

CITY OF SALEM

MASSACHUSETTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT



For the Fiscal Year Ended June 30, 2010

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

Prepared by the City of Salem Finance Department

On the Cover – Old Town Hall

Located at 32 Derby Street, Salem Old Town Hall was designed by noted architect Charles Bulfinch, and stands today as one of the finest examples of Federal style architecture in town. The Old Town Hall has also offered the community a place to gather for centuries, first as a town hall and most recently as an auditorium.

Salem Old Town Hall was built in 1816-1817 as a waterfront commercial and civic center. Attributed to the great Boston architect Charles Bulfinch, it is a close cousin of Boston's Faneuil Hall and is the oldest surviving municipal structure in Salem. The Town Hall has long served as the community meeting place and market, and continues those traditions. Today, along with holding events, Old Town Hall serves as a community landmark of architecture and history in downtown Salem.

Salem Old Town Hall is currently open to the public and regularly offers re-enactments of the Salem Witch trials of 1692 on the second floor. The City is looking to obtain funding to address structural issues, as well as provide new finishes in some of the public spaces. With these improvements, more re-enactments would take place and the building would be able to expand services to the community as a classroom space and a museum.



Pickering Wharf Light House

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JUNE 30, 2010

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Introductory Section



Salem Willows Park

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

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

Introductory Section

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City of Salem, Massachusetts

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Letter of Transmittal

Kimberley L. Driscoll, Mayor
Richard Viscay, Finance Director

December 14, 2010

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, 2010 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, 2010, 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, 2010, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2010 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 40,707 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% 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 2010 totaled approximately \$124 million, which includes Real & Personal Property tax revenue, State Revenues, MSBA Revenue, local revenues, transfers in of \$925,686 from Receipts Reserved Harbormaster, Witch House and Golf Course (to reduce tax rate), \$1,534,374 from free cash supplemental appropriations, other receipts reserved transfers, School Deficit Bond Revenue and \$1,430,065 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) 2009 annual report, the market value of the System's assets is \$82.7 million with 91% 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 fiscal year 2010 CIP, the City will begin remodeling several parks and playgrounds in the City, including the \$789 thousand renovation of Furlong Park. Other highlights of the fiscal year 2010 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 \$150 thousand for the installation of a new ball field at the Witchcraft Heights Elementary School.

The Salem waterfront is also experiencing a great deal of investment from the addition of the Waterfront Hotel at Pickering Wharf to the South River Harborwalk waterfront development, which will include seawall and bulkhead improvements from Derby Street to Congress Street. The City received a \$3 million grant from the Governor's Seaport Council for this project, as well as the acquisition of land at the Blaney Street Wharf. The City welcomed its first cruise ship to the Blaney Street Wharf in 2008 when Blount Small Ship Adventures, operating out of Warren, Rhode Island, stopped in Salem to fill a cancellation and absolutely loved it. As a result, they have included Salem as part of the "Olde New England Sampler" cruise package with three scheduled stops in the City in the summer of 2010. Salem is emerging as a destination for small cruise ships making stops in historic ports that dot the New England seacoast. Once the Blaney Street wharf expansion is completed, the City expects to attract the large cruise liners, which is projected to have a significant impact on the local economy.

With the passage of House Bill 4560, Senate Bill 4864 and the approval of Massachusetts Governor Deval Patrick, Salem State College obtained University status. Salem State University is the largest institution of higher education on the North Shore of Massachusetts. Recent expansion at the University includes the construction of the college's newest campus on the former GTE Sylvania site. Central Campus, as it is currently known, houses the Bertolon School of Business, a recital hall, a 'green' and sustainable residence hall, and a small business incubator for the region. Expansion of the college continues currently, including the 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 by the end of 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 24,247, of whom 22,122 were employed and 2,125, or 8.8% were unemployed. The Commonwealth, for the same period, had an unadjusted unemployment rate of 9.0%.

Financial Planning and Forecasting

In fiscal year 2009, the City modified its budget format to improve upon its content and layout. The goal was to have a comprehensive budget that would allow an average person to read and comprehend the budget and budget process of the City. It also was modeled after several budgets that were submitted and approved for the Government Financial Officer's Association (GFOA) "Distinguished Budget Presentation Award". The new model included 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. As a result of our efforts, the City has been awarded the GFOA's "Distinguished Budget Presentation Award" for fiscal years 2009 and 2010. Salem is one of only nine municipalities in the Commonwealth to receive the Award in fiscal year 2010.

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

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 fiscal year 2010 was the finalization of the Police Patrolmen's contract which allowed the City to convert its final union to a contribution rate of 25% for the employee and 75% for the City. The patrolmen were the last of the groups to convert to the modified contribution rates. The City now has 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 fiscal year 2010 and further.

Not only has the City changed the contribution rates of health insurance, but also the plan designs of its Blue Cross Blue Shield products. In 2010, the City introduced HMO Network Blue Options (Options). Within the Options network, hospitals and groups of primary care providers are ranked into three benefit tiers based on cost and nationally accepted quality performance criteria selected by Blue Cross Blue Shield of Massachusetts.

This plan will ultimately replace both the HMO Blue \$5 co-payment plan, as well as the HMO Blue Value Plus. The migration of all employees to this plan is expected to be complete by fiscal year 2011. All health changes of this nature are required to be negotiated with the City's eight collective bargaining units. As of September 2010, the City has successfully converted six of its eight collective bargaining units, as well as its "ninth" unit of management and non-union employees. The switch to the Options plan is expected to save the City between \$1 million to \$1.4 million, depending on the timeliness of getting all City employees migrated to the Options plan.

In fiscal year 2007, the Mayor appointed herself to the Salem Retirement Board. By doing so, Mayor Driscoll has taken an active role in managing the City's retirement system. The annual assessment from the Retirement Board to the City continues to be one of the biggest budget busters year in and year out. During fiscal year 2009, the Retirement Board moved all available funds into the State's Public Reserve Investment Trust (PRIT) to take advantage of its higher returns and lower administrative fees. Because of its size, the PRIT can diversify assets for maximum possible return. The Retirement Board shifted these assets voluntarily to the PRIT after a complete analysis and a vote of the Retirement Board. 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. This decrease was offset by a 15.4% increase in 2009. While this fluctuation did not have an adverse affect on either the fiscal year 2010 or fiscal year 2011 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 fiscal year 2012 budget once the 2010 actuarial report considers that effect of 2008 and 2009. As of the 2009 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. The City has averaged \$750,000 in collections over fiscal years 2008, 2009, and 2010. 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 fiscal year 2009 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.

The City is in the last year of its PILOT tax agreement with Dominion energy (fiscal year 2009-fiscal year 2011). As part of the agreement negotiated between the City and Dominion, the City receives \$3 million in tax dollars within the tax levy and \$1.75 million dollars as a "host fee" that is accounted for as miscellaneous non-recurring revenues. Dominion is the largest tax payer in the City, and without an agreement in place for fiscal year 2012, the City would have to bill Dominion "ad valorem", which could present a potential liability issue if there is a disagreement on the fair cash value of the plant. As part of determining the value and future viability of the plant, the City has received a grant of \$150 thousand to do a complete assessment of the plant that is scheduled to be complete by the end of 2010.

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 2010 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 2010. It was determined that the estimated liability for fiscal 2010 would be \$850,000. 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. The balance for free cash has been certified for fiscal year 2010 in the amount of \$1,699,065.

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. 20% of any free cash available after funding a prior year drawdown will also be allocated from free cash to Stabilization Fund up to the goal of stabilization fund equaling 5% of the current operating budget of the City. 20% of any free cash available after funding a prior year drawdown of Stabilization fund will also be allocated to the Capital Improvement Fund for funding Capital. 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, 2009. This was the fifth 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, 2009. 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, 2010 for consideration of the award for the third year and has received that award.

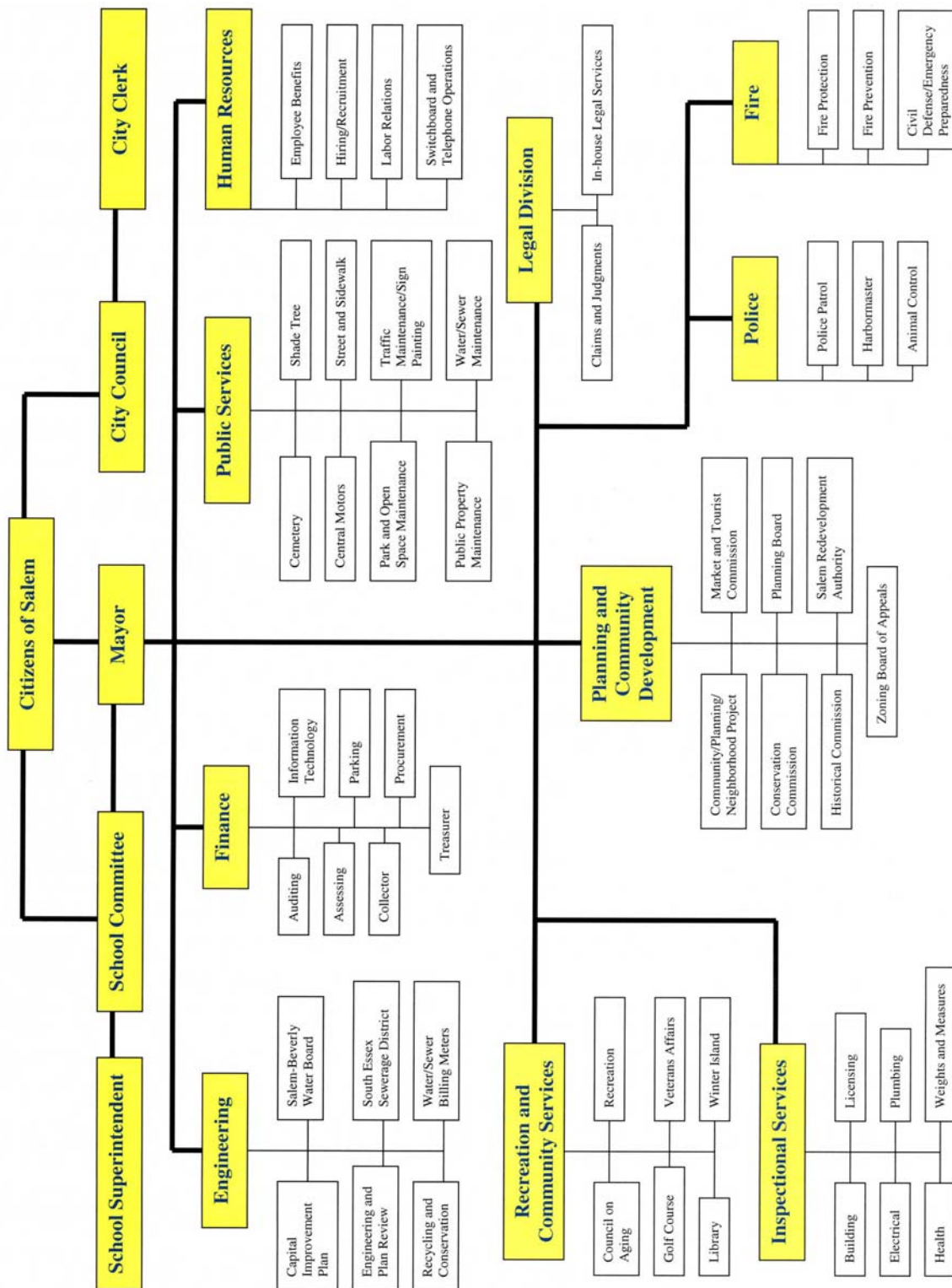
It should be noted that the Distinguished Budget Award was awarded to only nine of the 351 communities in the Commonwealth for the fiscal period beginning 2009 and that only five entities in the entire Commonwealth received both the Certificate of Achievement of Excellence in Financial Reporting and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

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

Respectfully submitted,



Richard Viscay
Finance Director



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Principal Executive Officers

TITLE	NAME	FIRST TOOK OFFICE	TERM EXPIRES
Mayor	Kimberley L. Driscoll	1/2/2006	12/31/2013
President, City Council	Robert K. McCarthy	1/1/2010	12/31/2010
Finance Director	Richard Viscay	3/6/2006	1/31/2012
Acting Treasurer	Bonnie Celi	8/1/2010	N/A
Collector	Bonnie Celi	3/11/2004	1/31/2013
City Clerk	Cheryl LaPointe	7/15/2004	11/9/2012
City Solicitor	Elizabeth Rennard	1/10/2006	Indefinite
Assistant Finance Director	Nina Bridgman	1/22/2004	1/31/2012

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, 2009

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.



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President

A stylized, handwritten signature in black ink.

Executive Director



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**City of Salem
Massachusetts**

For the Fiscal Year Beginning

July 1, 2009

A handwritten signature in black ink, appearing to be 'H. R.', written over a horizontal line.

President

A handwritten signature in black ink, appearing to be 'Jeffrey R. Enos', written over a horizontal line.

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, 2009. 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, 2010 (except for the Salem Contributory Retirement System which is as of and for the year ended December 31, 2009), 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, 2010 (except for the Salem Contributory Retirement System which is as of December 31, 2009), 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.

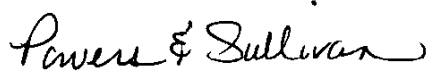
In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2010 on our consideration of the City of Salem, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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 general fund schedule of revenues, expenditures and changes in fund balance – budgetary basis, other postemployment benefit plan schedule of funding progress and employer contributions, and other postemployment 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".

December 14, 2010

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, 2010. We encourage readers to consider the information presented in this report in conjunction with additional information that we have furnished in our letter of transmittal.

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

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Salem's basic financial statements. 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 \$136 million at the close of fiscal year 2010. This represents a decrease of \$4.6 million from the prior fiscal year.

Net assets of \$147 million (108%) 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, decreased by approximately \$60,000 during fiscal year 2010.

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 (\$17.9) million. The primary reason for this deficit balance is the recognition of other postemployment benefit liabilities of \$16.5 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 postemployment benefits to current employees and retirees. The City is allowed to amortize the liability, which totaled \$171 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 postemployment benefits on a pay-as-you go basis. As a result, the City is required to record the difference between the current year pay-as-you go cost and the current year actuarial determined cost plus interest on any prior unfunded liability as a liability in the full accrual financial statements. This difference totaled \$5.5 million for governmental activities for fiscal year 2010, which accounts for most of the \$4.6 million decrease in net assets.

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

	Governmental Activities	
	Fiscal 2010	Fiscal 2009
Assets:		
Current assets.....	\$ 28,277,655	\$ 25,148,453
Noncurrent assets (excluding capital).....	23,027,488	26,229,450
Capital assets.....	168,198,736	169,690,214
Total assets.....	219,503,879	221,068,117
Liabilities:		
Current liabilities (excluding debt).....	8,526,655	9,650,973
Noncurrent liabilities (excluding debt).....	24,291,434	17,267,976
Current debt.....	7,550,000	7,520,000
Noncurrent debt.....	42,837,000	45,760,000
Total liabilities.....	83,205,089	80,198,949
Net Assets:		
Invested in capital assets, net of related debt.....	147,313,749	147,373,757
Restricted.....	6,892,267	6,968,580
Unrestricted.....	(17,907,226)	(13,473,169)
Total net assets.....	\$ 136,298,790	\$ 140,869,168

	Fiscal 2010	Fiscal 2009
Program revenues:		
Charges for services.....	\$ 5,268,614	\$ 5,623,554
Operating grants and contributions.....	46,352,034	43,744,124
Capital grants and contributions.....	4,135,374	8,762,642
General Revenues:		
Real estate and personal property taxes.....	69,067,349	66,672,653
Motor vehicle and other excise taxes.....	3,092,527	2,978,961
Nonrestricted grants.....	6,583,118	8,064,486
Unrestricted investment income.....	435,769	(35,188)
Other revenues.....	2,523,687	2,789,479
Total revenues.....	137,458,472	138,600,711
Expenses:		
General government.....	10,865,152	10,914,012
Public safety.....	26,755,783	27,421,538
Education.....	83,743,843	79,410,738
Public works.....	6,820,639	6,705,986
Community development.....	3,226,360	2,093,618
Health and human services.....	6,622,114	6,226,498
Culture and recreation.....	3,169,224	3,228,906
Interest.....	1,888,315	2,396,187
Total expenses.....	143,091,430	138,397,483
Excess (Deficiency) before transfers.....	(5,632,958)	203,228
Transfers.....	1,062,580	702,234
Change in net assets.....	\$ (4,570,378)	\$ 905,462

The governmental expenses totaled \$143 million of which \$55.8 million (39%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. Education expenses increased by \$4.3 million, which was the combination of several factors. General fund expenditures increased by a modest \$600,000 which was supported by an additional \$1.5 million in special revenue grants. A new \$60 million school was opened which increased depreciation expense by \$750,000. Finally, increases in health insurance and pensions added \$500,000 of costs. Community development expenses showed the largest increase of approximately 54%. This is a result of increased activity in grants and loan-to-grant programs to finance first time homebuyer and rental assistance programs and economic and community development programs. All other functional expenses remained stable due to management's budgetary policies. General revenues totaled \$81.7 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 \$12.2 million at the close of fiscal year 2010.

	Business-type Activities	
	Fiscal 2010	Fiscal 2009
Assets:		
Current assets.....	\$ 10,362,773	\$ 8,775,456
Capital assets.....	17,759,560	16,105,731
Total assets.....	28,122,333	24,881,187
Liabilities:		
Current liabilities (excluding debt).....	2,095,265	1,098,107
Noncurrent liabilities (excluding debt).....	911,240	456,791
Current debt.....	371,822	4,134,806
Noncurrent debt.....	12,577,280	5,881,102
Total liabilities.....	15,955,607	11,570,806
Net Assets:		
Invested in capital assets, net of related debt.....	6,301,944	6,939,001
Unrestricted.....	5,864,782	6,371,380
Total net assets.....	\$ 12,166,726	\$ 13,310,381

Business-type net assets of \$6.3 million (52%) represent investments in capital assets net of related debt. The remaining \$5.9 million (48%) is available to be used for the ongoing operation of the City's water, sewer, parking, trash and municipal golf course activities. There was a decrease of \$1.1 million in net assets reported in connection with the enterprise funds.

The water enterprise fund's net assets of \$1.4 million (29%) represent the investment in capital assets net of related debt, while \$3.5 million (71%) is unrestricted. The water department experienced a net decrease of \$522,000 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 54% of the funds expenses for fiscal year 2010. The change in net assets resulted from a combination of a planned use of reserves and increases in accrued liabilities.

The sewer enterprise fund's net assets of \$407,000 (15%) represent the investment in capital assets net of related debt, and \$2.4 million (85%) is unrestricted. The unrestricted balance includes the City's \$371,000 equity interest in the South Essex Sewerage District. The sewer department operations experienced a net decrease of \$540,000 during the current fiscal year. Approximately 82% of the expenses in the sewer fund consist of the annual assessments paid to the South Essex Sewerage District. The change in net assets resulted from the combination of a planned use of reserves and increases in accrued liabilities.

The golf course enterprise fund's net assets of \$373,000 (67%) represent the investment in capital assets while \$187,000 (33%) is unrestricted. Overall, revenues and expenses both increased at the golf course during fiscal year 2010. The operation experienced an overall decrease in net assets of \$1,300 during the fiscal year.

The parking enterprise fund's net assets of \$4.1 million represent the investment in capital assets net of related debt while a deficit balance of \$254,000 is reported as unrestricted. The parking operations experienced a net decrease of \$125,000 during fiscal year 2010, which is consistent with prior years, and is mostly attributable to recording depreciation on previously purchased capital assets totaling approximately \$230,000. The City reports this fee-for-service activity as an enterprise fund however any cash based surplus generated is transferred back to the general fund to support City programs. In fiscal year 2010, \$1.3 million was transferred back to the general fund. Consequently, the amounts remaining in the enterprise fund at year end represent non-current assets and liabilities and the assets and liabilities related to the enterprise funds capital construction projects.

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 year end. At fiscal year-end a \$1.9 million transfer was made from the general fund to cover the deficit. As of June 30, 2010, the trash fund had unrestricted net assets of \$82,000.

	Business-type Activities	
	Fiscal 2010	Fiscal 2009
Program revenues:		
Charges for services.....	\$ 15,490,202	\$ 14,715,349
Capital grants and contributions.....	41,820	43,796
Total revenues.....	15,532,022	14,759,145
Expenses:		
Cost of service and administration.....	6,372,368	5,717,758
District assessment.....	8,323,119	8,591,925
Depreciation.....	572,250	527,748
Interest.....	345,360	393,541
Total expenses.....	15,613,097	15,230,972
Excess (Deficiency) before transfers.....	(81,075)	(471,827)
Transfers.....	(1,062,580)	(702,234)
Change in net assets.....	\$ (1,143,655)	\$ (1,174,061)

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 \$15.9 million of which \$1.6 million is reported in the general fund, \$1.9 million is reported in the stabilization major fund,

\$2.9 is reported in the school capital projects major fund, and \$9.4 million is reported in the nonmajor governmental funds. Cumulatively there was an increase of \$5.3 million in fund balances from the prior year.

The general fund is the City's chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund totaled \$1.2 million, while total fund balance was \$1.6 million. The general fund balance increased by \$511,000 in fiscal year 2010. The majority of this increase relates to an increase in local receipts due to the City's adoption of the meals tax at the beginning of the fiscal year and an increase in parking fees and fines.

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 \$424,000 in fiscal 2010, due to investment earnings and a \$410,000 budgeted transfer in from the general fund.

The school capital projects fund is used to account for the City's ongoing major school construction projects. The fund increased by \$2.2 million in fiscal 2010 as the City recognized \$2.7 million in grant proceeds related to school renovation projects during fiscal year 2010.

Cumulatively, nonmajor governmental funds had a net increase of \$2.2 million. This represents the activity of other nonmajor capital projects, grants, and permanent trust funds. The fiscal year 2010 increase was almost entirely the result of the timing of expenditures on capital projects, such as roads and sidewalks and the issuance of long term debt.

General Fund Budgetary Highlights

The \$2.2 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 million in tax revenues appropriated to fund education, health insurance, and tax foreclosure services; and \$1 million in available funds (free cash) appropriated to fund stabilization reserves, capital improvements, and various additional appropriations.

The actual general fund revenues came in \$521,000 higher than budgeted. The City does not budget revenue for tax liens which totaled \$450,000. Additionally, fines and forfeitures reported a budgetary surplus of \$316,000 which was the result of a decrease in estimated receipts during the budget process.

Due to recent budget cuts, most departments ended the year with a minimal amount of unspent funds. State and county assessments were higher than anticipated by \$37,000, which mainly related to the special education assessments. The City's snow and ice removal account ended the year in a deficit of \$256,000, which is allowable under state law. This deficit is required to be funded in the subsequent year's tax levy. The City's debt service interest line was under budget by \$842,000 due to changes in interest payments for fiscal year 2010 resulting from the refunding of debt.

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, 2010, amounts to \$186 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 \$4.7 million for governmental activities and \$2.2 million for business-type activities. The City also transferred \$61.1 million, mostly relating to school building projects, from construction in progress to depreciable assets as projects were completed in governmental activities.

Debt Administration. Outstanding long-term debt of the general government, as of June 30, 2010, totaled \$50,387,000, of which \$43,815,100 is related to school projects, leaving a balance of \$1,982,900 for other CIP related projects and \$4,589,000 for capital improvements.

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, 2010 the City has recorded a receivable from the MSBA of \$26 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.

During fiscal year 2010, the City took advantage of favorable interest rates by refinancing debt related to school construction, a swimming pool, and the golf course. The savings will be recognized by lower net payments over the life of the new refunding bonds.

Outstanding debt of the water, sewer, golf and parking enterprise funds totaled \$10,381,000, \$1,641,000, \$202,000 and \$725,000, respectively, and funded various repairs, maintenance and infrastructure projects.

Please refer to notes 4, 6, 7 and 8 in the financial statements for further discussion of the major capital and debt activity.

Requests for Information

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

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 15,824,345	\$ 6,750,796	\$ 22,575,141
Investments.....	3,988,569	-	3,988,569
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	1,221,040	-	1,221,040
Tax liens.....	1,082,021	-	1,082,021
Motor vehicle and other excise taxes.....	538,292	-	538,292
User fees.....	-	3,132,048	3,132,048
Trash fees.....	-	108,980	108,980
Intergovernmental.....	5,440,484	-	5,440,484
Loans.....	182,904	-	182,904
Investment in joint venture.....	-	370,949	370,949
Total current assets.....	<u>28,277,655</u>	<u>10,362,773</u>	<u>38,640,428</u>
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	22,594,798	-	22,594,798
Loans.....	432,690	-	432,690
Capital assets, non depreciable.....	5,241,718	1,776,182	7,017,900
Capital assets, net of accumulated depreciation.....	<u>162,957,018</u>	<u>15,983,378</u>	<u>178,940,396</u>
Total noncurrent assets.....	<u>191,226,224</u>	<u>17,759,560</u>	<u>208,985,784</u>
TOTAL ASSETS.....	<u>219,503,879</u>	<u>28,122,333</u>	<u>247,626,212</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	562,892	1,568,522	2,131,414
Accrued liabilities.....	1,032,006	302,415	1,334,421
Accrued payroll.....	3,506,377	26,967	3,533,344
Tax refunds payable.....	411,901	-	411,901
Accrued interest.....	975,654	140,123	1,115,777
Capital lease obligations.....	113,033	-	113,033
Compensated absences.....	1,841,075	57,238	1,898,313
Workers' compensation.....	83,717	-	83,717
Bonds and notes payable.....	<u>7,550,000</u>	<u>371,822</u>	<u>7,921,822</u>
Total current liabilities.....	<u>16,076,655</u>	<u>2,467,087</u>	<u>18,543,742</u>
NONCURRENT:			
Capital lease obligations.....	203,999	-	203,999
Landfill closure.....	500,000	-	500,000
Compensated absences.....	6,343,025	267,831	6,610,856
Other postemployment benefits.....	16,515,995	643,409	17,159,404
Workers' compensation.....	728,415	-	728,415
Bonds and notes payable.....	<u>42,837,000</u>	<u>12,577,280</u>	<u>55,414,280</u>
Total noncurrent liabilities.....	<u>67,128,434</u>	<u>13,488,520</u>	<u>80,616,954</u>
TOTAL LIABILITIES.....	<u>83,205,089</u>	<u>15,955,607</u>	<u>99,160,696</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	147,313,749	6,301,944	153,615,693
Restricted for:			
Loans.....	615,594	-	615,594
Permanent funds:			
Expendable.....	2,783,655	-	2,783,655
Nonexpendable.....	1,689,176	-	1,689,176
Grants and gifts.....	1,803,842	-	1,803,842
Unrestricted.....	<u>(17,907,226)</u>	<u>5,864,782</u>	<u>(12,042,444)</u>
TOTAL NET ASSETS.....	<u>\$ 136,298,790</u>	<u>\$ 12,166,726</u>	<u>\$ 148,465,516</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2010

		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.....	\$ 10,865,152	\$ 736,908	\$ 277,052	\$ 832,323	\$ (9,018,869)	
Public safety.....	26,755,783	2,074,324	341,869	-	(24,339,590)	
Education.....	83,743,843	1,370,250	35,187,247	2,725,905	(44,460,441)	
Public works.....	6,820,639	166,937	86,299	577,146	(5,990,257)	
Community development.....	3,226,360	9,836	3,676,846	-	460,322	
Health and human services.....	6,622,114	150,736	5,515,780	-	(955,598)	
Culture and recreation.....	3,169,224	759,623	89,898	-	(2,319,703)	
Interest.....	1,888,315	-	1,177,043	-	(711,272)	
Total Governmental Activities...	143,091,430	5,268,614	46,352,034	4,135,374	(87,335,408)	
<i>Business-Type Activities:</i>						
Water.....	4,395,607	4,511,916	-	41,820	158,129	
Sewer.....	7,400,431	7,610,195	-	-	209,764	
Golf Course.....	399,023	589,345	-	-	190,322	
Parking.....	844,615	2,038,235	-	-	1,193,620	
Trash.....	2,573,421	740,511	-	-	(1,832,910)	
Total Business-Type Activities..	15,613,097	15,490,202	-	41,820	(81,075)	
Total Primary Government.....	\$ 158,704,527	\$ 20,758,816	\$ 46,352,034	\$ 4,177,194	\$ (87,416,483)	

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (87,335,408)	\$ (81,075)	\$ (87,416,483)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	69,067,349	-	69,067,349
Tax liens.....	234,353	-	234,353
Motor vehicle and other excise taxes.....	3,092,527	-	3,092,527
Hotel/motel tax.....	294,214	-	294,214
Penalties and interest on taxes.....	437,361	-	437,361
Payments in lieu of taxes.....	1,307,078	-	1,307,078
Grants and contributions not restricted to specific programs.....	6,583,118	-	6,583,118
Unrestricted investment income.....	435,769	-	435,769
Miscellaneous.....	250,681	-	250,681
<i>Transfers, net</i>	1,062,580	(1,062,580)	-
Total general revenues and transfers.....	82,765,030	(1,062,580)	81,702,450
Change in net assets.....	(4,570,378)	(1,143,655)	(5,714,033)
<i>Net Assets:</i>			
Beginning of year.....	140,869,168	13,310,381	154,179,549
End of year.....	\$ 136,298,790	\$ 12,166,726	\$ 148,465,516

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2010

	General	Stabilization	School Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents.....	\$ 5,289,959	\$ 1,913,913	\$ 2,930,717	\$ 5,671,942	\$ 15,806,531
Investments.....	-	-	-	3,988,569	3,988,569
Receivables, net of uncollectibles:					
Real estate and personal property taxes.....	1,221,040	-	-	-	1,221,040
Tax liens.....	1,082,021	-	-	-	1,082,021
Motor vehicle and other excise taxes.....	538,292	-	-	-	538,292
Intergovernmental.....	26,533,062	-	-	1,502,220	28,035,282
Loans.....	-	-	-	615,594	615,594
Due from other funds.....	-	-	-	100,968	100,968
TOTAL ASSETS.....	\$ 34,664,374	\$ 1,913,913	\$ 2,930,717	\$ 11,879,293	\$ 51,388,297
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable.....	\$ 44,186	\$ -	\$ -	\$ 518,706	\$ 562,892
Accrued liabilities.....	1,032,006	-	-	-	1,032,006
Accrued payroll.....	3,266,956	-	-	239,421	3,506,377
Tax refunds payable.....	411,901	-	-	-	411,901
Accrued interest on short-term debt.....	43,390	-	-	-	43,390
Deferred revenues.....	28,233,016	-	-	1,603,088	29,836,104
Due to other funds.....	-	-	-	100,968	100,968
TOTAL LIABILITIES.....	33,031,455	-	-	2,462,183	35,493,638
FUND BALANCES:					
Reserved for:					
Encumbrances and continuing appropriations.....	421,825	-	-	-	421,825
Perpetual permanent funds.....	-	-	-	1,689,176	1,689,176
Unreserved:					
Undesignated, reported in:					
General fund.....	1,211,094	-	-	-	1,211,094
Special revenue funds.....	-	1,913,913	-	3,905,789	5,819,702
Capital projects funds.....	-	-	2,930,717	1,038,490	3,969,207
Permanent funds.....	-	-	-	2,783,655	2,783,655
TOTAL FUND BALANCES.....	1,632,919	1,913,913	2,930,717	9,417,110	15,894,659
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 34,664,374	\$ 1,913,913	\$ 2,930,717	\$ 11,879,293	\$ 51,388,297

See notes to basic financial statements.

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

JUNE 30, 2010

Total governmental fund balances.....	\$ 15,894,659
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....	168,198,736
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....	29,836,104
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.....	17,814
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....	(932,264)
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.....	(50,387,000)
Landfill closure.....	(500,000)
Workers' compensation.....	(812,132)
Capital leases.....	(317,032)
Compensated absences.....	(8,184,100)
Other postemployment benefits.....	<u>(16,515,995)</u>
Net effect of reporting long-term liabilities.....	<u>(76,716,259)</u>
Net assets of governmental activities.....	<u>\$ 136,298,790</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2010

	General	Stabilization	School Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 68,747,759	\$ -	\$ -	\$ -	\$ 68,747,759
Tax liens.....	449,935	-	-	-	449,935
Motor vehicle and other excise taxes.....	3,007,759	-	-	-	3,007,759
Hotel/motel tax.....	294,214	-	-	-	294,214
Charges for services.....	1,190,514	-	-	67,130	1,257,644
Penalties and interest on taxes.....	437,361	-	-	-	437,361
Payments in lieu of taxes.....	1,307,078	-	-	-	1,307,078
Licenses and permits.....	567,733	-	-	-	567,733
Fines and forfeitures.....	1,266,267	-	-	-	1,266,267
Intergovernmental.....	36,907,119	-	2,725,906	20,215,320	59,848,345
Departmental and other.....	177,484	-	-	2,274,199	2,451,683
Contributions.....	-	-	-	479,888	479,888
Investment income.....	62,904	13,970	-	359,812	436,686
TOTAL REVENUES.....	114,416,127	13,970	2,725,906	23,396,349	140,552,352
EXPENDITURES:					
Current:					
General government.....	4,526,661	-	-	1,899,117	6,425,778
Public safety.....	15,527,593	-	-	863,505	16,391,098
Education.....	47,315,210	-	516,919	10,751,260	58,583,389
Public works.....	2,622,215	-	-	2,103,451	4,725,666
Community development.....	-	-	-	3,958,870	3,958,870
Health and human services.....	745,139	-	-	5,436,448	6,181,587
Culture and recreation.....	1,768,739	-	-	1,072,040	2,840,779
Pension benefits.....	16,770,835	-	-	-	16,770,835
Employee benefits.....	11,077,682	-	-	-	11,077,682
State and county charges.....	6,655,890	-	-	-	6,655,890
Debt service:					
Principal.....	4,495,000	-	-	890,000	5,385,000
Interest.....	2,051,969	-	-	35,059	2,087,028
TOTAL EXPENDITURES.....	113,556,933	-	516,919	27,009,750	141,083,602
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	859,194	13,970	2,208,987	(3,613,401)	(531,250)
OTHER FINANCING SOURCES (USES):					
Issuance of bonds and notes.....	-	-	-	4,589,000	4,589,000
Issuance of refunding bonds.....	11,043,000	-	-	-	11,043,000
Premium from issuance of refunding bonds.....	575,986	-	-	-	575,986
Refunding bonds redeemed.....	(2,930,000)	-	-	-	(2,930,000)
Payments to refunded bond escrow agent.....	(8,512,010)	-	-	-	(8,512,010)
Capital lease financing.....	43,500	-	-	-	43,500
Transfers in.....	3,835,406	410,036	-	1,915,155	6,160,597
Transfers out.....	(4,404,033)	-	-	(693,984)	(5,098,017)
TOTAL OTHER FINANCING SOURCES (USES).....	(348,151)	410,036	-	5,810,171	5,872,056
NET CHANGE IN FUND BALANCES.....	511,043	424,006	2,208,987	2,196,770	5,340,806
FUND BALANCES AT BEGINNING OF YEAR.....	1,121,876	1,489,907	721,730	7,220,340	10,553,853
FUND BALANCES AT END OF YEAR.....	\$ 1,632,919	\$ 1,913,913	\$ 2,930,717	\$ 9,417,110	\$ 15,894,659

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, 2010

Net change in fund balances - total governmental funds.....	\$	5,340,806
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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.....	4,654,814	
Depreciation expense.....	<u>(6,146,292)</u>	
Net effect of reporting capital assets.....		(1,491,478)

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..... (2,962,850)

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.....	257,239	
Capital lease issuance.....	(43,500)	
Issuance of bonds and notes.....	(4,589,000)	
Debt service principal payments.....	<u>5,385,000</u>	
Net effect of reporting long-term debt.....		1,009,739

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.....	(328,617)	
Net change in landfill liability accrual.....	(500,000)	
Net change in workers' compensation.....	(326,205)	
Net change in accrued interest on long-term debt.....	21,737	
Net change in other postemployment benefits.....	<u>(5,463,914)</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		(6,596,999)

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>130,404</u>
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Change in net assets of governmental activities.....	\$	<u>(4,570,378)</u>
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See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2010

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Parking	Trash	Total	Funds
ASSETS							
CURRENT:							
Cash and cash equivalents.....	\$ 5,547,018	\$ 643,810	\$ 327,208	\$ 14,984	\$ 217,776	\$ 6,750,796	\$ 17,814
Receivables, net of allowance for uncollectibles:							
User fees.....	1,235,104	1,896,944	-	-	-	3,132,048	-
Trash fees.....	-	-	-	-	108,980	108,980	-
Investment in joint venture.....	-	370,949	-	-	-	370,949	-
Total current assets.....	6,782,122	2,911,703	327,208	14,984	326,756	10,362,773	17,814
NONCURRENT:							
Capital assets, non depreciable.....	1,510,349	99,552	118,067	48,214	-	1,776,182	-
Capital assets, net of accumulated depreciation....	9,015,610	1,755,813	456,952	4,755,003	-	15,983,378	-
Total noncurrent assets.....	10,525,959	1,855,365	575,019	4,803,217	-	17,759,560	-
TOTAL ASSETS.....	17,308,081	4,767,068	902,227	4,818,201	326,756	28,122,333	17,814
LIABILITIES							
CURRENT:							
Warrants payable.....	1,568,522	-	-	-	-	1,568,522	-
Accrued liabilities.....	49,416	44,099	-	-	208,900	302,415	-
Accrued payroll.....	13,756	12,239	-	-	972	26,967	-
Accrued interest.....	98,686	16,410	8,408	16,619	-	140,123	-
Compensated absences.....	11,059	11,059	11,747	23,373	-	57,238	-
Bonds and notes payable.....	266,822	-	30,000	75,000	-	371,822	-
Total current liabilities.....	2,008,261	83,807	50,155	114,992	209,872	2,467,087	-
NONCURRENT:							
Compensated absences.....	111,676	111,676	34,935	9,544	-	267,831	-
Other postemployment benefits obligation.....	159,409	159,117	85,183	204,437	35,263	643,409	-
Bonds and notes payable.....	10,114,280	1,641,000	172,000	650,000	-	12,577,280	-
Total noncurrent liabilities.....	10,385,365	1,911,793	292,118	863,981	35,263	13,488,520	-
TOTAL LIABILITIES.....	12,393,626	1,995,600	342,273	978,973	245,135	15,955,607	-
NET ASSETS							
Invested in capital assets, net of related debt.....	1,429,224	406,500	373,019	4,093,201	-	6,301,944	-
Unrestricted.....	3,485,231	2,364,968	186,935	(253,973)	81,621	5,864,782	17,814
TOTAL NET ASSETS.....	\$ 4,914,455	\$ 2,771,468	\$ 559,954	\$ 3,839,228	\$ 81,621	\$ 12,166,726	\$ 17,814

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2010

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Parking	Trash	Total	
OPERATING REVENUES:							
Employer contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 112,591
Charges for services	4,511,916	7,250,195	589,345	2,038,235	740,511	15,130,202	-
Intergovernmental.....	-	360,000	-	-	-	360,000	-
Other.....	-	-	-	-	-	-	17,813
TOTAL OPERATING REVENUES	4,511,916	7,610,195	589,345	2,038,235	740,511	15,490,202	130,404
OPERATING EXPENSES:							
Cost of services and administration	1,631,757	1,236,023	349,911	581,256	2,573,421	6,372,368	-
District Assessment.....	2,241,401	6,081,718	-	-	-	8,323,119	-
Depreciation.....	248,606	55,000	38,148	230,496	-	572,250	-
TOTAL OPERATING EXPENSES	4,121,764	7,372,741	388,059	811,752	2,573,421	15,267,737	-
OPERATING INCOME (LOSS).....	390,152	237,454	201,286	1,226,483	(1,832,910)	222,465	130,404
NONOPERATING REVENUES (EXPENSES):							
Interest expense.....	(273,843)	(27,690)	(10,964)	(32,863)	-	(345,360)	-
Intergovernmental.....	41,820	-	-	-	-	41,820	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(232,023)	(27,690)	(10,964)	(32,863)	-	(303,540)	-
INCOME (LOSS) BEFORE TRANSFERS.....	158,129	209,764	190,322	1,193,620	(1,832,910)	(81,075)	130,404
TRANSFERS:							
Transfers in.....	-	-	355,763	-	1,877,504	2,233,267	-
Transfers out.....	(680,125)	(749,940)	(547,405)	(1,318,377)	-	(3,295,847)	-
TOTAL TRANSFERS.....	(680,125)	(749,940)	(191,642)	(1,318,377)	1,877,504	(1,062,580)	-
CHANGE IN NET ASSETS.....	(521,996)	(540,176)	(1,320)	(124,757)	44,594	(1,143,655)	130,404
NET ASSETS AT BEGINNING OF YEAR.....	5,436,451	3,311,644	561,274	3,963,985	37,027	13,310,381	(112,590)
NET ASSETS AT END OF YEAR.....	\$ 4,914,455	\$ 2,771,468	\$ 559,954	\$ 3,839,228	\$ 81,621	\$ 12,166,726	\$ 17,814

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2010

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Parking	Trash	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from customers and users.....	\$ 4,270,968	\$ 7,170,497	\$ 589,345	\$ 2,038,235	\$ 764,190	\$ 14,833,235	\$ -
Receipts from interfund services provided.....	-	-	-	-	-	-	130,404
Receipts from other governments.....	-	360,000	-	-	-	360,000	-
Payments to vendors.....	(3,381,255)	(6,636,976)	(125,552)	(105,135)	(2,537,767)	(12,786,685)	-
Payments to employees.....	(363,042)	(348,291)	(194,118)	(413,578)	(24,281)	(1,343,310)	-
Payments for interfund services used.....	-	-	-	-	-	-	(304,917)
NET CASH FROM OPERATING ACTIVITIES.....	526,671	545,230	269,675	1,519,522	(1,797,858)	1,063,240	(174,513)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:							
Transfers in.....	-	-	355,763	-	1,877,504	2,233,267	-
Transfers out.....	(680,125)	(749,940)	(547,405)	(1,318,377)	-	(3,295,847)	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(680,125)	(749,940)	(191,642)	(1,318,377)	1,877,504	(1,062,580)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Proceeds from the issuance of bonds and notes.....	7,389,000	1,641,000	-	-	-	9,030,000	-
Acquisition and construction of capital assets.....	(348,251)	(698,075)	-	(93,657)	-	(1,139,983)	-
Principal payments on bonds and notes.....	(5,053,806)	(940,000)	(28,000)	(75,000)	-	(6,096,806)	-
Interest expense.....	(269,583)	(33,840)	(8,093)	(32,488)	-	(344,004)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	1,717,360	(30,915)	(36,093)	(201,145)	-	1,449,207	-
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	1,563,906	(235,625)	41,940	-	79,646	1,449,867	(174,513)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	3,983,112	879,435	285,268	14,984	138,130	5,300,929	192,327
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 5,547,018	\$ 643,810	\$ 327,208	\$ 14,984	\$ 217,776	\$ 6,750,796	\$ 17,814
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:							
Operating income (loss).....	\$ 390,152	\$ 237,454	\$ 201,286	\$ 1,226,483	\$ (1,832,910)	\$ 222,465	\$ 130,404
Adjustments to reconcile operating income (loss) to net cash from operating activities:							
Depreciation.....	248,606	55,000	38,148	230,496	-	572,250	-
Changes in assets and liabilities:							
User fees.....	(240,948)	(79,698)	-	-	-	(320,646)	-
Trash fees.....	-	-	-	-	(1,683)	(1,683)	-
Investment in joint venture.....	-	159,517	-	-	-	159,517	-
Departmental and other.....	-	-	-	-	25,362	25,362	-
Warrants payable.....	17,290	-	-	-	-	17,290	-
Accrued liabilities.....	(69,288)	(4,540)	-	-	3,761	(70,067)	-
Accrued payroll.....	2,298	(1,064)	-	-	(836)	398	-
Health claims payable.....	-	-	-	-	-	-	(304,917)
Other postemployment benefits.....	73,772	73,772	28,830	69,191	8,448	254,013	-
Accrued compensated absences.....	104,789	104,789	1,411	(6,648)	-	204,341	-
Total adjustments.....	136,519	307,776	68,389	293,039	35,052	840,775	(304,917)
NET CASH FROM OPERATING ACTIVITIES.....	\$ 526,671	\$ 545,230	\$ 269,675	\$ 1,519,522	\$ (1,797,858)	\$ 1,063,240	\$ (174,513)

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2010

	Pension Trust Fund (as of December 31, 2009)	Private Purpose Trust Funds	Agency Fund
ASSETS			
Cash and cash equivalents.....	\$ 6,023,739	\$ 203,599	\$ 778,528
Investments:			
Corporate bonds.....	-	1,032,251	-
Real estate and alternative investment mutual funds...	1,470,216	-	-
PRIT.....	75,342,608	-	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	433,276	-	-
NONCURRENT:			
Capital assets, net of accumulated depreciation.....	110,156	-	-
TOTAL ASSETS	<u>83,379,995</u>	<u>1,235,850</u>	<u>778,528</u>
LIABILITIES			
Warrants payable.....	7,719	-	51,680
Liabilities due depositors.....	-	-	726,848
TOTAL LIABILITIES	<u>7,719</u>	<u>-</u>	<u>778,528</u>
NET ASSETS			
Held in trust for pension benefits and other purposes.....	<u>\$ 83,372,276</u>	<u>\$ 1,235,850</u>	<u>\$ -</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2010

	Pension Trust Fund (as of December 31, 2009)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer.....	\$ 9,628,758	\$ -
Plan member.....	3,075,565	-
Private donations.....	-	4,765
Total contributions.....	12,704,323	4,765
Net investment income:		
Net change in fair value of investments.....	8,870,179	55,749
Interest.....	2,320,825	303
Total investment income.....	11,191,004	56,052
Less: investment expense.....	(429,564)	-
Net investment income.....	10,761,440	56,052
Intergovernmental.....	327,757	-
Transfers from other systems.....	225,373	-
TOTAL ADDITIONS.....	24,018,893	60,817
DEDUCTIONS:		
Administration.....	241,547	-
Transfers to other systems.....	155,418	-
Retirement benefits and refunds.....	12,443,057	-
Educational scholarships.....	-	24,210
Housing subsidies.....	-	101,428
Depreciation.....	3,125	-
TOTAL DEDUCTIONS.....	12,843,147	125,638
CHANGE IN NET ASSETS.....	11,175,746	(64,821)
NET ASSETS AT BEGINNING OF YEAR.....	72,196,530	1,300,671
NET ASSETS AT END OF YEAR.....	\$ 83,372,276	\$ 1,235,850

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, 2010, the City's equity interest in the operations of the District totaled \$370,949, 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,

2010 totaled approximately \$2,241,000. 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% of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding element for all governmental and enterprise funds combined.

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

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

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

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

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

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

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

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

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

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

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

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

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

The following major proprietary funds are reported:

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

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

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

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

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

Additionally, the following proprietary fund type is reported:

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

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting 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 deficit existed at June 30, 2010 in the other capital project funds. This deficit 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 2011. 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 15% of any trust fund may be invested in bank stocks and insurance company stocks, and not more than 1½% 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 \$15,950,579 and the bank balance totaled \$18,305,625. Of the bank balance, \$1,314,922 was covered by Federal Depository Insurance, \$3,078,786 was covered by the FDIC Transaction Account Guarantee Program, \$1,694,659 was covered by the Depositors Insurance Fund, and \$12,217,258 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 \$267,067 and the bank balance totaled \$300,000. The entire bank balance was covered by Federal Depository Insurance.

Investments

As of June 30, 2010, the City had the following investments:

Investment Type	<u>Fair Value</u>	<u>Maturity 1-5 Years</u>
<u>Debt Securities:</u>		
Corporate Bonds.....	\$ 1,079,876	\$ <u>1,079,876</u>
<u>Other Investments:</u>		
Equity Securities.....	2,533,935	
Equity Mutual Funds.....	502,155	
Bond Mutual Funds.....	501,491	
International Emerging Market Mutual Funds.....	403,363	
Money Market Mutual Funds.....	546,786	
MMDT.....	<u>7,059,903</u>	
Total Investments.....	\$ <u>12,627,509</u>	

As of December 31, 2009, the System had the following investments:

Investment Type	<u>Fair Value</u>	<u>Maturity Under 1 Year</u>
<u>Debt Securities:</u>		
Repurchase Agreements.....	\$ <u>5,261,752</u>	\$ <u>5,261,752</u>
<u>Other Investments:</u>		
Government Short-term Investment Funds.....	494,920	
Venture Capital and Limited Partnerships.....	879,761	
Real Estate Investment Trust.....	590,455	
Pension Reserve Investment Trust (PRIT).....	<u>75,342,608</u>	
Total Investments.....	\$ <u>82,569,496</u>	

The City participates in MMDT, which maintains a cash portfolio and a short-term bond portfolio with combined average maturities of approximately 3 months. Credit ratings associated with the City's investment in MMDT ranged from A1/P1 to unrated; with approximately 98% rated A1/P1 and approximately 2% rated A2/P2.

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from .08 to 8.58 years.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Of the City's investments, \$1,079,876 in corporate bonds, and \$2,533,935 in equity securities are exposed to custodial credit risk because the related securities are uninsured, unregistered and are held by the counterparty. The City has a formal investment policy related to custodial credit risk to invest in U.S. Treasuries, U.S. Agency obligations and fully collateralized certificates of deposit and in addition any investments not meeting this criteria is limited to no more than 5% of an institution's assets and no more than 10% of the municipality's cash.

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

Interest Rate Risk

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

Credit Risk

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

	Fair Value	Rating		
		AA	A	Unrated
<u>Debt Securities:</u>				
Corporate Bonds.....	\$ 1,079,876	\$ 276,097	\$ 793,904	\$ 9,875

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

Concentration of Credit Risk

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

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

NOTE 3 – RECEIVABLES

At June 30, 2010, receivables for the individual major governmental funds, non-major governmental funds and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 1,221,040	\$ -	\$ 1,221,040
Tax liens.....	1,082,021	-	1,082,021
Motor vehicle and other excise taxes.....	941,014	(402,722)	538,292
Intergovernmental.....	28,035,282	-	28,035,282
Loans.....	878,864	(263,270)	615,594
Total.....	<u>\$ 32,158,221</u>	<u>\$ (665,992)</u>	<u>\$ 31,492,229</u>

At June 30, 2010, receivables for the water, sewer and trash enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water user fees.....	\$ 1,235,104	\$ -	\$ 1,235,104
Sewer user fees.....	1,896,944	-	1,896,944
Trash fees.....	108,980	-	108,980
Total.....	<u>\$ 3,241,028</u>	<u>\$ -</u>	<u>\$ 3,241,028</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.....	\$ 762,865	\$ -	\$ 762,865
Tax liens.....	1,082,021	-	1,082,021
Motor vehicle and other excise taxes.....	538,292	-	538,292
Intergovernmental.....	25,849,838	987,494	26,837,332
Loans.....	-	615,594	615,594
Total.....	<u>\$ 28,233,016</u>	<u>\$ 1,603,088</u>	<u>\$ 29,836,104</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 4,724,892	\$ -	\$ -	\$ 4,724,892
Construction in progress.....	61,152,601	480,396	(61,116,171)	516,826
Total capital assets not being depreciated.....	65,877,493	480,396	(61,116,171)	5,241,718
<u>Capital assets being depreciated:</u>				
Land improvements.....	3,461,505	1,512,084	-	4,973,589
Buildings and improvements.....	110,256,867	61,009,540	(32,560)	171,233,847
Equipment.....	8,171,101	1,309,039	(140,174)	9,339,966
Infrastructure.....	53,701,589	1,346,419	-	55,048,008
Vehicles.....	5,815,512	113,507	(324,825)	5,604,194
Total capital assets being depreciated.....	181,406,574	65,290,589	(497,559)	246,199,604
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(1,583,750)	(159,303)	-	(1,743,053)
Buildings and improvements.....	(41,514,296)	(3,559,678)	32,560	(45,041,414)
Equipment.....	(3,940,747)	(602,754)	140,174	(4,403,327)
Infrastructure.....	(26,310,987)	(1,494,047)	-	(27,805,034)
Vehicles.....	(4,244,073)	(330,510)	324,825	(4,249,758)
Total accumulated depreciation.....	(77,593,853)	(6,146,292)	497,559	(83,242,586)
Total capital assets being depreciated, net.....	103,812,721	59,144,297	-	162,957,018
Total governmental activities capital assets.....	\$ 169,690,214	\$ 59,624,693	\$ (61,116,171)	\$ 168,198,736

	Beginning Balance	Increases	Decreases	Ending Balance
Water Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 10,589	\$ -	\$ -	\$ 10,589
Construction in progress.....	-	1,499,760	-	1,499,760
Total capital assets not being depreciated.....	10,589	1,499,760	-	1,510,349
<u>Capital assets being depreciated:</u>				
Land improvements.....	114,550	-	-	114,550
Equipment.....	296,290	-	-	296,290
Vehicles.....	48,794	-	-	48,794
Infrastructure.....	14,746,038	355,012	-	15,101,050
Total capital assets being depreciated.....	15,205,672	355,012	-	15,560,684
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(42,957)	(5,728)	-	(48,685)
Equipment.....	(53,572)	(29,629)	-	(83,201)
Vehicles.....	(14,638)	(9,759)	-	(24,397)
Infrastructure.....	(6,185,301)	(203,490)	-	(6,388,791)
Total accumulated depreciation.....	(6,296,468)	(248,606)	-	(6,545,074)
Total capital assets being depreciated, net.....	8,909,204	106,406	-	9,015,610
Total water activities capital assets.....	\$ 8,919,793	\$ 1,606,166	\$ -	\$ 10,525,959
Sewer Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 99,552	\$ -	\$ -	\$ 99,552
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	5,425	-	-	5,425
Vehicles.....	48,796	-	-	48,796
Infrastructure.....	2,598,254	277,650	-	2,875,904
Total capital assets being depreciated.....	2,652,475	277,650	-	2,930,125
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(5,358)	(68)	-	(5,426)
Vehicles.....	(14,639)	(9,759)	-	(24,398)
Infrastructure.....	(1,099,315)	(45,173)	-	(1,144,488)
Total accumulated depreciation.....	(1,119,312)	(55,000)	-	(1,174,312)
Total capital assets being depreciated, net.....	1,533,163	222,650	-	1,755,813
Total sewer activities capital assets.....	\$ 1,632,715	\$ 222,650	\$ -	\$ 1,855,365

	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.....	342,233	-	(5,000)	337,233
Total capital assets being depreciated.....	1,109,073	-	(5,000)	1,104,073
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(302,644)	(1,201)	-	(303,845)
Buildings and improvements.....	(118,488)	(11,000)	-	(129,488)
Equipment.....	(192,841)	(25,947)	5,000	(213,788)
Total accumulated depreciation.....	(613,973)	(38,148)	5,000	(647,121)
Total capital assets being depreciated, net.....	495,100	(38,148)	-	456,952
Total golf course activities capital assets.....	\$ 613,167	\$ (38,148)	\$ -	\$ 575,019

	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	68,705	-	73,805
Infrastructure.....	-	24,952	-	24,952
Total capital assets being depreciated.....	8,968,566	93,657	-	9,062,223
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(141,353)	(33,500)	-	(174,853)
Buildings and improvements.....	(3,930,271)	(191,066)	-	(4,121,337)
Equipment.....	(5,100)	(3,435)	-	(8,535)
Infrastructure.....	-	(2,495)	-	(2,495)
Total accumulated depreciation.....	(4,076,724)	(230,496)	-	(4,307,220)
Total capital assets being depreciated, net.....	4,891,842	(136,839)	-	4,755,003
Total parking activities capital assets.....	\$ 4,940,056	\$ (136,839)	\$ -	\$ 4,803,217

In the fiduciary activities, the Retirement System owns a condominium, which is being depreciated on a straight-line basis over 40 years. The historical cost of the condominium was \$125,000; accumulated depreciation through December 31, 2009 totals \$14,844, for a net book value of \$110,156.

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

Governmental Activities:

General government.....	\$	369,974
Public safety.....		507,574
Education.....		3,447,711
Public works.....		1,659,222
Health and human services.....		3,435
Culture and recreation.....		<u>158,376</u>

Total depreciation expense - governmental activities..... \$ 6,146,292

Business-Type Activities:

Water.....	\$	248,606
Sewer.....		55,000
Golf Course.....		38,148
Parking.....		<u>230,496</u>

Total depreciation expense - business-type activities..... \$ 572,250

Fiduciary Activities:

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

Interfund transfers for the fiscal year ended June 30, 2010, 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.....	\$ -	\$ 410,036	\$ 355,763	\$ 1,877,504	\$ 1,760,730	\$ 4,404,033 (1)
Nonmajor Governmental Funds.....	539,559	-	-	-	154,425	693,984 (2)
Parking Enterprise Fund.....	1,318,377	-	-	-	-	1,318,377 (3)
Golf Course Enterprise Fund.....	547,405	-	-	-	-	547,405 (4)
Sewer Enterprise Fund.....	749,940	-	-	-	-	749,940 (5)
Water Enterprise Fund.....	<u>680,125</u>	-	-	-	-	<u>680,125 (6)</u>
Total.....	<u>\$ 3,835,406</u>	<u>\$ 410,036</u>	<u>\$ 355,763</u>	<u>\$ 1,877,504</u>	<u>\$ 1,915,155</u>	<u>\$ 8,393,864</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.

Transfer from general fund to nonmajor for the retirement of the school funding deficit loan.

(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, 2010 consisted of \$100,968 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, radio equipment, police vehicles, school buses, and computer hardware and software. These lease agreements qualify as capital leases for accounting purposes and therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

<u>Asset:</u>	<u>Governmental Activities</u>
Machinery and equipment.....	\$ 590,937
Vehicles.....	823,653
Less: accumulated depreciation.....	<u>(341,285)</u>
Total.....	<u>\$ 1,073,305</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2010, were as follows:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2011.....	\$ 129,402
2012.....	129,402
2013.....	57,264
2014.....	<u>57,264</u>
Total minimum lease payments.....	373,332
Less: amounts representing interest.....	<u>(56,300)</u>
Present value of minimum lease payments.....	<u>\$ 317,032</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, 2010, 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>
2011.....	<u>\$ 240,000</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, 2010, are as follows:

Governmental Activities				Balance at			Balance at
Type	Purpose	Rate (%)	Due Date	June 30, 2009	Renewed/ Issued	Retired/ Redeemed	June 30, 2010
BAN	Departmental Vehicles and Equipment.....	3.60%	10/23/09	\$ 2,135,000	\$ -	\$ 2,135,000	\$ -
Business-type activities							
BAN	Water Improvements.....	3.60%	10/23/09	1,825,000	-	1,825,000	-
BAN	Water Improvements.....	1.50%	10/22/10	-	36,000	-	36,000
BAN	Sewer Improvements.....	3.60%	10/23/09	940,000	-	940,000	-
	Sub-total business-type notes.....			2,765,000	36,000	2,765,000	36,000
	Total notes payable.....			\$ 4,900,000	\$ 36,000	\$ 4,900,000	\$ 36,000

The City had \$4,589,000 of governmental BANs, \$5,389,000 of water BANs and \$1,641,000 of sewer BANs outstanding at June 30, 2010 classified as long-term debt as these BANs were refinanced subsequent to year end by the issuance of long-term debt. This transaction is more fully explained in Note 8.

NOTE 8 – LONG-TERM DEBT

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

Subsequent to year end, the City issued \$15,373,000 of long-term debt. The proceeds of this debt were used to retire \$4,589,000 of governmental BANs, \$5,389,000 of water BANs and \$1,641,000 of sewer BANs outstanding at June 30, 2010. The remaining \$3,754,000 of proceeds is allocated for \$1,630,000 in governmental expenditures, \$2,075,000 in water expenditures and \$49,000 in sewer expenditures.

During fiscal year 2010, the City also issued \$8,285,000 of General Obligation Refunding Bonds to refund, on a current basis \$1,470,000, and on an advance basis \$6,775,000 of outstanding debt related to school construction, a swimming pool, and the golf course. The proceeds of the Refunding Bonds were placed in an irrevocable trust

to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. Through this refunding, the City has decreased its aggregate debt service payments by \$881,061 and will experience an economic gain of \$876,634. A portion of this savings, once determined, will be offset by a decrease in future reimbursements of interest costs from the MSBA. As of June 30, 2010, \$6,775,000 of the refunded bonds are considered defeased.

Details related to the outstanding general obligation indebtedness at June 30, 2010, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2009	Issued	Redeemed	Outstanding at June 30, 2010
School Construction.....	2.25-6.75%	\$ 44,866,000	\$ -	\$ 12,052,000	\$ 32,814,000
HUD Section 108.....	9.00%	210,000	-	35,000	175,000
Swimming Pool.....	4.50-6.75%	120,000	-	80,000	40,000
Police Station.....	3.50-4.00%	879,000	-	293,000	586,000
Police Equipment.....	3.50-4.00%	570,000	-	85,000	485,000
Ferry Boat.....	3.50-4.00%	715,000	-	60,000	655,000
School Deficit Funding Loan.....	3.60%	855,000	-	855,000	-
School Long-term BAN.....	3.60%	2,930,000	2,930,000	2,930,000	2,930,000
Refunding Bond 2010.....	2.00-5.00%	-	8,071,100	-	8,071,100
Swimming Pool Refunding.....	2.00-5.00%	-	41,900	-	41,900
Capital Improvements.....	3.00-4.00%	-	4,589,000	-	4,589,000
Total Governmental bonds payable.....		<u>\$ 51,145,000</u>	<u>\$ 15,632,000</u>	<u>\$ 16,390,000</u>	50,387,000
General obligation bonds issued October 15, 2010 (see below).....					<u>1,630,000</u>
Total.....					<u>\$ 52,017,000</u>

Debt service requirements for principal and interest for Governmental bonds payable include the debt issuance subsequent to year in which all but \$1,630,000 of new funds were used to redeem long-term BANs. The future fiscal years payments are as follows:

Fiscal Year	Principal	Interest	Total
2011.....	\$ 7,550,000	\$ 1,976,982	\$ 9,526,982
2012.....	4,817,000	1,728,255	6,545,255
2013.....	3,934,000	1,574,987	5,508,987
2014.....	4,075,000	1,416,845	5,491,845
2015.....	3,570,000	1,267,240	4,837,240
2016.....	3,585,000	1,139,421	4,724,421
2017.....	3,406,000	1,010,431	4,416,431
2018.....	3,485,000	877,842	4,362,842
2019.....	3,585,000	739,816	4,324,816
2020.....	3,680,000	581,378	4,261,378
2021.....	2,755,000	433,078	3,188,078
2022.....	2,545,000	319,678	2,864,678
2023.....	2,620,000	206,446	2,826,446
2024.....	660,000	87,782	747,782
2025.....	660,000	60,879	720,879
2026.....	410,000	36,462	446,462
2027.....	340,000	21,038	361,038
2028.....	340,000	7,013	347,013
Total.....	\$ <u>52,017,000</u>	\$ <u>13,485,573</u>	\$ <u>65,502,573</u>

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 with available funds.

The City had \$2,930,000 in school long-term bans and \$1,000,000 in water long-term BANs outstanding on July 1, 2009 which were refinanced during the fiscal year and have been classified as a current refunding of debt. The current refunding did not have an economic gain or loss.

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 2010, \$4,369,000 of such assistance was received. Approximately \$33,743,000 will be received in future fiscal years. Of the \$33,742,000, \$7,893,000 represents reimbursement of long-term interest costs, and \$25,850,000 represents reimbursement of approved construction costs. Accordingly, a \$25,850,000 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 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 – Water Enterprise Fund

Project	Interest Rate (%)	Outstanding at June 30, 2009	Issued	Redeemed	Outstanding at June 30, 2010
Water Project - MWPAT.....	2.00%	\$ 2,140,908	\$ -	\$ 99,806	\$ 2,041,102
Water Project.....	3.75-5.00%	3,080,000	-	165,000	2,915,000
Water System Long-term BAN.....	3.60%	1,000,000	-	1,000,000	-
Water System Improvements.....	3.00-4.00%	-	5,389,000	-	5,389,000
Total Water Enterprise Fund.....		\$ 6,220,908	\$ 5,389,000	\$ 1,264,806	10,345,102
General obligation bonds issued October 15, 2010 (see below).....					2,075,000
Total.....					\$ 12,420,102

Debt service requirements for principal and interest for water enterprise bonds payable include the debt issuance subsequent to year in which all but \$2,075,000 of new funds were used to redeem long-term BANs. The future fiscal years payments are as follows:

Fiscal Year	Principal	Interest	Total
2011.....	\$ 266,822	\$ 262,078	\$ 528,900
2012.....	712,880	417,169	1,130,049
2013.....	710,978	393,561	1,104,539
2014.....	713,119	370,795	1,083,914
2015.....	715,303	348,811	1,064,114
2016.....	717,532	326,989	1,044,521
2017.....	719,805	302,922	1,022,727
2018.....	717,124	276,502	993,626
2019.....	719,490	250,135	969,625
2020.....	721,904	223,721	945,625
2021.....	724,367	197,259	921,626
2022.....	726,880	170,747	897,627
2023.....	729,443	144,184	873,627
2024.....	727,058	117,669	844,727
2025.....	729,726	91,101	820,827
2026.....	727,447	64,479	791,926
2027.....	530,224	41,902	572,126
2028.....	390,000	24,700	414,700
2029.....	230,000	12,200	242,200
2030.....	95,000	5,700	100,700
2031.....	95,000	1,900	96,900
Total.....	\$ 12,420,102	\$ 4,044,524	\$ 16,464,626

Bonds and Notes Payable Schedule – Sewer Enterprise Fund

Project	Interest Rate (%)	Outstanding at June 30, 2009	Issued	Redeemed	Outstanding at June 30, 2010
Sewer Improvements.....	3.00-4.00%	\$ -	\$ 1,641,000	\$ -	\$ 1,641,000
General obligation bonds issued October 15, 2010 (see below).....					49,000
Total.....					\$ 1,690,000

Debt service requirements for principal and interest for sewer enterprise bonds payable include the debt issuance subsequent to year in which all but \$49,000 of new funds were used to redeem long-term BANs. The future fiscal years payments are as follows:

Fiscal Year	Principal	Interest	Total
2011.....	-	23,686	23,686
2012.....	\$ 105,000	\$ 61,125	\$ 166,125
2013.....	100,000	58,050	158,050
2014.....	95,000	55,125	150,125
2015.....	95,000	52,275	147,275
2016.....	95,000	49,425	144,425
2017.....	95,000	46,100	141,100
2018.....	95,000	42,300	137,300
2019.....	95,000	38,500	133,500
2020.....	95,000	34,700	129,700
2021.....	90,000	31,000	121,000
2022.....	85,000	27,500	112,500
2023.....	85,000	24,100	109,100
2024.....	85,000	20,700	105,700
2025.....	85,000	17,300	102,300
2026.....	85,000	13,900	98,900
2027.....	85,000	10,500	95,500
2028.....	85,000	7,100	92,100
2029.....	85,000	3,700	88,700
2030.....	50,000	1,000	51,000
Total.....	\$ 1,690,000	\$ 618,086	\$ 2,308,086

Bonds and Notes Payable Schedule – Golf Course Enterprise Fund

Project	Interest Rate (%)	Outstanding at June 30, 2009	Issued	Redeemed	Outstanding at June 30, 2010
Golf Course.....	4.50-6.75%	\$ 230,000	\$ -	\$ 200,000	\$ 30,000
Refunding Bond 2010.....	2.00-5.00%	-	172,000	-	172,000
Total Golf Course Enterprise bonds payable.....		\$ 230,000	\$ 172,000	\$ 200,000	\$ 202,000

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011.....	\$ 30,000	\$ 6,305	\$ 36,305
2012.....	32,000	4,810	36,810
2013.....	31,000	4,180	35,180
2014.....	30,000	3,120	33,120
2015.....	30,000	1,920	31,920
2016.....	30,000	1,020	31,020
2017.....	19,000	285	19,285
Total.....	<u>\$ 202,000</u>	<u>\$ 21,640</u>	<u>\$ 223,640</u>

Bonds and Notes Payable Schedule – Parking Enterprise Fund

<u>Project</u>	<u>Interest Rate (%)</u>	<u>Outstanding at June 30, 2009</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2010</u>
Parking Garage Repairs.....	3.00-5.00%	\$ <u>800,000</u>	\$ <u>-</u>	\$ <u>75,000</u>	\$ <u>725,000</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011.....	\$ 75,000	\$ 30,238	\$ 105,238
2012.....	75,000	27,800	102,800
2013.....	75,000	25,250	100,250
2014.....	75,000	21,500	96,500
2015.....	75,000	17,750	92,750
2016.....	75,000	14,000	89,000
2017.....	75,000	11,000	86,000
2018.....	75,000	8,000	83,000
2019.....	75,000	5,000	80,000
2020.....	50,000	2,000	52,000
Total.....	<u>\$ 725,000</u>	<u>\$ 162,538</u>	<u>\$ 887,538</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, 2010, the City had the following authorized and unissued debt:

Purpose	Amount
School Construction.....	\$ 101,032
Water Systems Improvements.....	4,328,208
Water Meters.....	2,075,000
Sewers.....	3,409,000
Refunding Bonds.....	1,215,000
Total.....	<u>\$ 11,128,240</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2010, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Capital leases.....	\$ 530,771	\$ 43,500	\$ (257,239)	\$ 317,032	\$ 113,033
Long-term bonds and notes.....	51,145,000	15,632,000	(16,390,000)	50,387,000	7,550,000
Compensated absences.....	7,855,483	2,297,230	(1,968,613)	8,184,100	1,841,075
Landfill Closure.....	-	500,000	-	500,000	-
Workers' compensation.....	485,927	466,129	(139,924)	812,132	83,717
Other postemployment benefits.....	11,052,081	10,592,474	(5,128,560)	16,515,995	-
Total governmental activity long-term liabilities.....	<u>\$ 71,069,262</u>	<u>\$ 29,531,333</u>	<u>\$ (23,884,336)</u>	<u>\$ 76,716,259</u>	<u>\$ 9,587,825</u>
Business-Type Activities:					
Long-term bonds and notes.....	\$ 7,250,908	\$ 7,202,000	\$ (1,539,806)	\$ 12,913,102	\$ 371,822
Compensated absences.....	120,728	257,674	(53,333)	325,069	57,238
Other postemployment benefits.....	389,396	412,648	(158,635)	643,409	-
Total business-type activity long-term liabilities.....	<u>\$ 7,761,032</u>	<u>\$ 7,872,322</u>	<u>\$ (1,751,774)</u>	<u>\$ 13,881,580</u>	<u>\$ 429,060</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, parking, and trash 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 City 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, 2010, the City did not record an estimated future liability for unreported claims. The prior year remaining claims were settled during the fiscal year.

Changes in the City's liability since July 1, 2008, when the City was self-insured for Medex coverage only, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claim Payments	Balance at Fiscal Year-End	Current Portion
Fiscal Year 2009.....	\$ 136,011	\$ 296,236	\$ (127,330)	\$ 304,917	\$ 304,917
Fiscal Year 2010.....	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, 2010, the amount of the liability for workers' compensation claims totaled \$812,132.

Changes in the reported liability since July 1, 2008, 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 2009.....	\$ 540,015	\$ 279,702	\$ (425,275)	\$ 394,442	\$ 139,924
Fiscal Year 2010.....	394,442	663,363	(245,673)	812,132	83,717

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 \$8,602,000 for the fiscal year ended June 30, 2010, 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, 2009, the System's membership consists of the following:

Active members.....	845
Inactive members.....	178
Retirees and beneficiaries currently receiving benefits.....	<u>588</u>
Total.....	<u><u>1,611</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, 2010, 2009, and 2008, were \$8,233,450, \$7,952,910, and \$7,693,291, respectively, which equaled its required contribution for each fiscal year. The required contribution was determined as part of the January 1, 2010, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included an inflation rate of 3%, 8.25% investment rate of return and projected salary increases of 5% per year. The actuarial value of the System's assets was determined using the fair value of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining closed amortization period at January 1, 2010 was 20 years.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/10	\$ 100,046,731	\$ 193,470,036	\$ 93,423,305	51.7%	\$ 34,583,002	270.1%
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.

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

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. As of fiscal year 2010, the amount of noncontributory pension totaled approximately \$100,000.

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description – The City of Salem administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the City's group health insurance plan, which covers both active and retired members. Chapter 32b of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the City and the unions representing City employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report. Additionally, retired teachers and their spouses receive health insurance through the Group Insurance Commission of the Commonwealth of Massachusetts (GIC). Each participating municipality is assessed for the governmental share of health and life insurance premiums paid on behalf of its teacher retirees by the state. The employer's share is 90% of the total premium; the retiree's co-payment is 10% of the total premium as well as full payment for catastrophic illness coverage. The City's assessment of the employer's share by the GIC, for retired teachers, for fiscal year 2010, totaled \$2,018,668.

Funding Policy – Contribution requirements are also negotiated between the City and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The City contributes 70% of the cost of current-year premiums for retirees in active plans and 65% for those in senior plans. The City contributes 50% for surviving spouses. The City will contribute 65% in fiscal year 2011 and fiscal year 2012 for retirees in active plans. Plan members receiving benefits contribute the remainder of their premium costs. For fiscal year 2010, the City contributed \$3,268,525 to the plan, and total member contributions totaled \$1,320,202.

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

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

Annual required contribution.....	\$ 10,869,698
Interest on net OPEB obligation.....	572,074
Adjustments to annual required contribution.....	(436,650)
Annual OPEB cost (expense).....	<u>11,005,122</u>
Contributions made (including retired teachers).....	<u>(5,287,195)</u>
Increase in net OPEB obligation.....	5,717,927
Net OPEB obligation-beginning of year.....	<u>11,441,477</u>
Net OPEB obligation-end of year.....	<u>\$ 17,159,404</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2009 and 2010 are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2010	\$ 11,005,122	48%	\$ 17,159,404
6/30/2009	11,129,465	61%	11,441,477

Funded Status and Funding Progress – As of December 31, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits totaled \$171 million, all of which was unfunded.

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

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

In the December 31, 2009, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 5% investment return assumption, which is based on the expected yield on the assets of the City, calculated based on the funded level of the plan at the valuation date, and an annual medical/drug cost trend rate of 10% initially, graded to 5% over 7 years. Both rates included a 4.0% inflation assumption. The UAAL is being amortized over an open 30 year period using a level percentage of projected payroll with amortization payments increasing at 4% per year.

NOTE 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. In fiscal 2009, the City and the taxpayer 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 – ENVIRONMENTAL REMEDIATION LIABILITY

State and federal laws and regulations require the City to construct a final capping system on its inactive landfill site, the Salem Transfer Station, when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The City has stopped accepting ash and closed the site. The City is the owner and permittee of the Salem Transfer Station, while Northside Carting, Inc. operated the facility. The City has completed a preliminary study in order to estimate the cost of the landfill closure and post closure care costs which will be paid for equally by the City and the operator. As a result, the estimate of \$1 million has been recorded as a liability in the amount of \$500,000 (representing 50% of the shared cost) in the entity-wide financial statements. Actual costs may be higher due to inflation, changes in technology, or changes in applicable laws, regulations or agreements.

NOTE 14 – COMMITMENTS

The City entered into contracts totaling approximately \$3,684,000. Of this amount, \$738,000 relates to the water main cleaning and lining, \$1,810,000 relates to the furnish and delivery of water meters, \$691,000 relates to the installation of water meters and AMR equipment, \$75,000 relates to LED traffic signal retrofit, \$150,000 relates to traffic signal improvements and \$220,000 relates to the Dove Ave. culvert replacement. Additionally, the City is in the process of executing contracts of \$200,000 for the re-use of the Salem Harbor Power Station Site and \$561,000 for roadway pavement services.

NOTE 15 – CONTINGENCIES

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2010, 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, 2010, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2010.

NOTE 16 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2010, the following GASB pronouncements were implemented:

- The GASB issued Statement #57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. The standards in this statement permits an agent employer that has an individual employer OPEB plan with fewer than 100 members to use an alternative measurement method to produce actuarially based information for purposes of financial reporting, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. Management elected to implement this standard early and this standard did not impact the basic financial statements.
- GASB issued Statement #58, Accounting and Financial Reporting for Chapter 9 Bankruptcies. The standards in this statement provide guidance for bankrupt state and local governments by establishing requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities and for classifying changes in those items and related costs. Management elected to implement this standard early and this standard did not impact the basic financial statements.

Other Future 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.
- The GASB issued Statement #59, Financial Instruments Omnibus. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The provisions of this Statement are effective for periods beginning after June 15, 2010.

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, 2010

	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.....	\$ -	\$ 68,856,043	\$ 68,856,043	\$ 68,981,043	\$ 68,940,660	\$ -	\$ (40,383)	
Tax liens.....	-	-	-	-	449,935	-	449,935	
Motor vehicle and other excise taxes.....	-	3,070,000	3,070,000	3,070,000	3,007,759	-	(62,241)	
Hotel/motel tax.....	-	360,000	360,000	360,000	294,214	-	(65,786)	
Charges for services.....	-	1,350,000	1,350,000	1,350,000	1,190,514	-	(159,486)	
Penalties and interest on taxes.....	-	383,000	383,000	383,000	437,361	-	54,361	
Payments in lieu of taxes.....	-	1,320,000	1,320,000	1,320,000	1,307,078	-	(12,922)	
Licenses and permits.....	-	475,000	475,000	475,000	567,733	-	92,733	
Fines and forfeitures.....	-	950,000	950,000	950,000	1,266,267	-	316,267	
Intergovernmental.....	-	28,285,085	28,285,085	28,285,085	28,304,903	-	19,818	
Departmental and other.....	-	2,200,000	2,200,000	2,200,000	2,215,719	-	15,719	
Investment income.....	-	150,000	150,000	150,000	62,904	-	(87,096)	
TOTAL REVENUES.....	-	107,399,128	107,399,128	107,524,128	108,045,047	-	520,919	
EXPENDITURES:								
Current:								
General government								
City Council								
Personnel.....	-	119,700	119,700	119,800	119,800	-	-	
Non - Personnel.....	-	31,650	31,650	31,550	25,221	-	6,329	
Total.....	-	151,350	151,350	151,350	145,021	-	6,329	
Mayor								
Personnel.....	-	251,491	251,491	251,491	237,355	-	14,136	
Non - Personnel.....	19,000	105,250	124,250	124,250	97,986	17,600	8,664	
Total.....	19,000	356,741	375,741	375,741	335,341	17,600	22,800	
Finance/Auditing								
Personnel.....	-	230,747	230,747	230,747	225,171	-	5,576	
Non - Personnel.....	4,470	26,485	30,955	30,955	25,828	2,719	2,408	
Total.....	4,470	257,232	261,702	261,702	250,999	2,719	7,984	
Purchasing								
Personnel.....	-	102,766	102,766	102,766	101,549	-	1,217	
Non - Personnel.....	-	16,750	16,750	21,750	15,372	-	6,378	
Fixed Costs.....	-	63,000	63,000	63,000	62,177	-	823	
Total.....	-	182,516	182,516	187,516	179,098	-	8,418	
Assessors								
Personnel.....	-	234,495	234,495	234,495	229,463	-	5,032	
Non - Personnel.....	50,000	30,177	80,177	80,177	74,269	-	5,908	
Total.....	50,000	264,672	314,672	314,672	303,732	-	10,940	
Treasurer								
Personnel.....	-	149,918	149,918	149,918	148,966	-	952	
Non - Personnel.....	3,070	36,695	39,765	50,265	47,180	-	3,085	
Total.....	3,070	186,613	189,683	200,183	196,146	-	4,037	
Collector								
Personnel.....	-	195,820	195,820	198,695	196,079	-	2,616	
Non - Personnel.....	1,270	9,600	10,870	7,995	5,856	-	2,139	
Total.....	1,270	205,420	206,690	206,690	201,935	-	4,755	
Solicitor								
Personnel.....	-	143,858	143,858	143,858	142,533	-	1,325	
Non - Personnel.....	-	72,000	72,000	99,000	89,953	-	9,047	
Total.....	-	215,858	215,858	242,858	232,486	-	10,372	

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted Amounts				Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget			
Human Resources							
Personnel.....	-	211,467	211,467	508,467	508,415	-	52
Non - Personnel.....	-	33,450	33,450	33,450	30,458	-	2,992
Total.....	-	244,917	244,917	541,917	538,873	-	3,044
Data Processing							
Personnel.....	-	166,630	166,630	144,755	139,863	-	4,892
Non - Personnel.....	-	13,050	13,050	34,925	33,679	-	1,246
Fixed Costs.....	-	249,536	249,536	249,536	248,657	-	879
GIS Expenses.....	-	11,229	11,229	43,363	42,646	-	717
GIS Personnel.....	-	32,134	32,134	-	-	-	-
Total.....	-	472,579	472,579	472,579	464,845	-	7,734
City Clerk Record Maintenance							
Personnel.....	-	220,576	220,576	245,540	233,705	-	11,835
Non - Personnel.....	3,700	6,550	10,250	10,250	9,601	-	649
Total.....	3,700	227,126	230,826	255,790	243,306	-	12,484
Elections & Registrations							
Personnel.....	-	119,344	119,344	99,380	94,456	-	4,924
Non - Personnel.....	-	50,100	50,100	62,600	46,069	9,139	7,392
Total.....	-	169,444	169,444	161,980	140,525	9,139	12,316
Licensing							
Personnel.....	-	49,858	49,858	49,858	49,856	-	2
Non - Personnel.....	90	1,940	2,030	2,030	1,135	-	895
Total.....	90	51,798	51,888	51,888	50,991	-	897
Conservation Commission							
Personnel.....	-	26,001	26,001	26,001	21,378	-	4,623
Non - Personnel.....	-	425	425	425	423	-	2
Total.....	-	26,426	26,426	26,426	21,801	-	4,625
Subdivision, Planning, and Zoning Board							
Personnel.....	-	22,999	22,999	22,999	21,949	-	1,050
Non - Personnel.....	-	3,000	3,000	3,000	2,722	-	278
Total.....	-	25,999	25,999	25,999	24,671	-	1,328
Board of Appeals							
Personnel.....	-	3,000	3,000	3,040	3,040	-	-
Non - Personnel.....	-	900	900	860	308	-	552
Total.....	-	3,900	3,900	3,900	3,348	-	552
Planning Department							
Personnel.....	-	196,804	196,804	196,804	194,109	-	2,695
Non - Personnel.....	-	7,275	7,275	7,275	6,929	-	346
Total.....	-	204,079	204,079	204,079	201,038	-	3,041
Public Property/Building Maintenance							
Fixed Costs.....	-	643,360	643,360	643,360	636,816	2,000	4,544
Market and Tourism.....	-	83,000	83,000	83,000	82,638	-	362
Total General Government.....	81,600	3,973,030	4,054,630	4,411,630	4,253,610	31,458	126,562

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2010

	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.....	-	6,665,945	6,665,945	6,781,747	6,780,914	-	833
Non - Personnel.....	-	533,806	533,806	568,004	540,715	12,527	14,762
Total.....	-	7,199,751	7,199,751	7,349,751	7,321,629	12,527	15,595
Fire							
Personnel.....	-	6,407,944	6,407,944	6,407,944	6,321,720	36,717	49,507
Non - Personnel.....	22,000	416,545	438,545	438,545	391,983	28,331	18,231
Total.....	22,000	6,824,489	6,846,489	6,846,489	6,713,703	65,048	67,738
Building, Plumbing, Gas Inspections							
Personnel.....	-	284,686	284,686	290,686	290,593	-	93
Non - Personnel.....	-	27,400	27,400	21,400	19,218	-	2,182
Total.....	-	312,086	312,086	312,086	309,811	-	2,275
Electrical Inspection and Maintenance							
Personnel.....	-	258,434	258,434	258,434	254,888	-	3,546
Non - Personnel.....	-	794,000	794,000	794,000	690,851	-	103,149
Total.....	-	1,052,434	1,052,434	1,052,434	945,739	-	106,695
Harbormaster							
Personnel.....	-	175,307	175,307	175,307	167,376	-	7,931
Non - Personnel.....	-	37,300	37,300	39,650	39,524	-	126
Total.....	-	212,607	212,607	214,957	206,900	-	8,057
Total Public Safety.....	22,000	15,601,367	15,623,367	15,775,717	15,497,782	77,575	200,360
Education							
School.....	192,873	45,876,000	46,068,873	46,068,873	45,743,444	217,684	107,745
NSRS/Charter/Choice.....	-	1,531,740	1,531,740	1,531,740	1,513,891	-	17,849
Total Education.....	192,873	47,407,740	47,600,613	47,600,613	47,257,335	217,684	125,594
Public Works							
Public Services							
Personnel.....	-	1,452,736	1,452,736	1,412,236	1,381,420	-	30,816
Non - Personnel.....	31,919	544,165	576,084	634,084	517,724	23,814	92,546
Total.....	31,919	1,996,901	2,028,820	2,046,320	1,899,144	23,814	123,362
Engineering							
Personnel.....	-	69,286	69,286	69,436	69,369	-	67
Non - Personnel.....	-	3,500	3,500	3,350	2,722	-	628
Total.....	-	72,786	72,786	72,786	72,091	-	695
Snow and Ice							
Personnel.....	-	50,000	50,000	50,000	66,533	-	(16,533)
Non - Personnel.....	-	344,560	344,560	344,560	584,489	-	(239,929)
Total.....	-	394,560	394,560	394,560	651,022	-	(256,462)
Parking Garage							
Personnel.....	-	438,640	438,640	485,064	482,769	-	2,295
Non - Personnel.....	2,164	136,700	138,864	138,864	131,504	7,095	265
Total.....	2,164	575,340	577,504	623,928	614,273	7,095	2,560
Total Public Works.....	34,083	3,039,587	3,073,670	3,137,594	3,236,530	30,909	(129,845)

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted Amounts				Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget			
Health and Human Services							
Board of Health							
Personnel.....	-	335,623	335,623	335,623	272,553	-	63,070
Non - Personnel.....	-	21,200	21,200	21,200	12,095	-	9,105
Total.....	-	356,823	356,823	356,823	284,648	-	72,175
Council on Aging							
Personnel.....	-	231,727	231,727	237,227	232,876	-	4,351
Non - Personnel.....	-	31,100	31,100	46,100	26,074	15,000	5,026
Total.....	-	262,827	262,827	283,327	258,950	15,000	9,377
Veterans Services							
Personnel.....	-	71,452	71,452	71,452	70,538	-	914
Non - Personnel.....	15,000	117,200	132,200	159,200	145,901	11,944	1,355
Total.....	15,000	188,652	203,652	230,652	216,439	11,944	2,269
Total Health and Human Services.....	15,000	808,302	823,302	870,802	760,037	26,944	83,821
Culture and Recreation							
Library							
Personnel.....	-	845,090	845,090	845,090	809,373	-	35,717
Non - Personnel.....	-	269,466	269,466	269,466	264,194	-	5,272
Total.....	-	1,114,556	1,114,556	1,114,556	1,073,567	-	40,989
Parks and Recreation							
Personnel.....	-	331,298	331,298	331,298	280,984	-	50,314
Non - Personnel.....	10,268	151,610	161,878	161,878	145,403	14,078	2,397
Total.....	10,268	482,908	493,176	493,176	426,387	14,078	52,711
Golf Course							
Personnel.....	-	229,100	229,100	229,100	224,358	-	4,742
Non - Personnel.....	4,585	99,500	104,085	114,085	99,814	4,758	9,513
Total.....	4,585	328,600	333,185	343,185	324,172	4,758	14,255
Witch House							
Personnel.....	-	74,066	74,066	74,066	66,128	-	7,938
Non - Personnel.....	9,068	64,280	73,348	73,348	52,357	15,576	5,415
Total.....	9,068	138,346	147,414	147,414	118,485	15,576	13,353
Historical Commission							
Personnel.....	-	7,643	7,643	7,665	7,665	-	-
Non - Personnel.....	-	1,350	1,350	1,328	1,144	-	184
Total.....	-	8,993	8,993	8,993	8,809	-	184
Winter Island							
Personnel.....	-	95,453	95,453	95,453	94,185	-	1,268
Non - Personnel.....	2,550	56,000	58,550	58,550	42,803	2,843	12,904
Total.....	2,550	151,453	154,003	154,003	136,988	2,843	14,172
Total Culture and Recreation.....	26,471	2,224,856	2,251,327	2,261,327	2,088,408	37,255	135,664
Debt service:							
Principal.....	-	4,600,000	4,600,000	4,600,000	4,600,000	-	-
Interest.....	-	2,044,102	2,044,102	2,673,002	1,831,243	-	841,759
Short Term Interest.....	-	227,340	227,340	221,840	196,003	-	25,837
Total.....	-	6,871,442	6,871,442	7,494,842	6,627,246	-	867,596
State and county charges.....	-	6,618,904	6,618,904	6,618,904	6,655,890	-	(36,986)
Pension benefits							
Contributory Retirement.....	-	8,082,746	8,082,746	8,082,746	8,068,481	-	14,265
Non-Contributory Retirement.....	-	133,852	133,852	133,852	100,138	-	33,714
Total.....	-	8,216,598	8,216,598	8,216,598	8,168,619	-	47,979

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2010

	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.....	-	451,295	451,295	451,295	425,070	-	26,225
Unemployment Compensation.....	-	230,000	230,000	345,000	345,000	-	-
Group Insurance.....	-	10,385,915	10,385,915	9,675,915	9,535,095	-	140,820
Medicare.....	-	696,450	696,450	772,550	772,517	-	33
Municipal Insurance.....	-	291,535	291,535	291,535	256,208	-	35,327
TOTAL EXPENDITURES.....	372,027	106,817,021	107,189,048	107,924,322	105,879,347	421,825	1,623,150
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(372,027)	582,107	210,080	(400,194)	2,165,700	(421,825)	2,144,069
OTHER FINANCING SOURCES (USES):							
Premium from issuance of bonds.....	-	-	-	-	105,821	-	105,821
Transfers in.....	-	2,355,751	2,355,751	2,371,601	2,517,029	-	145,428
Transfers out.....	-	(2,570,129)	(2,570,129)	(4,048,270)	(4,048,270)	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	-	(214,378)	(214,378)	(1,676,669)	(1,425,420)	-	251,249
NET CHANGE IN FUND BALANCE.....	(372,027)	367,729	(4,298)	(2,076,863)	740,280	(421,825)	2,395,318
BUDGETARY FUND BALANCE,							
Beginning of year.....	1,392,116	1,392,116	1,392,116	1,392,116	1,392,116	-	-
BUDGETARY FUND BALANCE, End of year.... \$	\$ 1,020,089	\$ 1,759,845	\$ 1,387,818	\$ (684,747)	\$ 2,132,396	\$ (421,825)	\$ 2,395,318

(concluded)

See notes to required supplementary information.

Retirement System Schedules of Funding Progress and Employer Contributions

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

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

SALEM CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/10	\$ 100,046,731	\$ 193,470,036	\$ 93,423,305	51.7%	\$ 34,583,002	270.1%
01/01/08	99,998,471	179,382,299	79,383,828	55.7%	34,410,002	230.7%
01/01/06	84,796,044	166,958,606	82,162,562	50.8%	32,824,144	250.3%
01/01/05	81,801,377	156,479,479	74,678,102	52.3%	31,328,083	238.4%
01/01/04	80,659,012	142,499,185	61,840,173	56.6%	29,355,291	210.7%
01/01/03	76,438,885	137,111,559	60,672,674	55.7%	31,089,195	195.2%

See notes to required supplementary information.

SALEM CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS

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

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

See notes to required supplementary information.

Other Postemployment Benefit Plan Schedules

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

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

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

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
12/31/2009	\$ -	\$ 171,447,034	\$ 171,447,034	0%	\$ 52,107,612	329.0%
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 (ARC)	Actual Contributions Made	Percentage of the ARC Contributed
2010	\$ 10,869,698	\$ 5,287,195	\$ 49%
2009	11,068,269	6,799,394	61%
2008	10,554,680	3,443,274	33%

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods:

Valuation date	December 31, 2009
Actuarial cost method	Projected Unit Credit
Amortization method	Amortization payments increasing at 4.0%, using a level percentage of payroll.
Remaining amortization period	30 years, open

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 7 years

Plan Membership:

Current retirees, beneficiaries, and dependents	972
Current active members	<u>880</u>
Total	<u><u>1,852</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 2010 approved budget authorized approximately \$110 million in appropriations and other amounts to be raised. During the fiscal year, increases to the original budget were approved totaling approximately \$2.2 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, 2010, is presented below:

Net change in fund balance - budgetary basis.....	\$ 740,280
<u>Perspective differences:</u>	
Reclassification of enterprise fund revenue budgeted in the general fund.....	1,694,708
Reclassification of enterprise fund expenditures budgeted in the general fund.....	(1,694,708)
<u>Basis of accounting differences:</u>	
Net change in revenues in recording tax refunds payable.....	(192,901)
Net change in short-term debt service interest accrual.....	7,850
Recognition of revenue for on-behalf payments.....	8,602,216
Recognition of expenditures for on-behalf payments.....	(8,602,216)
Net difference in recognition of expenditures.....	(44,186)
Net change in fund balances - GAAP basis.....	\$ <u>511,043</u>

3. Appropriation Deficits

During fiscal year 2010, 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 2011.

NOTE B – PENSION PLAN

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

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

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

Actuarial Methods and Assumptions:

Valuation Date.....	January 1, 2010
Actuarial Cost Method.....	Entry Age Normal Cost Method
Amortization Method.....	Increasing at 4.5% per year
Remaining Amortization Period.....	20 years remaining as of July 1, 2010, open
Asset Valuation Method.....	The difference between the expected return on an actuarial basis and actual investment return on a market value basis is recognized over a 5 year period

Actuarial Assumptions:

Investment rate of return.....	8.25%
Projected salary increases.....	5.00%
Cost of living adjustments.....	3.00% for the first \$12,000 of retirement income

NOTE C - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

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

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

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

Combining Statements

Nonmajor Governmental Funds

Special Revenue Funds

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

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

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

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

Salem Redevelopment Authority Fund – This fund is used to account for the activity of the Salem Redevelopment Authority (SRA) and is financed by federal, state, and other grants included with the Community Development grants. The funds are used for redevelopment and improvement of buildings and business storefronts located within the Urban Renewal Area which makes up a majority of DownCity 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, 2010

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.....	\$ 448,368	\$ 1,143,869	\$ 53,962	\$ 20,745	\$ 28,669	\$ -	\$ 502,259	\$ 399,991	
Investments.....	-	-	-	-	-	-	-	-	
Receivables, net of uncollectibles:									
Intergovernmental.....	196,337	-	86,001	-	131,420	1,088,462	-	-	
Loans.....	-	-	388,976	-	-	-	-	-	
Due from other funds.....	100,968	-	-	-	-	-	-	-	
TOTAL ASSETS.....	\$ 745,673	\$ 1,143,869	\$ 528,939	\$ 20,745	\$ 160,089	\$ 1,088,462	\$ 502,259	\$ 399,991	
LIABILITIES AND FUND BALANCES									
LIABILITIES:									
Warrants payable.....	\$ 259,316	\$ 180,987	\$ 54,403	\$ -	\$ -	\$ -	\$ 24,000	\$ -	
Accrued payroll.....	51,478	144,168	10,827	-	26,365	-	2,743	-	
Deferred revenues.....	-	-	388,976	-	-	987,494	-	-	
Due to other funds.....	-	-	-	-	-	100,968	-	-	
TOTAL LIABILITIES.....	310,794	325,155	454,206	-	26,365	1,088,462	26,743	-	
FUND BALANCES:									
Reserved for:									
Perpetual permanent funds.....	-	-	-	-	-	-	-	-	
Undesignated, reported in:									
Special revenue funds.....	434,879	818,714	74,733	20,745	133,724	-	475,516	399,991	
Capital projects funds.....	-	-	-	-	-	-	-	-	
Permanent funds.....	-	-	-	-	-	-	-	-	
TOTAL FUND BALANCES.....	434,879	818,714	74,733	20,745	133,724	-	475,516	399,991	
TOTAL LIABILITIES AND FUND BALANCES \$	745,673	1,143,869	528,939	20,745	160,089	1,088,462	502,259	399,991	

(Continued)

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2010

				Capital Project Funds			
	City Revolving Accounts	School Revolving Accounts	Subtotal	Police Station Equipment	Salem Ferry	Other	Subtotal
ASSETS							
Cash and cash equivalents.....	\$ 1,254,193	\$ 297,134	\$ 4,149,190	\$ 9,668	\$ 38,086	\$ 990,736	\$ 1,038,490
Investments.....	-	-	-	-	-	-	-
Receivables, net of uncollectibles:							
Intergovernmental.....	-	-	1,502,220	-	-	-	-
Loans.....	226,618	-	615,594	-	-	-	-
Due from other funds.....	-	-	100,968	-	-	-	-
TOTAL ASSETS.....	\$ 1,480,811	\$ 297,134	\$ 6,367,972	\$ 9,668	\$ 38,086	\$ 990,736	\$ 1,038,490
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Warrants payable.....	\$ -	\$ -	\$ 518,706	\$ -	\$ -	\$ -	\$ -
Accrued payroll.....	839	3,001	239,421	-	-	-	-
Deferred revenues.....	226,618	-	1,603,088	-	-	-	-
Due to other funds.....	-	-	100,968	-	-	-	-
TOTAL LIABILITIES.....	227,457	3,001	2,462,183	-	-	-	-
FUND BALANCES:							
Reserved for:							
Perpetual permanent funds.....	-	-	-	-	-	-	-
Undesignated, reported in:							
Special revenue funds.....	1,253,354	294,133	3,905,789	-	-	-	-
Capital projects funds.....	-	-	-	9,668	38,086	990,736	1,038,490
Permanent funds.....	-	-	-	-	-	-	-
TOTAL FUND BALANCES.....	1,253,354	294,133	3,905,789	9,668	38,086	990,736	1,038,490
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 1,480,811	\$ 297,134	\$ 6,367,972	\$ 9,668	\$ 38,086	\$ 990,736	\$ 1,038,490

Permanent Funds				Total Nonmajor Governmental Funds
Cemetery Fund	Human Service Fund	Other	Subtotal	
\$ 270,365	\$ 114,559	\$ 99,338	\$ 484,262	\$ 5,671,942
2,135,713	1,051,934	800,922	3,988,569	3,988,569
-	-	-	-	1,502,220
-	-	-	-	615,594
-	-	-	-	100,968
<u>\$ 2,406,078</u>	<u>\$ 1,166,493</u>	<u>\$ 900,260</u>	<u>\$ 4,472,831</u>	<u>\$ 11,879,293</u>
\$ -	\$ -	\$ -	\$ -	\$ 518,706
-	-	-	-	239,421
-	-	-	-	1,603,088
-	-	-	-	100,968
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,462,183</u>
971,759	221,174	496,243	1,689,176	1,689,176
-	-	-	-	3,905,789
-	-	-	-	1,038,490
<u>1,434,319</u>	<u>945,319</u>	<u>404,017</u>	<u>2,783,655</u>	<u>2,783,655</u>
<u>2,406,078</u>	<u>1,166,493</u>	<u>900,260</u>	<u>4,472,831</u>	<u>9,417,110</u>
<u>\$ 2,406,078</u>	<u>\$ 1,166,493</u>	<u>\$ 900,260</u>	<u>\$ 4,472,831</u>	<u>\$ 11,879,293</u>

(Concluded)

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

FISCAL YEAR ENDED JUNE 30, 2010

	Special Revenue Funds						
	City Grants	School Grants	Community Development Grants	Salem Redevelopment Authority	School Lunch	Highway Grants	Donations & Gifts
REVENUES:							
Charges for services.....	\$ 9,726	\$ 57,404	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental.....	7,590,684	7,520,028	2,710,748	-	1,828,854	565,006	-
Departmental and other.....	220,841	166,270	114,859	-	31,939	-	-
Contributions.....	3,500	370,643	-	-	-	-	92,350
Investment income (loss).....	1,840	-	561	61	-	-	-
TOTAL REVENUES.....	7,826,591	8,114,345	2,826,168	61	1,860,793	565,006	92,350
EXPENDITURES:							
Current:							
General government.....	1,716,080	-	-	-	-	-	134,685
Public safety.....	571,854	-	-	-	-	-	38,382
Education.....	-	8,079,112	-	-	1,743,641	-	18,992
Public works.....	44,015	-	-	-	-	280,465	30,000
Community development.....	710,226	-	2,842,866	24,851	-	-	-
Health and human services.....	5,323,221	-	-	-	-	-	13,261
Culture and recreation.....	375,612	-	-	-	-	-	12,685
Debt service:							
Principal.....	855,000	-	35,000	-	-	-	-
Interest.....	30,000	-	5,059	-	-	-	-
TOTAL EXPENDITURES.....	9,626,008	8,079,112	2,882,925	24,851	1,743,641	280,465	248,005
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(1,799,417)	35,233	(56,757)	(24,790)	117,152	284,541	(155,655)
OTHER FINANCING SOURCES (USES):							
Issuance of bonds and notes.....	-	-	-	-	-	-	-
Transfers in.....	1,575,562	25,038	-	-	182,555	-	132,000
Transfers out.....	(45,980)	(220,436)	(81)	-	-	-	(22,856)
TOTAL OTHER FINANCING SOURCES (USES).....	1,529,582	(195,398)	(81)	-	182,555	-	109,144
NET CHANGE IN FUND BALANCES.....	(269,835)	(160,165)	(56,838)	(24,790)	299,707	284,541	(46,511)
FUND BALANCES AT BEGINNING OF YEAR.....	704,714	978,879	131,571	45,535	(165,983)	(284,541)	522,027
FUND BALANCES AT END OF YEAR.....	\$ 434,879	\$ 818,714	\$ 74,733	\$ 20,745	\$ 133,724	\$ -	\$ 475,516

Special Revenue Funds				Capital Project Funds			
Receipts Reserved	City Revolving Accounts	School Revolving Accounts	Subtotal	Police Station Equipment	Salem Ferry	Other	Subtotal
\$ -	\$ -	\$ -	\$ 67,130	\$ -	\$ -	\$ -	\$ -
-	-	-	20,215,320	-	-	-	-
451,127	478,576	809,622	2,273,234	-	-	-	-
-	-	-	466,493	-	-	-	-
-	3,851	407	6,720	-	-	-	-
<u>451,127</u>	<u>482,427</u>	<u>810,029</u>	<u>23,028,897</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	48,352	-	1,899,117	-	-	-	-
-	-	-	610,236	-	-	248,269	248,269
-	-	885,442	10,727,187	-	-	24,073	24,073
-	44,070	-	398,550	-	-	1,548,352	1,548,352
-	380,927	-	3,958,870	-	-	-	-
-	-	-	5,336,482	-	-	-	-
-	213,505	-	601,802	-	-	470,238	470,238
-	-	-	890,000	-	-	-	-
-	-	-	35,059	-	-	-	-
<u>-</u>	<u>686,854</u>	<u>885,442</u>	<u>24,457,303</u>	<u>-</u>	<u>-</u>	<u>2,290,932</u>	<u>2,290,932</u>
<u>451,127</u>	<u>(204,427)</u>	<u>(75,413)</u>	<u>(1,428,406)</u>	<u>-</u>	<u>-</u>	<u>(2,290,932)</u>	<u>(2,290,932)</u>
-	-	-	-	-	-	4,589,000	4,589,000
-	-	-	1,915,155	-	-	-	-
(404,631)	-	-	(693,984)	-	-	-	-
<u>(404,631)</u>	<u>-</u>	<u>-</u>	<u>1,221,171</u>	<u>-</u>	<u>-</u>	<u>4,589,000</u>	<u>4,589,000</u>
46,496	(204,427)	(75,413)	(207,235)	-	-	2,298,068	2,298,068
353,495	1,457,781	369,546	4,113,024	9,668	38,086	(1,307,332)	(1,259,578)
<u>\$ 399,991</u>	<u>\$ 1,253,354</u>	<u>\$ 294,133</u>	<u>\$ 3,905,789</u>	<u>\$ 9,668</u>	<u>\$ 38,086</u>	<u>\$ 990,736</u>	<u>\$ 1,038,490</u>

(Continued)

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

FISCAL YEAR ENDED JUNE 30, 2010

	Permanent Funds				Total Nonmajor Governmental Funds
	Cemetery Fund	Human Service Fund	Other	Subtotal	
REVENUES:					
Charges for services.....	\$ -	\$ -	\$ -	\$ -	67,130
Intergovernmental.....	-	-	-	-	20,215,320
Departmental and other.....	-	-	965	965	2,274,199
Contributions.....	11,500	-	1,895	13,395	479,888
Investment income (loss).....	119,232	50,795	183,065	353,092	359,812
TOTAL REVENUES.....	130,732	50,795	185,925	367,452	23,396,349
EXPENDITURES:					
Current:					
General government.....	-	-	-	-	1,899,117
Public safety.....	-	-	5,000	5,000	863,505
Education.....	-	-	-	-	10,751,260
Public works.....	55,900	-	100,649	156,549	2,103,451
Community development.....	-	-	-	-	3,958,870
Health and human services.....	-	36,094	63,872	99,966	5,436,448
Culture and recreation.....	-	-	-	-	1,072,040
Debt service:					
Principal.....	-	-	-	-	890,000
Interest.....	-	-	-	-	35,059
TOTAL EXPENDITURES.....	55,900	36,094	169,521	261,515	27,009,750
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	74,832	14,701	16,404	105,937	(3,613,401)
OTHER FINANCING SOURCES (USES):					
Issuance of bonds and notes.....	-	-	-	-	4,589,000
Transfers in.....	-	-	-	-	1,915,155
Transfers out.....	-	-	-	-	(693,984)
TOTAL OTHER FINANCING SOURCES (USES).....	-	-	-	-	5,810,171
NET CHANGE IN FUND BALANCES.....	74,832	14,701	16,404	105,937	2,196,770
FUND BALANCES AT BEGINNING OF YEAR.....	2,331,246	1,151,792	883,856	4,366,894	7,220,340
FUND BALANCES AT END OF YEAR.....	\$ 2,406,078	\$ 1,166,493	\$ 900,260	\$ 4,472,831	\$ 9,417,110

(Concluded)

Private Purpose Trust Funds

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

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

PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF NET ASSETS

JUNE 30, 2010

Private Purpose Trust Funds			
	Trust Fund Commissioners	Scholarship Funds	Total
ASSETS			
Cash and cash equivalents.....	\$ 119,364	\$ 84,235	\$ 203,599
Investments.....	1,032,251	-	1,032,251
TOTAL ASSETS	1,151,615	84,235	1,235,850
NET ASSETS			
Held in trust for other purposes.....	\$ 1,151,615	\$ 84,235	\$ 1,235,850

PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2010

	Private Purpose Trust Funds		
	Trust Fund Commissioners	Scholarship Funds	Total
ADDITIONS:			
Contributions:			
Private donations.....	\$ 1,415	\$ 3,350	\$ 4,765
Net investment income:			
Net change in fair value of investments.....	55,749	-	55,749
Interest.....	25	278	303
TOTAL ADDITIONS.....	57,189	3,628	60,817
DEDUCTIONS:			
Educational scholarships.....	10,079	14,131	24,210
Housing subsidies.....	101,428	-	101,428
TOTAL DEDUCTIONS.....	111,507	14,131	125,638
CHANGE IN NET ASSETS.....	(54,318)	(10,503)	(64,821)
NET ASSETS AT BEGINNING OF YEAR.....	1,205,933	94,738	1,300,671
NET ASSETS AT END OF YEAR.....	\$ 1,151,615	\$ 84,235	\$ 1,235,850

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, 2010

	Beginning of Year	Additions	Deletions	End of Year
ASSETS				
CURRENT:				
Cash and cash equivalents.....	\$ 757,183	\$ 6,180,767	\$ (6,159,422)	\$ 778,528
LIABILITIES				
Warrants payable.....	\$ 22,219	\$ 51,679	\$ (22,218)	\$ 51,680
Liabilities due depositors.....	734,964	12,709,391	(12,717,507)	726,848
TOTAL LIABILITIES.....	\$ 757,183	\$ 12,761,070	\$ (12,739,725)	\$ 778,528

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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 Nine Fiscal Years

	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
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	\$ 147,313,749
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	6,892,267
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>	<u>(17,907,226)</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>	<u>\$ 136,298,790</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	6,301,944
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>	<u>5,864,782</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>	<u>\$ 12,166,726</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	153,615,693
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	6,892,267
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>	<u>(12,042,444)</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>	<u>\$ 148,465,516</u>

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

Changes in Net Assets

Last Nine Fiscal Years

	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
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	\$ 10,865,152
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	26,755,783
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	83,743,843
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	6,820,639
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	3,226,360
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	6,622,114
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	3,169,224
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	1,888,315
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	143,091,430
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	4,395,607
Sewer services.....	(A)	(A)	(A)	6,616,318	5,686,595	5,612,230	5,894,870	7,467,332	7,400,431
Golf course.....	387,935	333,512	320,632	292,187	279,981	363,651	386,099	278,007	399,023
Parking.....	719,042	679,171	665,458	664,686	800,506	792,903	936,826	905,834	844,615
Trash.....	(C)	(C)	(C)	(C)	(C)	(C)	3,230,500	2,558,263	2,573,421
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	15,613,097
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	\$ 158,704,527
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	\$ 1,370,250
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	2,074,324
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	1,824,040
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	46,352,034
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	4,135,374
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	55,756,022
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	4,511,916
Charges for services - Sewer.....	(A)	(A)	(A)	5,512,922	6,233,883	6,694,172	6,555,593	7,668,044	7,610,195
Charges for services - Golf.....	615,878	549,091	543,467	502,770	525,404	546,841	570,142	547,301	589,345
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	2,038,235
Charges for services - Trash.....	(C)	(C)	(C)	(C)	(C)	(C)	908,577	720,193	740,511
Operating grants and contributions.....	-	-	-	-	-	-	49,707	43,796	41,820
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	15,532,022
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	\$ 71,288,044
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)	\$ (87,335,408)
Business-type activities.....	(392,393)	1,119,523	3,183,126	562,254	2,663,734	3,445,547	(289,906)	(471,827)	(81,075)
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)	\$ (87,416,483)
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	\$ 69,067,349
Tax liens.....	(B)	(B)	(B)	690,557	635,624	182,650	752,178	527,492	234,353
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	3,092,527
Hotel/motel tax.....	(B)	(B)	(B)	219,628	263,962	282,324	373,655	324,622	294,214
Penalties and interest on taxes.....	330,035	391,429	322,003	288,874	350,651	266,246	353,952	412,572	437,361
Payments in lieu of taxes.....	(B)	(B)	(B)	1,073,539	1,088,754	1,235,083	1,229,435	1,320,945	1,307,078
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	6,583,118
Unrestricted investment income.....	125,481	816,614	568,503	521,585	183,980	965,694	462,275	(35,188)	435,769
Miscellaneous.....	504,968	536,979	431,558	77,454	214,067	248,905	168,417	203,848	250,681
Transfers.....	2,274,567	2,687,282	2,466,477	2,542,444	2,628,834	2,437,695	(26,013)	702,234	1,062,580
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	82,765,030
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)	(1,062,580)
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	\$ 81,702,450
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	\$ (4,570,378)
Business-type activities.....	(2,666,960)	(1,567,759)	716,649	(1,980,190)	34,900	1,007,852	(263,893)	(1,174,061)	(1,143,655)
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)	\$ (5,714,033)

- (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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Fund										
Reserved.....	\$ 1,432,723	\$ 1,442,182	\$ 1,382,756	\$ 1,153,872	\$ 68,524	\$ 197,581	\$ 69,631	\$ 220,608	\$ 372,027	\$ 421,825
Unreserved.....	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	1,211,094
Total general fund.....	<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>	<u>\$ 1,632,919</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	\$ 1,689,176
Unreserved, reported in:										
Special revenue funds.....	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	5,819,702
Capital projects funds.....	(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)	3,969,207
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	2,783,655
Total all other governmental funds....	<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>	<u>\$ 14,261,740</u>

Notes:

Fiscal year 2001 excludes 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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenues:										
Real estate and personal property taxes,										
net of tax refunds.....	\$ 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	\$ 68,747,759
Motor vehicle and other excise taxes.....	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	3,007,759
Intergovernmental.....	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	44,150,857
Departmental and other.....	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	8,511,803
Investment income.....	1,024,892	127,462	816,821	568,503	828,933	927,302	925,771	462,585	(32,923)	436,686
Commonwealth school construction grants.....	-	-	-	- (B)	12,739,570	16,559,515	35,025,316	17,324,905	13,130,784	7,095,272
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	8,602,216
Total Revenue.....	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	140,552,352
Expenditures:										
General government.....	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	5,062,768
Public safety.....	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	16,147,666
Education.....	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	49,491,944
Public works.....	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	3,255,769
Community development.....	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	3,413,203
Health and human services.....	927,024	960,817	901,407	855,553 (A)	4,348,098	4,475,413	4,730,161	5,306,444	5,339,094	6,158,089
Culture and recreation.....	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	2,320,698
Pension benefits.....	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	16,770,835
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	8,602,216
Employee benefits.....	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	11,077,682
State and county charges.....	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	6,655,890
Capital outlay.....	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	4,654,814
Debt service										
Principal.....	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	5,385,000
Interest.....	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	2,087,028
Total Expenditures.....	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	141,083,602
Excess of revenues over (under) expenditures.....	(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)	(531,250)
Other Financing Sources (Uses)										
Issuance of debt.....	13,300,000	-	28,670,000	-	2,465,000	-	8,319,497	3,930,000	-	4,589,000
Premium from issuance of bonds.....	-	-	-	-	232,856	-	85,169	84,840	-	575,986
Issuance of refunding bonds.....	-	-	-	-	-	-	-	-	3,785,000	11,043,000
Payments to refunded bond escrow agent.....	-	-	-	-	-	-	-	-	-	(8,512,000)
Refunding bonds redeemed.....	-	-	-	-	-	-	-	-	(3,785,000)	(2,930,000)
Capital lease financing.....	-	-	-	-	807,283	1,046,619	378,169	394,779	167,454	43,500
Sale of capital assets.....	-	-	300,000	-	-	-	-	-	-	-
Transfers in.....	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	6,160,597
Transfers out.....	(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)	(5,098,017)
Total other financing sources (uses).....	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	5,872,066
Net change in fund balance.....	\$ (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)	\$ 5,340,816
Debt service as a percentage of noncapital expenditures.....	4.87%	4.87%	4.51%	6.16%	5.95%	5.94%	5.39%	7.13%	5.34%	5.48%

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

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

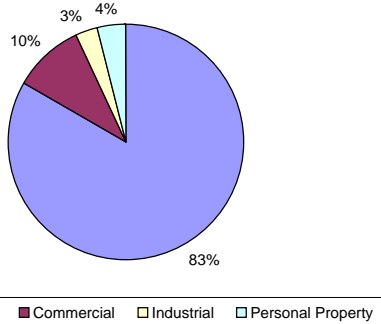
(C) The Commonwealth is legally obligated to fund the Salem teachers retirement. Therefore the revenue and expenditure has been recorded in accordance with GASB 24.

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

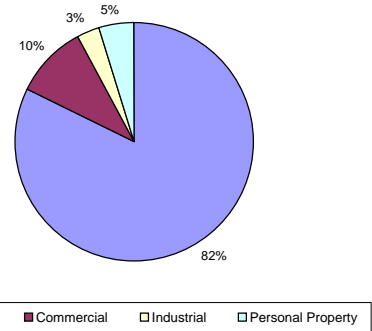
Last Ten Fiscal Years

Fiscal Year	Assessed and Actual Values and Tax Rates									
		Residential Value	Residential Tax Rate	Commercial Value	Industrial Value	Personal Property	Total Commercial Value	Commercial Tax Rate	Total Direct Rate	Total City Value
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
2010	(1)	3,527,110,563	14.01	432,747,534	127,061,700	207,643,630	767,452,864	26.93	16.32	4,294,563,427

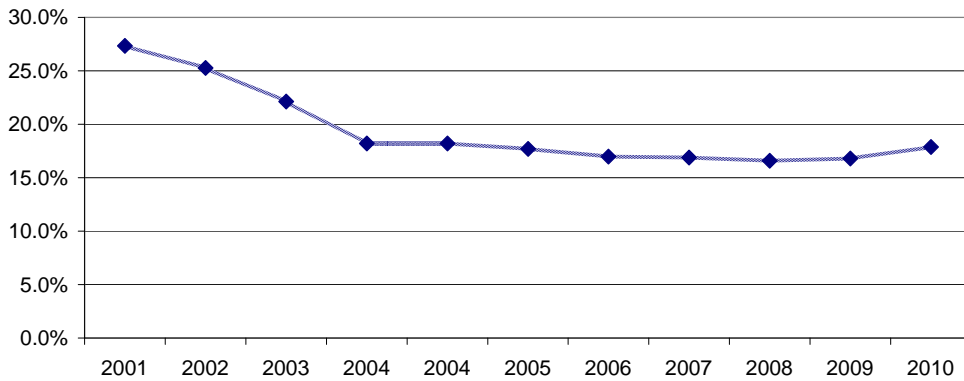
Total Assessed Value by Classification Fiscal Year Ended June 30, 2009



Total Assessed Value by Classification Fiscal Year Ended June 30, 2010



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	2010			2001		
		Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value	Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value
Dominion	Personal & Industrial Property	\$113,091,000	1	2.6%	-	-	-
New England Power Company	Personal & Industrial Property	\$35,913,210	2	0.8%	\$293,789,800	1	10.9%
Shetland Properties	Industrial & Commercial	\$27,329,200	3	0.6%	\$21,675,700	2	0.8%
Massachusetts Electric	Personal Property	\$25,560,650	4	0.6%	\$21,619,070	3	0.8%
Highlander Plaza	Commercial Property	\$21,817,100	5	0.5%	\$17,916,400	4	0.7%
Salem Station LLC	Apartments	\$21,104,900	6	0.5%	-	-	-
Princeton Crossing Apartments	Apartments	\$35,401,800	7	0.8%	\$12,713,400	8	0.5%
Second Pickwick Trust	Commercial Property	\$27,658,900	8	0.6%	-	-	-
Bell Atlantic	Personal Property	\$13,898,700	9	0.3%	-	-	-
Keyspan PP	Personal Property & Real Estate	\$13,793,600	10	0.3%	-	-	-
Hawthorne Commons	Apartments	-	-	-	\$6,261,900	9	0.2%
NYNEX	Personal & Industrial Property	-	-	-	\$14,943,800	6	0.6%
Boston Gas	Personal & Industrial Property	-	-	-	\$14,614,900	5	0.5%
Applied Extrusions Technologies	Electronics	-	-	-	\$6,306,700	7	0.2%
Lagonakis/Crete/Minoan RT	Commercial Property	-	-	-	\$6,053,400	10	0.2%
Totals		\$335,569,060		7.8%	\$415,895,070		15.4%

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
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%	280,855	66,581,172	100.0%
2010	(1)	70,082,325	612,829	69,469,496	68,292,880	98.3%	0	68,292,880	98.3%

(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
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%
2010	41,361	1,202,841,984	4,294,563,427	50,387,000	317,032	1,226	4.22%	1.18%

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
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%
2010	12,949,102	0	63,653,134	1,539	5.29%	1.48%

Source: Audited Financial Statements, U. S. Census

Direct and Overlapping Governmental Activities Debt

As of June 30, 2010

	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
North Shore Regional Vocational School District.....	\$ 1,305,000	23.75%	\$ <u>309,938</u>
City direct debt.....			<u>52,017,000</u>
Total direct and overlapping debt.....			\$ <u><u>52,326,938</u></u>

Source: Treasurer and North Shore Regional Vocational School District

Computation of Legal Debt Margin

Last Ten Fiscal Years

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Equalized Valuation.....	\$ 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	\$ 4,521,039,500
Debt Limit -5% of Equalized Valuation.....	\$ 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	\$ 226,051,975
Less:										
Outstanding debt applicable to limit.....	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	10,884,900
Authorized and unissued debt.....	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	11,128,240
Legal debt margin.....	\$ 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	\$ 204,038,835
Total debt applicable to the limit as a percentage of debt limit.....	70.89%	71.73%	46.79%	47.33%	21.98%	25.92%	24.21%	22.23%	15.78%	9.74%

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
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%
2010	41,361	1,202,841,984	29,082	36.7	4,647	9.6%

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

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

Principal Employers
Current Year and Nine Years Ago

Employer	Nature of Business	2010			2001		
		Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
North Shore Medical Center	Healthcare	2,875	1	13.0%	3,500	1	15.4%
Salem State College	Higher Education	1,500	2	6.8%	1,215	3	5.3%
Commonwealth of Massachusetts Offices	State Government	520	3	2.3%	-	-	-
Market Basket	Food Market	325	4	1.5%	-	-	-
Peabody Essex Museum	Cultural/Tourism	290	5	1.3%	165	10	0.7%
Salem Five Savings Bank	Banking	236	6	1.1%	300	5	1.3%
Hawthorne Hotel	Lodging	210	7	0.9%	-	-	-
Grosvenor Park Nursing Center	Health Care	202	8	0.9%	-	-	-
Home Depot	Retail	187	9	0.8%	-	-	-
Salem YMCA	Social Service Agency	185	10	0.8%	-	-	-
City of Salem	Municipal Government	-	-	-	1,347	2	5.9%
Sears Boston Credit Central	Public Utility	-	-	-	371	4	1.6%
Salem Court System	Judicial	-	-	-	202	6	0.9%
Perkin Elmer Opto Electronics	Analytical Systems	-	-	-	200	7	0.9%
PG & E	Public Utility	-	-	-	184	8	0.8%
District Attorney's Office	Legal	-	-	-	168	9	0.7%
		<u>6,530</u>		<u>29.4%</u>	<u>7,652</u>		<u>33.7%</u>

Source: The City Planning Department

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

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Function										
General government.....	59	62	68	62	64	40	34	36	35	35
Public safety.....	183	183	185	180	190	181	190	185	187	191
Education.....	755	755	755	756	756	752	752	753	752	752
Public works.....	50	59	47	45	55	35	38	40	37	38
Engineering.....	-	-	-	-	-	-	1	3	1	1
Health and human services.....	20	22	22	21	21	21	20	17	14	17
Culture and recreation.....	36	35	34	31	31	34	23	21	22	22
Total	<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>	<u>1,056</u>

Source: Various City Departments

Operating Indicators by Function/Program

Last Ten Fiscal Years

Function/Program	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General government										
Marriage recordings.....	328	362	327	330	327	375	322	306	276	243
Birth recordings.....	1,680	1,708	1,804	1,839	1,761	2,044	2,043	1,712	1,614	1,774
Death recordings.....	865	848	823	935	847	737	755	520	535	557
Police										
Physical arrests.....	1,039	1,057	984	965	685	2,792	2,793	2,569	2,502	2,072
Motor vehicle violations.....	3,967	4,872	5,489	5,238	4,334	6,477	8,672	7,838	6,604	6,631
Police personnel and officers.....	103	105	94	85	85	81	84	85	85	87
Fire										
Inspections.....	3,004	2,950	1,972	3,231	2,789	1,187	1,562	1,562	886	935
Emergency responses.....	3,917	3,993	3,911	4,281	4,572	6,235	6,719	6,663	6,330	6,409
Fire personnel and officers.....	92	96	85	78	78	75	76	78	81	79
Education										
Number of students.....	5,107	5,064	5,016	4,727	4,676	4,744	4,573	4,404	4,474	4,647
Number of graduates.....	220	237	218	257	246	255	269	254	273	283
Number of teachers.....	369	397	406	415	409	477	484	479	479	488
Water										
Service connections.....	9,812	9,842	9,898	10,516	10,568	11,000	11,811	11,701	11,737	11,719
Consumption in gallons.....	2,107	2,064	2,090	2,111	2,136	2,000	2,056	2,123	1,994	2,103
Daily consumption (MG).....	5.77	5.66	5.73	5.78	6.43	6.84	6.74	5.80	5.44	6.00
Sewer										
Service connections.....	9,812	9,842	9,898	10,516	10,568	11,000	11,811	11,701	11,727	11,709
Health and human services										
Number of persons using COA transportation....	45,523	47,220	44,804	44,500	45,976	37,497	39,052	18,678	15,526	16,076
Libraries										
Volumes in circulation.....	130,510	128,626	124,435	125,516	128,569	141,595	143,052	148,752	145,634	143,512
Total volumes borrowed.....	395,311	453,548	470,192	464,453	490,116	508,728	500,907	514,708	538,184	508,507

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>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>	<u>2010</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	108	108	108	108	108	108	102	102
Health and human services										
Number of personnel.....	18	18	17	17	17	17	17	17	17	15
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	128	128	128	128	128	128	128
Railroad right of way (acreage).....	89	89	89	89	89	89	89	89	89	89
Public beaches.....	7	7	7	7	7	7	7	7	7	7
Ball fields.....	13	13	13	13	13	13	13	13	13	13
Tennis courts.....	10	10	10	10	10	10	10	10	10	10

Source: Various City Departments, Manual of the City Government

Free Cash & Stabilization Fund Balances

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Free Cash</u>	<u>Stabilization Fund</u>
FY2010.....	\$ 750,607	\$ 1,913,913
FY2009.....	\$ 1,261,200	\$ 1,489,907
FY2008.....	\$ 1,114,950	\$ 648,947
FY2007.....	\$ 691,149	\$ 487,980
FY2006.....	\$ 538,372	\$ 277,759
FY2005.....	\$ 2,732,090	\$ 1,021,351
FY2004.....	\$ 1,867,737	\$ 1,297,417
FY2003.....	\$ 3,212,194	\$ 2,278,823
FY2002.....	\$ 4,010,382	\$ 2,248,337
FY2001.....	\$ 4,965,894	\$ 1,713,814

Source: City Records