ 1,216,334	\$ 1,097,764	\$ 1,141,196	\$ 1,023,839	\$ 831,579	\$ 1,659,544	\$ 1,586,525	\$ 1,473,880
Public Safety charges for services.....	1,323,642	1,804,781	1,865,270	1,923,845	2,003,791	2,217,287	2,378,961	2,456,341
Other charges for services.....	1,489,223	1,197,196	2,055,497	1,481,467	1,825,898	2,561,814	1,602,847	1,693,333
Operating grants and contributions.....	40,717,414	39,127,290	35,305,349	34,087,248	37,934,300	37,957,703	41,168,760	43,744,124
Capital grant and contributions.....	17,467,468	7,019,891	2,129,821	2,090,467	3,312,346	30,118,572	9,615,336	8,762,642
Total government activities program revenues.....	62,214,081	50,246,922	42,497,133	40,606,866	45,907,914	74,514,920	56,352,429	58,130,320
Business-type activities:								
Charges for services - Water.....	9,794,892	10,415,528	11,708,715	3,853,505	4,319,560	4,822,041	4,318,889	4,085,103
Charges for services - Sewer.....	(A)	(A)	(A)	5,512,922	6,233,883	6,694,172	6,555,593	7,668,044
Charges for services - Golf.....	615,878	549,091	543,467	502,770	525,404	546,841	570,142	547,301
Charges for services - Parking.....	1,270,928	1,364,076	1,536,390	1,453,088	1,549,833	1,713,649	1,651,032	1,694,708
Charges for services - Trash.....	(C)	(C)	(C)	(C)	(C)	(C)	908,577	720,193
Operating grants and contributions.....	-	-	-	-	-	-	49,707	43,796
Total business-type activities program revenues.....	11,681,698	12,328,695	13,788,572	11,322,285	12,628,680	13,776,703	14,053,940	14,759,145
Total primary government program revenues.....	\$ 73,895,779	\$ 62,575,617	\$ 56,285,705	\$ 51,929,151	\$ 58,536,594	\$ 88,291,623	\$ 70,406,369	\$ 72,889,465
Net (Expense)/Revenue								
Governmental activities.....	\$ (46,029,134)	\$ (58,734,518)	\$ (71,986,742)	\$ (78,692,287)	\$ (76,206,352)	\$ (55,835,266)	\$ (78,497,145)	\$ (80,267,163)
Business-type activities.....	(392,393)	1,119,523	3,183,126	562,254	2,663,734	3,445,547	(289,906)	(471,827)
Total primary government net expense.....	\$ (46,421,527)	\$ (57,614,995)	\$ (68,803,616)	\$ (78,130,033)	\$ (73,542,618)	\$ (52,389,719)	\$ (78,787,051)	\$ (80,738,990)
General Revenues and other Changes in Net Assets								
Governmental activities:								
Real estate and personal property taxes,								
net of tax refunds payable.....	\$ 49,486,747	\$ 52,118,338	\$ 54,855,784	\$ 55,915,767	\$ 58,379,505	\$ 60,991,003	\$ 63,230,976	\$ 66,672,653
Tax liens.....	(B)	(B)	(B)	690,557	635,624	182,650	752,178	527,492
Motor vehicle and other excise taxes.....	3,626,065	3,793,044	3,478,999	3,489,584	3,452,569	3,357,765	3,286,119	2,978,961
Hotel/motel tax.....	(B)	(B)	(B)	219,628	263,962	282,324	373,655	324,622
Penalties and interest on taxes.....	330,035	391,429	322,003	288,874	350,651	266,246	353,952	412,572
Payments in lieu of taxes.....	(B)	(B)	(B)	1,073,539	1,088,754	1,235,083	1,229,435	1,320,945
Grants and contributions not restricted to								
specific programs.....	3,931,117	3,774,422	6,932,546	8,097,351	7,661,752	8,971,625	9,163,777	8,064,486
Unrestricted investment income.....	125,481	816,614	568,503	521,585	183,980	965,694	462,275	(35,188)
Miscellaneous.....	504,968	536,979	431,558	77,454	214,067	248,905	168,417	203,848
Transfers.....	2,274,567	2,687,282	2,466,477	2,542,444	2,628,834	2,437,695	(26,013)	702,234
Total governmental activities	60,278,980	64,118,108	69,055,870	72,916,783	74,859,698	78,938,990	78,994,771	81,172,625
Business-type activities:								
Transfers.....	(2,274,567)	(2,687,282)	(2,466,477)	(2,542,444)	(2,628,834)	(2,437,695)	26,013	(702,234)
Total primary government.....	\$ 58,004,413	\$ 61,430,826	\$ 66,589,393	\$ 70,374,339	\$ 72,230,864	\$ 76,501,295	\$ 79,020,784	\$ 80,470,391
Changes in Net Assets								
Governmental activities.....	\$ 14,249,846	\$ 5,383,590	\$ (2,930,872)	\$ (5,775,504)	\$ (1,346,654)	\$ 23,103,724	\$ 497,626	\$ 905,462
Business-type activities.....	(2,666,960)	(1,567,759)	716,649	(1,980,190)	34,900	1,007,852	(263,893)	(1,174,061)
Total primary government.....	\$ 11,582,886	\$ 3,815,831	\$ (2,214,223)	\$ (7,755,694)	\$ (1,311,754)	\$ 24,111,576	\$ 233,733	\$ (268,599)

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

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

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

Fund Balances, Governmental Funds

Last Ten Fiscal Years

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General Fund										
Reserved.....	\$ 966,088	\$ 1,432,723	\$ 1,442,182	\$ 1,382,756	\$ 1,153,872	\$ 68,524	\$ 197,581	\$ 69,631	\$ 220,608	\$ 372,027
Unreserved.....	5,764,170	5,901,496	4,633,278	3,980,693	3,398,534	335,643	1,162,714	(1,151,199)	1,321,397	749,849
Total general fund.....	<u>\$ 6,730,258</u>	<u>\$ 7,334,219</u>	<u>\$ 6,075,460</u>	<u>\$ 5,363,449</u>	<u>\$ 4,552,406</u>	<u>\$ 404,167</u>	<u>\$ 1,360,295</u>	<u>\$ (1,081,568)</u>	<u>\$ 1,542,005</u>	<u>\$ 1,121,876</u>
All Other Governmental Funds										
Reserved.....	\$ -	\$ -	\$ 1,430,279	\$ 1,481,549	\$ 1,844,725	\$ 1,591,750	\$ 1,606,904	\$ 1,629,202	\$ 1,650,597	\$ 1,688,851
Unreserved, reported in:										
Special revenue funds.....	5,738,091	6,910,085	8,289,823	8,920,508	6,618,566	7,763,007	5,474,128	5,477,136	3,768,323	5,602,931
Capital projects funds.....	(14,076,153)	(17,882,945)	(26,709,082)	(14,050,593)	(24,963,657)	(10,513,270)	(1,859,435)	(197,270)	2,806,105	(537,848)
Permanent funds.....	-	-	3,137,655	2,801,999	2,555,014	2,897,589	3,018,952	3,556,455	3,291,512	2,678,043
Total all other governmental funds....	<u>\$ (8,338,062)</u>	<u>\$ (10,972,860)</u>	<u>\$ (13,851,325)</u>	<u>\$ (846,537)</u>	<u>\$ (13,945,352)</u>	<u>\$ 1,739,076</u>	<u>\$ 8,240,549</u>	<u>\$ 10,465,523</u>	<u>\$ 11,516,537</u>	<u>\$ 9,431,977</u>

Notes:

Fiscal years 2000 and 2001 exclude Expendable and Nonexpendable Trust Funds which were reported under the pre-GASB 34 format.

Changes in Fund Balances, Governmental Funds

Last Ten Fiscal Years

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Revenues:										
Real estate and personal property taxes, net of tax refunds.....	\$ 45,824,415	\$ 48,802,188	\$ 50,152,793	\$ 52,448,384	\$ 55,603,719	\$ 55,866,348	\$ 58,601,934	\$ 60,638,180	\$ 63,376,714	\$ 66,717,968
Motor vehicle and other excise taxes.....	2,686,784	3,178,682	3,156,366	3,875,265	3,387,266	3,531,673	3,577,544	3,215,438	3,427,889	3,154,642
Intergovernmental.....	32,053,323	37,284,876	39,949,863	37,949,147	37,305,545	40,601,143	40,386,321	38,496,892	39,569,976	42,962,129
Departmental and other.....	8,793,381	8,473,063	8,122,563	8,628,161	9,324,193	7,539,138	8,496,446	9,017,710	10,086,572	9,382,460
Investment income.....	736,266	1,024,892	127,462	816,821	568,503	828,933	927,302	925,771	462,585	(32,923)
Commonwealth school construction grants.....	-	-	-	-	-	(B)	16,559,515	35,025,316	17,324,905	13,130,784
On-behalf pension payments by Commonwealth.....	- (C)	4,505,009	4,301,287	4,275,669	5,345,441	5,890,261	6,376,140	7,044,987	7,511,889	8,277,958
Total Revenue.....	90,094,169	103,268,710	105,810,334	107,993,447	111,534,667	126,997,066	134,925,202	154,364,294	141,760,530	143,593,018
Expenditures:										
General government.....	4,287,021	5,801,716	4,866,231	4,463,397	4,627,702	4,863,297	5,112,025	4,733,168	4,512,126	5,284,403
Public safety.....	14,074,132	14,589,271	15,738,798	15,368,476	14,999,915	14,417,276	14,547,596	14,969,952	15,945,719	16,452,689
Education.....	40,101,425	45,852,552	47,250,529	48,449,552	47,729,470	46,260,838	47,647,867	47,719,326	47,293,548	48,101,995
Public works.....	5,044,735	6,004,568	4,652,745	5,232,421	5,209,599	6,663,143	5,427,108	6,137,334	3,338,981	3,718,860
Community development.....	3,118,010	2,462,534	1,936,213	2,348,162	2,085,553	2,066,749	1,891,386	1,804,554	1,567,381	2,402,149
Health and human services.....	920,083	927,024	960,817	901,407	855,553 (A)	4,348,098	4,475,413	4,730,161	5,306,444	5,339,094
Culture and recreation.....	2,963,811	3,338,502	2,728,470	2,981,769	2,756,066	2,278,899	2,339,600	1,865,609	2,135,563	2,395,536
Pension benefits.....	3,813,000	4,610,788	4,204,226	4,340,575	6,565,806	11,926,982	13,388,893	14,375,924	15,180,985	16,206,240
Massachusetts teachers' retirement.....	- (C)	4,505,009	4,301,287	4,275,669	5,345,441	5,890,261	6,376,140	7,044,987	7,511,889	8,277,958
Employee benefits.....	5,499,340	5,550,602	9,853,473	10,529,297	10,580,395	10,433,140	9,964,302	10,889,249	11,570,087	11,805,651
State and county charges.....	3,495,301	2,183,362	3,770,566	3,911,644	4,212,549	4,028,333	5,047,971	5,589,986	5,933,670	6,302,025
Capital outlay.....	10,684,440	17,106,792	12,975,601	18,550,903	15,793,932	1,422,955	7,581,652	38,018,740	12,930,767	13,552,655
Debt service										
Principal.....	2,835,050	3,220,000	2,605,000	2,795,000	3,890,000	4,105,000	4,385,000	4,310,000	6,620,000	4,559,497
Interest.....	2,482,071	2,482,795	3,111,786	2,854,502	3,259,021	2,919,668	2,958,101	2,513,575	2,622,389	2,568,643
Total Expenditures.....	99,318,419	118,635,515	118,955,742	127,002,774	127,911,002	121,624,639	131,143,054	164,702,565	142,469,549	146,967,395
Excess of revenues over (under) expenditures.....	(9,224,250)	(15,366,805)	(13,145,408)	(19,009,327)	(16,376,335)	5,372,427	3,782,148	(10,338,271)	(709,019)	(3,374,377)
Other Financing Sources (Uses)										
Issuance of debt.....	-	13,300,000	-	28,670,000	-	2,465,000	-	8,319,497	3,930,000	-
Premium from issuance of bonds.....	-	-	-	-	-	232,856	-	85,169	84,840	-
Issuance of refunding bonds.....	-	-	-	-	-	-	-	-	-	3,785,000
Refunding bonds redeemed.....	-	-	-	-	-	-	-	-	-	(3,785,000)
Capital lease financing.....	-	-	-	-	-	807,283	1,046,619	378,169	394,779	167,454
Sale of capital assets.....	-	-	-	300,000	-	-	-	-	-	-
Transfers in.....	2,187,421	1,813,102	9,045,003	9,051,161	10,693,915	3,597,240	5,320,517	3,558,845	4,508,229	5,228,530
Transfers out.....	(1,360,322)	(1,435,512)	(6,770,436)	(6,719,057)	(8,227,438)	(1,054,796)	(2,691,683)	(1,121,150)	(4,534,242)	(4,526,296)
Total other financing sources (uses).....	827,099	13,677,590	2,274,567	31,302,104	2,466,477	6,047,583	3,675,453	11,220,530	4,383,606	869,688
Net change in fund balance.....	\$ (8,397,151)	\$ (1,689,215)	\$ (10,870,841)	\$ 12,292,777	\$ (13,909,858)	\$ 11,420,010	\$ 7,457,601	\$ 882,259	\$ 3,674,587	\$ (2,504,689)
Debt service as a percentage of noncapital expenditures.....	5.43%	4.87%	4.87%	4.51%	6.16%	5.95%	5.94%	5.39%	7.13%	5.34%

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

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

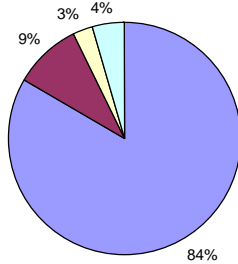
(C) The Commonwealth is legally obligated to fund the Salem teachers retirement. Therefore the revenue and expenditure has been recorded in accordance with GASB 24.

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

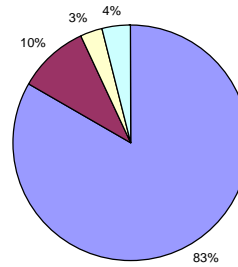
Last Ten Fiscal Years

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

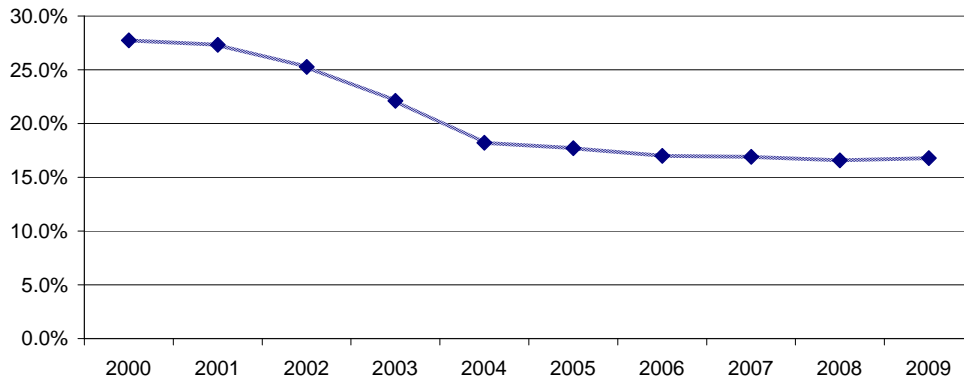
Total Assessed Value by Classification Fiscal Year Ended June 30, 2008



Total Assessed Value by Classification Fiscal Year Ended June 30, 2009



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	2009			2000		
		Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value	Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value
Dominion	Personal & Industrial Property	\$158,305,850	1	3.3%	-	-	-
Salem Station LLC	Apartments	\$40,027,860	2	0.8%	-	-	-
Princeton Crossing Apts.	Apartments	\$30,981,000	3	0.6%	\$12,713,400	7	0.6%
Shetland Properties	Industrial & Commercial	\$29,315,600	4	0.6%	\$15,114,000	2	0.7%
Hawthorne Commons	Apartments	\$28,417,500	5	0.6%	\$6,261,900	9	0.3%
New England Power Co.	Personal & Industrial Property	\$24,520,050	6	0.5%	\$256,219,800	1	12.4%
Massachusetts Electric	Personal Property	\$21,899,450	7	0.5%	\$13,459,100	6	0.7%
Highlander Plaza	Commercial Property	\$21,728,900	8	0.5%	\$14,419,400	5	0.7%
Keyspan PP	Personal Property & Real Estate	\$18,849,020	9	0.4%	-	-	-
Second Pickwick Trust	Commercial Property	\$14,542,500	10	0.3%	-	-	-
NYNEX	Personal & Industrial Property	-	-	-	\$14,943,800	3	0.7%
Boston Gas	Personal & Industrial Property	-	-	-	\$14,614,900	4	0.7%
Applied Extrusions Technologies	Electronics	-	-	-	\$6,306,700	8	0.3%
Lagonakis/Crete/Minoan RT	Commercial Property	-	-	-	\$6,053,400	10	0.3%
Totals		<u>\$388,587,730</u>		<u>8.1%</u>	<u>\$360,106,400</u>		<u>17.4%</u>

Source: Board of Assessors

Property Tax Levies and Collections

Last Ten Fiscal Years

Fiscal Year		Total Tax Levy	Less Abatements & Exemptions	Net Tax Levy	Current Tax Collections	Percent of Net Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Net Tax Levy
2000	\$	44,997,340	\$ 549,334	\$ 44,448,006	\$ 43,623,904	98.1%	\$ 820,868	\$ 44,444,772	100.0%
2001	(1)	48,228,214	654,519	47,573,695	47,565,588	99.9%	6,113	47,571,701	100.0%
2002		49,789,935	484,373	49,305,562	49,199,288	99.8%	105,089	49,304,377	100.0%
2003		52,210,909	508,719	51,702,190	51,303,297	99.2%	398,826	51,702,123	100.0%
2004	(1)	54,374,223	564,486	53,809,737	53,259,047	99.0%	550,063	53,809,110	100.0%
2005		56,839,329	418,415	56,420,914	55,554,023	98.5%	866,450	56,420,473	100.0%
2006		59,292,238	443,519	58,848,719	58,010,805	98.6%	835,900	58,846,705	100.0%
2007	(1)	61,785,514	593,521	61,191,993	60,318,905	98.6%	870,423	61,189,328	100.0%
2008		64,399,664	565,307	63,834,357	63,225,112	99.0%	609,245	63,834,357	100.0%
2009		67,095,914	514,742	66,581,172	66,300,317	99.6%	0	66,300,317	99.6%

(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
2000	40,564	\$ 967,735,348	\$ 2,360,332,700	\$ 30,716,400	\$ 2,517,607	\$ 819	3.43%	1.41%
2001	41,130	1,000,863,178	2,701,854,021	40,700,000	1,929,115	1,036	4.26%	1.58%
2002	42,179	1,046,917,485	2,858,057,319	37,625,000	1,103,986	918	3.70%	1.36%
2003	42,067	1,065,020,304	3,307,181,452	63,730,000	441,217	1,525	6.03%	1.94%
2004	41,912	1,082,318,054	3,971,301,437	59,840,000	307,360	1,435	5.56%	1.51%
2005	41,976	1,105,650,179	4,296,541,287	58,770,000	723,214	1,417	5.38%	1.38%
2006	40,407	1,085,609,084	4,586,174,179	54,385,000	1,172,651	1,375	5.12%	1.21%
2007	40,407	1,107,321,266	4,978,320,086	50,040,000	779,906	1,258	4.59%	1.02%
2008	40,407	1,129,467,691	4,805,481,341	55,704,497	675,954	1,395	4.99%	1.17%
2009	41,421	1,180,967,527	4,511,658,886	51,145,000	530,771	1,248	4.38%	1.15%

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
2000	\$ 1,600,000	\$ 0	\$ 34,834,007	\$ 859	3.60%	1.48%
2001	1,345,000	0	43,974,115	1,069	4.39%	1.63%
2002	650,000	0	39,378,986	934	3.76%	1.38%
2003	515,000	0	64,686,217	1,538	6.07%	1.96%
2004	380,000	0	60,527,360	1,444	5.59%	1.52%
2005	1,450,000	0	60,943,214	1,452	5.51%	1.42%
2006	1,345,000	0	56,902,651	1,408	5.24%	1.24%
2007	3,570,656	0	54,390,562	1,346	4.91%	1.09%
2008	7,624,241	0	64,004,692	1,584	5.67%	1.33%
2009	7,250,908	0	58,926,679	1,423	4.99%	1.31%

Source: Audited Financial Statements, U. S. Census

Direct and Overlapping Governmental Activities Debt

As of June 30, 2009

	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
North Shore Regional Vocational School District.....	\$ 1,605,000	25.95%	\$ <u>416,498</u>
City direct debt.....			<u>51,145,000</u>
Total direct and overlapping debt.....			\$ <u><u>51,561,498</u></u>

Source: Treasurer and North Shore Regional Vocational School District

Computation of Legal Debt Margin

Last Ten Fiscal Years

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Equalized Valuation.....	\$ 2,174,217,600	\$ 2,472,012,500	\$ 2,472,012,500	\$ 3,148,016,400	\$ 3,148,016,400	\$ 4,184,128,700	\$ 4,223,735,800	\$ 4,923,330,400	\$ 4,923,330,400	\$ 5,168,060,200
Debt Limit -5% of Equalized Valuation.....	\$ 108,710,880	\$ 123,600,625	\$ 123,600,625	\$ 157,400,820	\$ 157,400,820	\$ 209,206,435	\$ 211,186,790	\$ 246,166,520	\$ 246,166,520	\$ 258,403,010
Less:										
Outstanding debt applicable to limit.....	3,475,000	5,080,000	5,625,000	4,646,000	4,167,000	6,695,447	6,064,000	5,435,000	13,126,497	12,004,000
Authorized and unissued debt.....	63,950,000	82,537,000	83,033,130	69,000,988	70,336,913	39,296,218	48,682,895	54,169,239	41,605,658	28,769,240
Legal debt margin.....	\$ 41,285,880	\$ 35,983,625	\$ 34,942,495	\$ 83,753,832	\$ 82,896,907	\$ 163,214,770	\$ 156,439,895	\$ 186,562,281	\$ 191,434,365	\$ 217,629,770
Total debt applicable to the limit as a percentage of debt limit.....	62.02%	70.89%	71.73%	46.79%	47.33%	21.98%	25.92%	24.21%	22.23%	15.78%

Source: Audited Financial Statements; Statement of Indebtedness

Demographic and Economic Statistics

Last Ten Fiscal Years

Fiscal Year	Population Estimates	Personal Income	Per Capita Personal Income	Median Age	School Enrollment	Unemployment Rate
2000	40,564	\$ 967,735,348	\$ 23,857	36.4	5,007	2.5%
2001	41,130	1,000,863,178	24,334	36.4	5,107	3.9%
2002	42,179	1,046,917,485	24,821	36.4	5,064	5.6%
2003	42,067	1,065,020,304	25,317	36.4	5,016	6.2%
2004	41,912	1,082,318,054	25,824	36.4	4,727	5.3%
2005	41,976	1,105,650,179	26,340	36.4	4,676	4.9%
2006	40,407	1,085,609,084	26,867	36.4	4,714	4.1%
2007	40,407	1,107,321,266	27,404	36.4	4,573	4.5%
2008	40,407	1,129,467,691	27,952	36.4	4,404	4.9%
2009	41,421	1,180,967,527	28,511	36.4	4,474	9.7%

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

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

Principal Employers (excluding City)

Current Year and Nine Years Ago

Employer	Nature of Business	2009			2000		
		Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
North Shore Medical Center	Healthcare	2,875	1	12.1%	2,500	1	11.7%
Salem State College	Higher Education	1,500	2	6.3%	750	2	3.5%
Commonwealth of Massachusetts Offices	State Government	520	3	2.2%	-	-	-
Market Basket	Food Market	325	4	1.4%	-	-	-
Peabody Essex Museum	Cultural/Tourism	290	5	1.2%	-	-	-
Salem Five Savings Bank	Banking	236	6	1.0%	-	-	-
Hawthorne Hotel	Lodging	210	7	0.9%	-	-	-
Grosvenor Park Nursing Center	Health Care	202	8	0.8%	-	-	-
Home Depot	Retail	187	9	0.8%	-	-	-
Salem YMCA	Social Service Agency	185	10	0.8%	-	-	0
Sears Boston Credit Central	Public Utility	-	-	-	600	3	2.8%
New England Power Company	Public Utility	-	-	-	476	4	2.2%
North Shore Children's Hospital	Children's Health Care	-	-	-	400	5	1.9%
EG & G Inc.	Diabetic Supplies	-	-	-	281	6	1.3%
Atwood & Morrill Co. Inc.	Valve Manufacturing	-	-	-	189	7	0.9%
Crosby's Market Place	Food Market	-	-	-	176	8	0.8%
Van Waters & Rogers	Chemical Distribution	-	-	-	162	9	0.8%
Harbor Sweets	Candy & Confection Wholesale	-	-	-	101	10	0.5%
		<u>6,530</u>		<u>27.5%</u>	<u>5,635</u>		<u>26.5%</u>

Source: The City Planning Department

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

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Function										
General government.....	82	59	62	68	62	64	40	34	36	35
Public safety.....	198	183	183	185	180	190	181	190	185	187
Education.....	755	755	755	755	756	756	752	752	753	752
Public works.....	67	50	59	47	45	55	35	38	40	37
Engineering.....	-	-	-	-	-	-	-	1	3	1
Health and human services.....	23	20	22	22	21	21	21	20	17	14
Culture and recreation.....	36	36	35	34	31	31	34	23	21	22
Total	<u>1,161</u>	<u>1,103</u>	<u>1,116</u>	<u>1,111</u>	<u>1,095</u>	<u>1,117</u>	<u>1,063</u>	<u>1,058</u>	<u>1,054</u>	<u>1,048</u>

Source: Various City Departments

Operating Indicators by Function/Program

Last Ten Fiscal Years

Function/Program	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General government										
Marriage recordings.....	292	328	362	327	330	327	375	322	306	276
Birth recordings.....	1,777	1,680	1,708	1,804	1,839	1,761	2,044	2,043	1,712	1,614
Death recordings.....	764	865	848	823	935	847	737	755	520	535
Police										
Physical arrests.....	975	1,039	1,057	984	965	685	2,792	2,793	2,569	2,502
Motor vehicle violations.....	3,066	3,967	4,872	5,489	5,238	4,334	6,477	8,672	7,838	6,604
Police personnel and officers.....	94	103	105	94	85	85	81	84	85	85
Fire										
Inspections.....	3,226	3,004	2,950	1,972	3,231	2,789	1,187	1,562	1,562	886
Emergency responses.....	3,717	3,917	3,993	3,911	4,281	4,572	6,235	6,719	6,663	6,330
Fire personnel and officers.....	90	92	96	85	78	78	75	76	78	81
Education										
Number of students.....	5,007	5,107	5,064	5,016	4,727	4,676	4,744	4,573	4,404	4,474
Number of graduates.....	213	220	237	218	257	246	255	269	254	273
Number of teachers.....	370	369	397	406	415	409	477	484	479	479
Water										
Service connections.....	9,720	9,812	9,842	9,898	10,516	10,568	11,000	11,811	11,701	11,737
Consumption in gallons.....	1,985	2,107	2,064	2,090	2,111	2,136	2,000	2,056	2,123	1,994
Daily consumption (MG).....	5.44	5.77	5.66	5.73	5.78	6.43	6.84	6.74	5.80	5.44
Sewer										
Service connections.....	9,720	9,812	9,842	9,898	10,516	10,568	11,000	11,811	11,701	11,727
Health and human services										
Number of persons using COA transportation....	44,326	45,523	47,220	44,804	44,500	45,976	37,497	39,052	18,678	15,526
Libraries										
Volumes in circulation.....	126,526	130,510	128,626	124,435	125,516	128,569	141,595	143,052	148,752	145,634
Total volumes borrowed.....	379,534	395,311	453,548	470,192	464,453	490,116	508,728	500,907	514,708	538,184

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>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
General government										
Number of buildings.....	2	2	2	2	2	2	2	2	2	2
Police										
Number of stations.....	1	1	1	1	1	1	1	1	1	1
Fire										
Number of stations.....	4	4	4	4	4	4	4	4	4	4
Education										
Number of elementary schools.....	7	7	7	7	7	7	7	7	7	7
Number of middle schools.....	1	1	1	1	1	1	1	1	1	1
Number of high schools.....	1	1	1	1	1	1	1	1	1	1
Public Works										
Water mains (miles).....	103	103	103	108	108	108	108	108	108	102
Health and human services										
Number of personnel.....	19	18	18	17	17	17	17	17	17	17
Culture and recreation										
Parks and playgrounds.....	35	35	35	35	35	35	35	35	35	35
Park and playground (acreage).....	230	230	230	230	230	230	230	230	230	230
Conservation land (acreage).....	114	114	114	114	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 & Stabilization Fund Balances

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Free Cash</u>	<u>Stabilization Fund</u>
FY2009.....	\$ 1,261,200	\$ 1,489,907
FY2008.....	\$ 1,114,950	\$ 648,947
FY2007.....	\$ 691,149	\$ 487,980
FY2006.....	\$ 538,372	\$ 277,759
FY2005.....	\$ 2,732,090	\$ 1,021,351
FY2004.....	\$ 1,867,737	\$ 1,297,417
FY2003.....	\$ 3,212,194	\$ 2,278,823
FY2002.....	\$ 4,010,382	\$ 2,248,337
FY2001.....	\$ 4,965,894	\$ 1,713,814
FY2000.....	\$ 4,425,158	\$ 1,149,864

Source: City Records