

CITY OF SALEM

MASSACHUSETTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT



For the Fiscal Year Ended June 30, 2011

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

Prepared by the City of Salem Finance Department

On the Cover – Pickering Wharf & Salem Harbor

Pickering Wharf is a quaint harbor side village featuring a variety of shops, boutiques and restaurants. This exciting marketplace is also home to the Salem Waterfront Hotel & Pickering Wharf Marina. For more information go to - www.pickeringwharf.com.



Pickering Wharf Light House

CITY OF SALEM, MASSACHUSETTS

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CITY OF SALEM, MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT

JUNE 30, 2011

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Introductory Section



Salem Willows Park

The Salem Willows offers beautiful shaded seaside grounds, scenic ocean views, public pier, band stand for concerts, picnic areas, beaches, children's rides, activities and many eateries. One of Salem's treasurers, 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.



Read Picnic and Science Fair-Salem Willows June 25, 2011



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

October 7, 2011

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, 2011 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, 2011, are fairly presented in conformity with GAAP.

The City of Salem's financial statements have been audited by Powers & Sullivan, LLC a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2011, 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, 2011 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with

special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Salem's separately issued Single Audit Report.

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

Profile of the City

The City of Salem, which was incorporated as a Town in 1630 and became a City on March 23, 1836, is situated on the Massachusetts coast, 16 miles northeast of Boston. The City has a population of 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 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, requires 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 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. The City's equity interest in the South Essex Sewerage District is included in the basic financial statements. The City does not have an equity interest in the Salem and Beverly Water Supply Board. 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

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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 2011 totaled approximately \$128 million, which includes Real & Personal Property tax revenue, State Revenues, MSBA Revenue, local revenues, transfers in of \$934,070 from Receipts Reserved Harbormaster, Witch House and Golf Course (to reduce tax rate), \$505,796 from free cash supplemental appropriations, other receipts reserved transfers, and \$1,452,222 of indirect costs from the Water & Sewer Enterprise funds. These revenues cover general fund budgeted expenditures and deficits raised including snow and ice, school lunch, health insurance trust, and to fund the Retirement Anticipation Fund and Capital Improvement Projects Fund. These also include enterprise fund expenses.

The City includes the Salem Contributory Retirement System (the System) in its financial reporting since the City represents approximately 85% of the members of the System. The System was established to provide retirement benefits to its members, including employees and beneficiaries of the City of Salem, the Salem-Beverly Water Supply Board, the Salem Housing Authority, the South Essex Sewerage District, and the North Shore Regional Vocational School System. Per the Public Employee Retirement Administration Commission's (PERAC) 2010 annual report, the market value of the System's assets totaled \$94.1 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 also boasts an impressive collection of historically significant residential structures that are always in high demand. The uniqueness of these historic homes, coupled with a growing downtown condominium market, has helped boost home sales prices in Salem.

The City also enjoys a mix of commercial businesses and markets. Commercial development has been prominent in the Highland Avenue and Vinnin Square areas, including a proposed development that would

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replace the existing Walmart with a new development that would include a new Lowe's store, an expanded Walmart and Meineke store, a new City water tower and roadway improvements. Additionally, downtown Salem continues to thrive as a vibrant center of commerce and activity. The construction is just about complete (November 2011) on the new \$106 million J. Michael Ruane Judicial Center. Also, the MBTA will be building a new commuter rail garage and other infrastructure improvements at the Washington/Bridge Street location. The expected completion of this project is September 2014. These projects, as well as the completion of the Old Salem Jail Complex, the Salem News building, and the continued expansion of the Salem waterfront will ensure long term vibrancy to Downtown Salem.

The Salem waterfront is also experiencing a great deal of investment from the addition of the Waterfront Hotel at Pickering Wharf to the South River Harborwalk waterfront development, which will include seawall and bulkhead improvements from Derby Street to Congress Street. The City received a \$3 million grant from the Governor's Seaport Council for 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. 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.

The City also has a partnership with Destination Salem, who markets the City as one of Massachusetts' best destinations for families, couples, domestic, and international travelers. It is estimated that the City welcomes nearly one million visitors annually, generating more than \$99 million in tourism spending in 2010. This infusion of dollars and visitors not only helps keep the current businesses thriving, but also encourages new businesses to come to Salem. In 2010, twenty-five new businesses opened in downtown Salem, including a farmer's market, many new restaurants, and a Segway tour company. These new businesses have generated approximately 150 new jobs in 2010.

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

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

According to the Massachusetts Workforce Development Agency, the City had a labor force of 23,902, of whom 22,145 were employed and 1,757, or 9.2% were unemployed. The Commonwealth, for the same period, had an unemployment rate of 7.8%.

Financial Planning and Forecasting

In fiscal year 2009, the City modified its budget format to improve upon its content and layout. The goal was to have a comprehensive budget that would allow an average person to read and comprehend the budget and budget process of the City. It also was modeled after several budgets that were submitted and approved for the

Government Financial Officer's Association (GFOA) "Distinguished Budget Presentation Award". The new model included more narrative, including goals and objectives of each department, financial forecasts, policies and glossary of financial terms. It required a significant amount of work for all department heads and especially the finance division, who had to ensure all the materials were pulled together timely for submission to both the City Council and the GFOA. As a result of our efforts, the City has been awarded the GFOA's "Distinguished Budget Presentation Award" for fiscal years 2009, 2010, and 2011. Salem is one of only nine municipalities in the Commonwealth to receive the Award in fiscal year 2011.

Included in the budget was the City's Five Year Financial Forecast. This is the fifth year that such a forecast has been completed. This forecast acts as a useful tool to the Mayor and Council to better identify "budget busters" on the expenditure side and to also determine whether forecasted revenue growth is adequate for future expenses. Also included in the budget was the City's Five Year Capital Improvement Plan (CIP) for the purpose of planning and maintaining the City's capital and infrastructure. The CIP includes policies on debt service and capital improvement budgeting.

As part of the fiscal year 2011 CIP, the City will use \$680,000 of one time revenues for capital improvements, including various infrastructure repairs on Derby, Lafayette, and Boston Streets. Also, repairs to Engine Five (pumper truck) and Ladder One will ensure that our fire equipment is in top working order for efficient emergency responses. Other highlights of the fiscal year 2011 CIP include the investment of over \$800,000 in neighborhood roadway improvements, \$140,000 for a master study of Winter Island, and \$250,000 in technological advancements for the Fire Department's radio infrastructure, of which 90% was funded by grant dollars.

Fixed Costs ~ Health Insurance and Pension Assessment

Health Insurance

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.

The City has used many different approaches to keep the cost of health insurance affordable as it relates to the overall budget of the City. The most significant of which are the contribution rates between employee and employer, as well as plan design of the current Blue Cross Blue Shield products.

Contribution rates need to be collectively bargained with each of the City's eight unions. Over the past several years, the contribution rates have changed from 80/20 split (employer/employee), to 75/25 split (employer/employee) on its HMO products. PPO has been and continues to be a 65/35 split (employer/employee). However, as part of the FY2012 budget process, the Mayor proposed a two year phase-in modification for contribution rates. As a result, all non-union and management employees will contribute 26% of their health insurance costs in FY2012 and 27% of the costs in FY2013. These contribution rates will serve as benchmarks for our collective bargaining units during our upcoming contract negotiations.

Plan design modification of the City's Blue Cross Blue Shield products also helped stabilize the rates. 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 replaced both the HMO Blue \$5 co-payment plan, as well as the HMO Blue Value Plus \$15 co-payment plan. The migration of all employees to this plan was completed for all groups during FY2011. The switch to the Options plan saved the City nearly \$800,000 in FY2011, and is expected to save the City over \$1 million during FY2012, when compared to the previous plan designs.

Pension Assessment

In fiscal year 2007, the Mayor appointed herself to the Salem Retirement Board. By doing so, Mayor Driscoll has taken an active role in managing the City's retirement system. The annual assessment from the Retirement Board to the City continues to be one of the biggest budget busters year in and year out. During fiscal year 2009, the Retirement Board moved all available funds into the State's Public Reserve Investment Trust (PRIT) to take advantage of its higher returns and lower administrative fees. Because of its size, the PRIT can diversify assets for maximum possible return. The Retirement Board shifted these assets voluntarily to the PRIT after a complete analysis and a vote of the Retirement Board.

The Salem Contributory Retirement Board completed its most recent actuarial valuation summary for January 1, 2010. The study was performed by the Segal Company and was delivered to the Retirement Board in October of 2010. The study reported the actuarial assets of the system as of January 1, 2010 of \$100 million and an unfunded liability of \$93.4 million. The unfunded liability increased from January 1, 2008 by \$14 million, mostly due to the net investment losses of calendar year 2008, in which market value rate of return was -28.8%. However, the market rate of return in calendar year 2009 was 14.9%, which helped offset some of the 2008 losses.

As a result of the increased unfunded liability, the Board adopted a funding schedule which will fully amortize the existing unfunded liability plus the expected increases in unfunded liability due to the deferred investment losses by June 30, 2030 with amortization payments that increase 4.5% per year. The total fiscal 2012 appropriation for the system is \$10,470,232, with the City's share of 85.3% amounting to \$8,935,504.

Other Significant Financial Matters

The City's tax agreement with its largest taxpayer, has expired as of July 1, 2011. Prior to this date, the agreement between the City and Dominion was \$4.75 million for FY2011, where the City received \$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 could 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. This is significant since Dominion has filed paperwork to decommission all four of its power generating units. In December of 2010, Dominion also recorded an impairment charge of \$31 million on their consolidated financial statements to write off the value of the Salem plant due to profitability issues. Dominion does not plan to invest in any pollution controls for the Salem plant and plans to close the plant completely.

However, during the FY2012 budget process, the Massachusetts Legislature adopted a proposal to ensure that the Salem taxpayers won't be burdened by the lost revenues. The "hold harmless" agreement is currently in effect for five years, until 2016. Chapter 68 of the Acts of 2011, Section 33 states that "...the municipality shall be entitled to reimbursement for the difference between the amount called for....prior to the full or partial decommissioning or other change in operating status of the facility..." The new legislation postpones the financial impact to the City of the loss of a major taxpayer which provides the City the opportunity to work toward replacing the lost revenues.

Financial Policy

The City has set a target level for the Stabilization fund of 5% of the City's current operating budget, or \$6.4 million. As of June 30, 2011, the balance in the City's Stabilization fund is \$2.7 million. The target funding date is projected to occur by fiscal year 2015. 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. As of June 30, 2011, the balance of this account was \$256,089. During the fiscal 2012 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 2012. As part of the fiscal 2012 budget process, the City Council appropriated an additional \$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 stabilization 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.

In fiscal 2011, the City adopted Massachusetts General Law Chapter 32B, Section 20, establishing the "Other Postemployment Benefits (OPEB) Liability Trust Fund" as a local option. This fund gives communities a mechanism to reduce the unfunded actuarial liability of health care and other postemployment benefits. The City has designated \$50,000 dollars to this fund as of June 30, 2011. Future appropriations will be made to this fund in accordance to financial policies of the Finance Department of the City.

Free cash is the remaining unrestricted funds from operations of the previous fiscal year including unexpended free cash from the previous year, actual receipts in excess of revenue estimates shown on the tax rate recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash. The calculation of free cash is based on the balance sheet as of June 30th, which is submitted by the community's auditor, accountant, or comptroller. Free cash is not available for appropriation until certified by the Massachusetts Director of Accounts. Free cash is the term used for a community's funds that are available for appropriation. Once free cash is certified, it is available for appropriation by City Council. The balance for free cash was certified for fiscal year 2010 in the amount of \$750,607.

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

The City's policy is to use free cash for reserves, capital, and special uses in accordance with the policies set forth by the Mayor and Finance Director. Once free cash is certified by the Director of Accounts, any drawdown of the Stabilization Fund from the prior fiscal year shall be replenished from the certified free cash if the free cash exceeds such drawdown. Once any drawdown of Stabilization funds are replenished, allocation of the remaining free cash shall be as follows;

- 20% of any free cash available after funding a prior year drawdown will also be allocated from free cash to Stabilization Fund up to the goal of stabilization fund equaling 5% of the current operating budget of the City.
- 20% of any free cash available after funding a prior year drawdown of Stabilization fund will also be allocated to the Capital Improvement Fund for funding Capital and
- 10% of any free cash available after funding any drawdown will be allocated to the OPEB Liability Trust Fund (beginning in FY2012).

Any free cash available after funding the above may be used to augment trust funds related to fringe benefits and unfunded liabilities related to employee benefits, including the 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, 2010. This was the sixth 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, 2010. 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, 2011 for consideration of the award for the fourth year and has received that award.

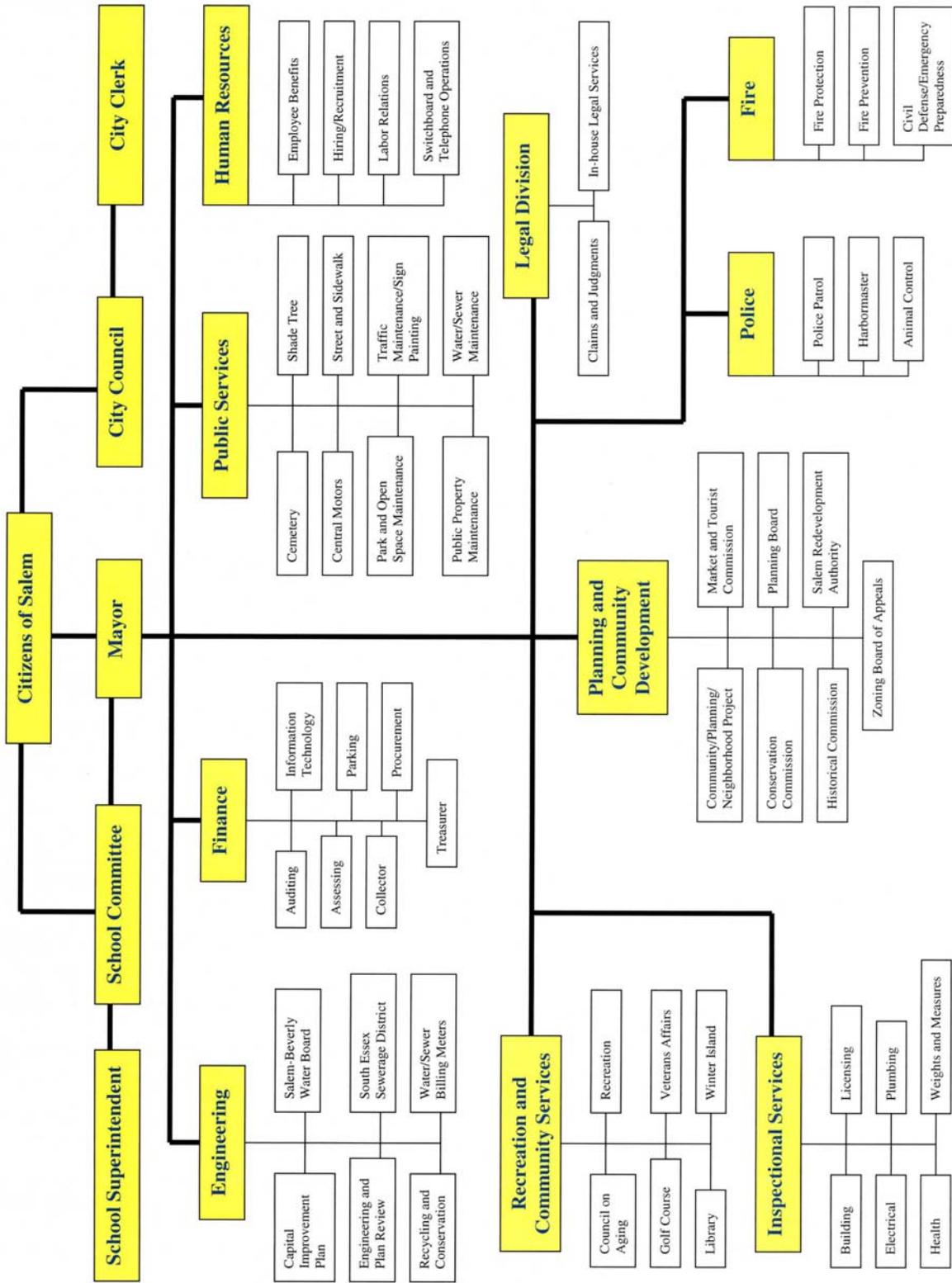
It should be noted that the Distinguished Budget Award was awarded to only nine of the 351 communities in the Commonwealth for the fiscal period beginning 2009 and that only four entities in the entire Commonwealth received both the Certificate of Achievement of Excellence in Financial Reporting and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

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 Viscoy
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	1/1/2011	12/31/2011
Finance Director	Richard Viscay	3/6/2006	1/31/2012
Treasurer	Kathleen McMahon	12/27/2010	1/31/2012
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, 2010

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.



Linda C. Davison

President

Jeffrey R. Emer

Executive Director



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**City of Salem
Massachusetts**

For the Fiscal Year Beginning

July 1, 2010

President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the City of Salem, Massachusetts for the Annual Budget beginning July 1, 2010. 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 the GFOA to determine its eligibility for another award.

Financial Section



Salem Police Station July 4, 2001

October Halloween Parade



Salem Fire Department Ladder 1

Helicopter Rescue Operation



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, 2011 (except for the Salem Contributory Retirement System which is as of and for the year ended December 31, 2010), 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, 2011 (except for the Salem Contributory Retirement System which is as of December 31, 2010), 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 October 7, 2011 on our consideration of the City of Salem, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis, located on the following pages, and general fund schedule of revenues, expenditures and changes in fund balance – budgetary basis, retirement system schedule of funding progress, retirement system schedule of employer contributions, 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.

Powers & Sullivan LLC

October 7, 2011

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, 2011. 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 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. Prior to fiscal year 2010, the City used an internal service fund 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 is now 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 statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

Government-wide Financial Analysis

Governmental Activities

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City of Salem's governmental assets exceeded liabilities by \$137 million at the close of fiscal year 2011. This represents an increase of \$1.2 million from the prior fiscal year.

Net assets of \$145 million reflects the City's investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that

the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Invested in capital assets, net of related debt, decreased by approximately \$2.4 million during fiscal year 2011. This was the net result of the issuance of new debt for the construction of capital assets, the pay down of debt related to capital assets, the purchase and construction of capital assets, and depreciation recorded against capital assets.

An additional portion of the governmental net assets, \$10.5 million, represents resources that are subject to external restrictions on how they may be used. This balance was up by approximately \$3 million due to the timing of grant and gift receipts. The balance of *unrestricted net assets* has a year end deficit of \$18 million. The primary reason for this deficit balance is the recognition of other postemployment benefit liabilities of \$21.9 million, due to the fiscal year 2008 implementation of Governmental Auditing Standards Board (GASB) Statement 45. The statement requires the City to obtain a biannual actuarial valuation of the City's liability to pay other postemployment benefits to current employees and retirees. The City is allowed to amortize the liability, which 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 the majority of its other postemployment benefits on a pay-as-you go basis. As a result, the City is required to record the difference between the current year pay-as-you go cost and the current year actuarial determined cost plus interest on any prior unfunded liability as a liability in the full accrual financial statements. This difference totaled \$5.4 million for governmental activities for fiscal year 2011. During fiscal year 2011, the City began the process of pre-funding a portion of the liability by establishing an irrevocable trust which had a year end balance of \$50,000 and is reported within the Fiduciary Funds in the City's financial statements. The City also had an increase in its estimated landfill liability as two sites were added to the areas requiring environmental remediation, which increased the estimated liability by \$1.9 million. Offsetting these increased liabilities, the City's General Fund reported expenditures less than appropriations by approximately \$1.7 million and higher than budgeted collection of revenues of approximately \$1.3 million.

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

	Governmental Activities	
	Fiscal 2011	Fiscal 2010
Assets:		
Current assets.....	\$ 38,183,620	\$ 28,277,655
Noncurrent assets (excluding capital).....	20,008,795	23,027,488
Capital assets.....	167,439,062	168,198,736
Total assets.....	225,631,477	219,503,879
Liabilities:		
Current liabilities (excluding debt).....	8,925,422	8,526,655
Noncurrent liabilities (excluding debt).....	30,668,729	24,291,434
Current debt.....	8,716,062	7,550,000
Noncurrent debt.....	39,864,526	42,837,000
Total liabilities.....	88,174,739	83,205,089
Net Assets:		
Invested in capital assets, net of related debt.....	144,887,020	147,313,749
Restricted.....	10,562,103	6,892,267
Unrestricted.....	(17,992,385)	(17,907,226)
Total net assets.....	\$ 137,456,738	\$ 136,298,790

Governmental Activities

	Fiscal 2011	Fiscal 2010
Program revenues:		
Charges for services.....	\$ 5,137,753	\$ 5,268,614
Operating grants and contributions.....	51,358,511	46,352,034
Capital grants and contributions.....	5,197,515	4,135,374
General Revenues:		
Real estate and personal property taxes.....	71,828,412	69,067,349
Motor vehicle and other excise taxes.....	3,181,247	3,092,527
Nonrestricted grants.....	6,404,395	6,583,118
Unrestricted investment income.....	1,095,518	435,769
Other revenues.....	3,582,351	2,523,687
Total revenues.....	<u>147,785,702</u>	<u>137,458,472</u>
Expenses:		
General government.....	11,702,186	10,865,152
Public safety.....	27,989,181	26,755,783
Education.....	86,938,434	83,743,843
Public works.....	8,894,659	6,820,639
Community development.....	1,845,141	3,226,360
Health and human services.....	5,930,089	6,622,114
Culture and recreation.....	2,997,090	3,169,224
Interest.....	1,582,033	1,888,315
Total expenses.....	<u>147,878,813</u>	<u>143,091,430</u>
Excess (Deficiency) before transfers.....	(93,111)	(5,632,958)
Transfers.....	<u>1,251,059</u>	<u>1,062,580</u>
Change in net assets.....	\$ <u>1,157,948</u>	\$ <u>(4,570,378)</u>

The governmental expenses totaled \$148 million of which \$62 million (42%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. Education expenses increased by \$3.2 million due to budgetary increases and increased grant activity. Increases in the City's health insurance and pensions added \$1.6 million to total costs. Community development expenses were down due to the use of community development grants to construct capital assets related to the Salem Wharf improvement project. Decreases in health and human services were due to the decline of funding for the ARRA workforce investment program. Public works expenses showed the largest increase at approximately 30%. This is a result of increased activity in environmental remediation for the cleanup of two additional sites within the City. General revenues totaled \$86.1 million, primarily coming from property taxes, motor vehicle and other excise, and non-restricted state aid. Increases in operating grants and contributions represent increases in school grants received by the City. Capital grants and contributions increased from the prior year as the City received a new \$3.7 million grant for the Salem Wharf improvement project and MSBA reimbursements decreased due to school project timing and the City's effort to obtain lower debt interest rates by refunding bonds related to school construction.

Business-type Activities

For the City's business-type activities, assets exceeded liabilities by \$12.6 million at the close of fiscal year 2011.

	Business-type Activities	
	<u>Fiscal 2011</u>	<u>Fiscal 2010</u>
Assets:		
Current assets.....	\$ 10,333,632	\$ 10,362,773
Capital assets.....	19,742,463	17,759,560
Total assets.....	<u>30,076,095</u>	<u>28,122,333</u>
Liabilities:		
Current liabilities (excluding debt).....	589,893	2,095,265
Noncurrent liabilities (excluding debt).....	996,504	911,240
Current debt.....	1,234,880	371,822
Noncurrent debt.....	14,640,400	12,577,280
Total liabilities.....	<u>17,461,677</u>	<u>15,955,607</u>
Net Assets:		
Invested in capital assets, net of related debt.....	8,248,186	8,245,799
Unrestricted.....	4,366,232	3,920,937
Total net assets.....	<u>\$ 12,614,418</u>	<u>\$ 12,166,736</u>

Business-type net assets of \$8 million (63%) represent investments in capital assets net of related debt. The remaining \$4.6 million (37%) is available to be used for the ongoing operation of the City's water, sewer, parking, trash and municipal golf course activities. There was an overall increase of \$448,000 in net assets reported in connection with the enterprise funds.

The water enterprise fund's net assets of \$3.4 million (74%) represent the investment in capital assets net of related debt, while \$1.2 million (26%) is unrestricted. The water department experienced a net decrease of \$298,000 in net assets from the prior year. The decrease is mostly due to increases in interest expense, depreciation and their district assessment. The water fund pays an annual assessment to the Salem Beverly Water Supply Board, which totaled \$2.3 million, or 61% of the funds expenses for fiscal year 2011.

The sewer enterprise fund's net assets of \$320,000 (9%) represent the investment in capital assets net of related debt, and \$3.4 million (91%) is unrestricted. The unrestricted balance includes the City's \$687,000 equity interest in the South Essex Sewerage District which increased by approximately \$316,000 during fiscal year 2011. The sewer department operations experienced an overall net increase of \$943,000 during the current fiscal year. The increase relates to an increase in charges for services and decreases in the South Essex Sewerage District assessment. Approximately 86% of the expenses in the sewer fund consist of the annual assessments paid to the South Essex Sewerage District.

The golf course enterprise fund's net assets of \$365,000 (65%) represent the investment in capital assets, net of related debt, while \$196,000 (35%) is unrestricted. Overall, revenues and expenses both decreased by approximately 7% at the golf course during fiscal year 2011 as a result, net assets remained substantially unchanged.

The parking enterprise fund's net assets of \$3.9 million represent the investment in capital assets net of related debt while a deficit balance of \$321,000 is reported as unrestricted. The parking operations experienced a net decrease of \$243,000 during fiscal year 2011 which is consistent with prior years, and is mostly attributable to recording depreciation on previously purchased capital assets totaling approximately \$236,000. The City reports this fee-for-service activity as an enterprise fund however any cash based surplus generated is transferred back to the general fund to support City programs. In fiscal year 2011, \$1.6 million was transferred back to the general fund. Consequently, the amounts remaining in the enterprise fund at year end represent non-current assets and liabilities and the assets and liabilities related to the enterprise funds capital construction projects.

The City's trash enterprise fund operates on a trash fee that is set with full knowledge that the revenue will not be sufficient to cover the cost of operations. The City budgets for a subsidy from the general fund equal to the estimated cash basis deficit in the fund at year end. At fiscal year-end a \$2 million transfer was made from the general fund to subsidize for the budgeted deficit. As of June 30, 2011 the trash fund had unrestricted net assets totaling \$126,000.

	Business-type Activities	
	<u>Fiscal 2011</u>	<u>Fiscal 2010</u>
Program revenues:		
Charges for services.....	\$ 16,384,403	\$ 15,490,202
Capital grants and contributions.....	39,804	41,820
Total revenues.....	<u>16,424,207</u>	<u>15,532,022</u>
Expenses:		
Cost of service and administration.....	5,668,504	6,372,368
District assessment.....	7,985,222	8,323,119
Depreciation.....	650,974	572,250
Interest.....	420,756	345,360
Total expenses.....	<u>14,725,456</u>	<u>15,613,097</u>
Excess (Deficiency) before transfers.....	1,698,751	(81,075)
Transfers.....	<u>(1,251,059)</u>	<u>(1,062,580)</u>
Change in net assets.....	\$ <u>447,692</u>	\$ <u>(1,143,655)</u>

Financial Analysis of the Government's Funds

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

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

Fiscal year 2011 was the City's initial year of implementation of GASB #54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The implementation of this standard has changed the fund balance

components into nonspendable, restricted, committed, assigned and unassigned. Additionally, under the new standard, the City's stabilization funds are reported within the general fund as unassigned.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$21.4 million of which \$9 million is reported in the general fund, a deficit of \$654,000 is reported in the school capital projects major fund, and \$13.0 million is reported in the nonmajor governmental funds. Cumulatively there was an increase of \$5.5 million in fund balances from the prior year.

The general fund is the City's chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund totaled \$8.4 million, while total fund balance was \$9 million. The general fund balance increased by \$5.4 million in fiscal year 2011. The increase resulted from a combination of the receipt of a large unbudgeted bond premium; positive budgetary results; and the impact of reporting the City's stabilization funds as required under GASB Statement #54.

The school capital projects fund is used to account for the City's ongoing major school construction projects. The fund decreased by \$3.6 million in fiscal year 2011 as the City paid down long term notes related to the school construction projects with grant proceeds received from the Commonwealth in prior years and the City began incurring costs for engineering studies on improvements to be made on the Saltonstall and Collins schools. The major fund ended the fiscal year with a deficit balance of \$654,000, expenditures incurred to date have been financed with bond anticipation notes.

Cumulatively, nonmajor governmental funds had a net increase of \$3.6 million. This represents the activity of other nonmajor capital projects, grants, and permanent trust funds. The fiscal year 2011 increase was almost entirely the result of the timing of expenditures on capital projects, such as the wharf improvement project and the issuance of long-term debt and contributions from Dominion for \$1 million towards education science, technology, engineering and mathematics.

General Fund Budgetary Highlights

The \$771,000 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 \$700,000 in available funds (free cash) appropriated to fund stabilization reserves, veteran's benefits, capital improvements, and various additional appropriations.

The actual general fund revenues came in \$1.3 million more than budgeted. The City does not budget revenue for tax liens which totaled \$242,000. Additionally, fines and forfeitures reported a budgetary surplus of \$258,000 which was the result of an increase in estimated receipts during the budget process. Motor vehicle and other excise taxes reported a surplus of \$411,000 mainly due to conservative budgetary estimates.

Due to recent budget cuts, most departments ended the year with a minimal amount of unspent funds. State and county assessments were lower than anticipated by \$547,000, which mainly related to the charter school tuition. The City's snow and ice removal account ended the year in a deficit of \$592,000, 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 \$52,000 due to changes in interest payments for fiscal year 2011 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, 2011, amounts to \$187 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 \$6.2 million for governmental activities and \$2.6 million for business-type activities. The City also transferred \$228,000, 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, 2011, totaled \$43.5 million, of which \$36.8 million is related to school projects, leaving a balance of \$6.5 million for capital improvements and \$181,000 for other CIP related projects.

The Commonwealth of Massachusetts is obligated to provide school construction assistance for approved school projects through a grant program administered by the Massachusetts School Building Authority (MSBA). The assistance is paid to support construction costs and reduce the total debt service of the City. At June 30, 2011 the City has recorded a receivable from the MSBA of \$22.6 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.

Outstanding debt of the water, sewer, golf and parking enterprise funds totaled \$13.2 million, \$1.7 million, \$172,000 and \$650,000, 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, 2011

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 23,150,113	\$ 6,218,701	\$ 29,368,814
Investments.....	5,127,064	-	5,127,064
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	1,173,407	-	1,173,407
Tax liens.....	1,351,357	-	1,351,357
Motor vehicle and other excise taxes.....	538,988	-	538,988
User fees.....	-	3,324,139	3,324,139
Trash fees.....	-	104,020	104,020
Departmental and other.....	84,730	-	84,730
Intergovernmental.....	6,572,404	-	6,572,404
Loans.....	185,557	-	185,557
Investment in joint venture.....	-	686,772	686,772
Total current assets.....	<u>38,183,620</u>	<u>10,333,632</u>	<u>48,517,252</u>
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	19,595,749	-	19,595,749
Loans.....	413,046	-	413,046
Capital assets, non depreciable.....	6,997,269	1,806,017	8,803,286
Capital assets, net of accumulated depreciation.....	<u>160,441,793</u>	<u>17,936,446</u>	<u>178,378,239</u>
Total noncurrent assets.....	<u>187,447,857</u>	<u>19,742,463</u>	<u>207,190,320</u>
TOTAL ASSETS.....	<u>225,631,477</u>	<u>30,076,095</u>	<u>255,707,572</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	1,089,923	174,780	1,264,703
Accrued liabilities.....	962,308	294,925	1,257,233
Accrued payroll.....	3,684,277	12,933	3,697,210
Tax refunds payable.....	214,910	-	214,910
Accrued interest.....	716,074	75,592	791,666
Capital lease obligations.....	178,027	-	178,027
Landfill closure.....	600,000	-	600,000
Compensated absences.....	1,381,116	31,663	1,412,779
Workers' compensation.....	98,787	-	98,787
Notes payable.....	3,999,062	210,000	4,209,062
Bonds payable.....	<u>4,717,000</u>	<u>1,024,880</u>	<u>5,741,880</u>
Total current liabilities.....	<u>17,641,484</u>	<u>1,824,773</u>	<u>19,466,257</u>
NONCURRENT:			
Capital lease obligations.....	206,938	-	206,938
Landfill closure.....	1,800,000	-	1,800,000
Compensated absences.....	5,666,903	94,984	5,761,887
Other postemployment benefits.....	21,918,722	901,520	22,820,242
Workers' compensation.....	1,076,166	-	1,076,166
Bonds payable.....	<u>39,864,526</u>	<u>14,640,400</u>	<u>54,504,926</u>
Total noncurrent liabilities.....	<u>70,533,255</u>	<u>15,636,904</u>	<u>86,170,159</u>
TOTAL LIABILITIES.....	<u>88,174,739</u>	<u>17,461,677</u>	<u>105,636,416</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	144,887,020	8,248,186	153,135,206
Restricted for:			
Loans.....	598,603	-	598,603
Permanent funds:			
Expendable.....	3,644,129	-	3,644,129
Nonexpendable.....	1,707,276	-	1,707,276
Grants and gifts.....	4,612,095	-	4,612,095
Unrestricted.....	<u>(17,992,385)</u>	<u>4,366,232</u>	<u>(13,626,153)</u>
TOTAL NET ASSETS.....	<u>\$ 137,456,738</u>	<u>\$ 12,614,418</u>	<u>\$ 150,071,156</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 11,702,186	\$ 705,951	\$ 653,538	\$ 662,409	\$ (9,680,288)
Public safety.....	27,989,181	2,115,452	1,403,973	-	(24,469,756)
Education.....	86,938,434	1,277,950	41,703,045	10,251	(43,947,188)
Public works.....	8,894,659	172,450	122,900	1,524,855	(7,074,454)
Community development.....	1,845,141	7,531	1,817,993	3,000,000	2,980,383
Health and human services.....	5,930,089	129,822	5,040,588	-	(759,679)
Culture and recreation.....	2,997,090	728,597	87,436	-	(2,181,057)
Interest.....	1,582,033	-	529,038	-	(1,052,995)
Total Governmental Activities...	147,878,813	5,137,753	51,358,511	5,197,515	(86,185,034)
<i>Business-Type Activities:</i>					
Water.....	4,161,481	4,517,123	-	39,804	395,446
Sewer.....	6,590,680	8,292,908	-	-	1,702,228
Golf Course.....	363,625	548,805	-	-	185,180
Parking.....	991,722	2,333,478	-	-	1,341,756
Trash.....	2,617,948	692,089	-	-	(1,925,859)
Total Business-Type Activities..	14,725,456	16,384,403	-	39,804	1,698,751
Total Primary Government.....	\$ 162,604,269	\$ 21,522,156	\$ 51,358,511	\$ 5,237,319	\$ (84,486,283)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (86,185,034)	\$ 1,698,751	\$ (84,486,283)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	71,828,412	-	71,828,412
Tax liens.....	510,973	-	510,973
Motor vehicle and other excise taxes.....	3,181,247	-	3,181,247
Hotel/motel and meals taxes.....	955,092	-	955,092
Penalties and interest on taxes.....	438,487	-	438,487
Payments in lieu of taxes.....	1,319,079	-	1,319,079
Grants and contributions not restricted to specific programs.....	6,404,395	-	6,404,395
Unrestricted investment income.....	1,095,518	-	1,095,518
Miscellaneous.....	358,720	-	358,720
<i>Transfers, net</i>	1,251,059	(1,251,059)	-
Total general revenues and transfers.....	87,342,982	(1,251,059)	86,091,923
Change in net assets.....	1,157,948	447,692	1,605,640
<i>Net Assets:</i>			
Beginning of year.....	136,298,790	12,166,726	148,465,516
End of year.....	\$ <u>137,456,738</u>	\$ <u>12,614,418</u>	\$ <u>150,071,156</u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2011

ASSETS	General	School Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 13,254,259	\$ 613,394	\$ 9,248,838	\$ 23,116,491
Investments.....	-	-	5,127,064	5,127,064
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	1,173,407	-	-	1,173,407
Tax liens.....	1,351,357	-	-	1,351,357
Motor vehicle and other excise taxes.....	538,988	-	-	538,988
Departmental and other.....	-	-	84,730	84,730
Intergovernmental.....	22,094,875	-	4,073,278	26,168,153
Loans.....	-	-	598,603	598,603
Due from other funds.....	-	-	185,911	185,911
TOTAL ASSETS.....	\$ 38,412,886	\$ 613,394	\$ 19,318,424	\$ 58,344,704
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable.....	\$ -	\$ 268,657	\$ 821,266	\$ 1,089,923
Accrued liabilities.....	962,308	-	-	962,308
Accrued payroll.....	3,445,347	-	238,930	3,684,277
Tax refunds payable.....	214,910	-	-	214,910
Accrued interest on short-term debt.....	-	-	-	-
Deferred revenues.....	24,794,842	-	2,046,379	26,841,221
Due to other funds.....	-	-	185,911	185,911
Notes payable.....	-	999,062	3,000,000	3,999,062
TOTAL LIABILITIES.....	29,417,407	1,267,719	6,292,486	36,977,612
FUND BALANCES:				
Nonspendable.....	-	-	1,707,276	1,707,276
Restricted.....	-	10,970	11,318,662	11,329,632
Assigned.....	589,894	-	-	589,894
Unassigned.....	8,405,585	(665,295)	-	7,740,290
TOTAL FUND BALANCES.....	8,995,479	(654,325)	13,025,938	21,367,092
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 38,412,886	\$ 613,394	\$ 19,318,424	\$ 58,344,704

See notes to basic financial statements.

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

JUNE 30, 2011

Total governmental fund balances.....		\$ 21,367,092
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		167,439,062
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		26,841,221
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.....		33,622
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(716,074)
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.....	(44,581,526)	
Landfill closure.....	(2,400,000)	
Workers' compensation.....	(1,174,953)	
Capital leases.....	(384,965)	
Compensated absences.....	(7,048,019)	
Other postemployment benefits.....	<u>(21,918,722)</u>	
Net effect of reporting long-term liabilities.....		<u>(77,508,185)</u>
Net assets of governmental activities.....		<u>\$ 137,456,738</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2011

	General	School Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ 71,754,816	\$ -	\$ -	\$ 71,754,816
Tax liens.....	241,637	-	-	241,637
Motor vehicle and other excise taxes.....	3,180,552	-	-	3,180,552
Hotel/motel and meals taxes.....	955,092	-	-	955,092
Charges for services.....	1,168,187	-	72,764	1,240,951
Penalties and interest on taxes.....	437,282	-	1,205	438,487
Payments in lieu of taxes.....	1,319,079	-	-	1,319,079
Licenses and permits.....	510,375	-	-	510,375
Fines and forfeitures.....	1,208,272	-	-	1,208,272
Intergovernmental.....	40,262,559	10,253	24,890,940	65,163,752
Departmental and other.....	181,666	-	2,395,556	2,577,222
Contributions.....	-	-	1,165,881	1,165,881
Investment income.....	89,037	-	1,007,710	1,096,747
TOTAL REVENUES.....	121,308,554	10,253	29,534,056	150,852,863
EXPENDITURES:				
Current:				
General government.....	5,035,343	-	1,272,289	6,307,632
Public safety.....	16,074,952	-	1,603,411	17,678,363
Education.....	48,588,197	665,295	11,757,084	61,010,576
Public works.....	3,156,866	-	2,609,408	5,766,274
Community development.....	-	-	4,465,759	4,465,759
Health and human services.....	861,769	-	5,065,368	5,927,137
Culture and recreation.....	1,840,373	-	312,499	2,152,872
Pension benefits.....	17,707,823	-	-	17,707,823
Employee benefits.....	11,751,691	-	-	11,751,691
State and county charges.....	6,445,380	-	-	6,445,380
Debt service:				
Principal.....	4,585,000	2,930,000	35,000	7,550,000
Interest.....	1,836,671	-	14,446	1,851,117
TOTAL EXPENDITURES.....	117,884,065	3,595,295	27,135,264	148,614,624
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	3,424,489	(3,585,042)	2,398,792	2,238,239
OTHER FINANCING SOURCES (USES):				
Issuance of bonds and notes.....	-	-	630,000	630,000
Issuance of refunding bonds.....	4,589,000	-	-	4,589,000
Premium from issuance of refunding bonds.....	1,167,420	-	-	1,167,420
Refunding bonds redeemed.....	(4,589,000)	-	-	(4,589,000)
Capital lease financing.....	110,715	-	75,000	185,715
Transfers in.....	4,052,593	-	1,084,854	5,137,447
Transfers out.....	(3,314,361)	-	(572,027)	(3,886,388)
TOTAL OTHER FINANCING SOURCES (USES).....	2,016,367	-	1,217,827	3,234,194
NET CHANGE IN FUND BALANCES.....	5,440,856	(3,585,042)	3,616,619	5,472,433
FUND BALANCES AT BEGINNING OF YEAR, AS REVISED.....	3,554,623	2,930,717	9,409,319	15,894,659
FUND BALANCES AT END OF YEAR.....	\$ 8,995,479	\$ (654,325)	\$ 13,025,938	\$ 21,367,092

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, 2011

Net change in fund balances - total governmental funds.....	\$	5,472,433
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay.....	6,194,898	
Depreciation expense.....	<u>(6,954,572)</u>	
Net effect of reporting capital assets.....		(759,674)
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>		
		(2,994,883)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Capital lease principal payments.....	117,782	
Capital lease issuance.....	(185,715)	
Issuance of refunding debt.....	(4,589,000)	
Refunding bonds redeemed.....	4,589,000	
Issuance of bonds and notes.....	(630,000)	
Premium from issuance of bonds and notes payable.....	(1,167,420)	
Debt service principal payments.....	<u>7,550,000</u>	
Net effect of reporting long-term debt.....		5,684,647
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Net change in compensated absences accrual.....	1,136,081	
Net change in landfill liability accrual.....	(1,900,000)	
Net change in workers' compensation.....	(362,821)	
Net change in accrued interest on long-term debt.....	216,190	
Net change in other postemployment benefits.....	(5,402,727)	
Amortization of premium from issuance of bonds and notes payable.....	<u>52,894</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		(6,260,383)
<p>Internal service funds are used by management to account for health insurance activities</p>		
The net activity of internal service funds is reported with Governmental Activities.....		<u>15,808</u>
Change in net assets of governmental activities.....	\$	<u><u>1,157,948</u></u>

See notes to basic financial statements.

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS**

JUNE 30, 2011

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Parking	Trash	Total	
ASSETS							
CURRENT:							
Cash and cash equivalents.....	\$ 4,955,597	\$ 647,726	\$ 327,737	\$ -	\$ 287,641	\$ 6,218,701	\$ 33,622
Receivables, net of allowance for uncollectibles:							
User fees.....	1,089,390	2,234,749	-	-	-	3,324,139	-
Trash fees.....	-	-	-	-	104,020	104,020	-
Investment in joint venture.....	-	686,772	-	-	-	686,772	-
Total current assets.....	<u>6,044,987</u>	<u>3,569,247</u>	<u>327,737</u>	<u>-</u>	<u>391,661</u>	<u>10,333,632</u>	<u>33,622</u>
NONCURRENT:							
Capital assets, non depreciable.....	1,540,184	99,552	118,067	48,214	-	1,806,017	-
Capital assets, net of accumulated depreciation.....	<u>10,629,777</u>	<u>2,369,288</u>	<u>418,804</u>	<u>4,518,577</u>	<u>-</u>	<u>17,936,446</u>	<u>-</u>
Total noncurrent assets.....	<u>12,169,961</u>	<u>2,468,840</u>	<u>536,871</u>	<u>4,566,791</u>	<u>-</u>	<u>19,742,463</u>	<u>-</u>
TOTAL ASSETS.....	<u>18,214,948</u>	<u>6,038,087</u>	<u>864,608</u>	<u>4,566,791</u>	<u>391,661</u>	<u>30,076,095</u>	<u>33,622</u>
LIABILITIES							
CURRENT:							
Warrants payable.....	60,464	114,316	-	-	-	174,780	-
Accrued liabilities.....	44,227	30,042	-	-	220,656	294,925	-
Accrued payroll.....	6,299	6,263	-	-	371	12,933	-
Accrued interest.....	60,409	-	1,283	13,900	-	75,592	-
Compensated absences.....	8,069	8,069	1,647	13,878	-	31,663	-
Notes payable.....	-	210,000	-	-	-	210,000	-
Bonds payable.....	<u>812,880</u>	<u>105,000</u>	<u>32,000</u>	<u>75,000</u>	<u>-</u>	<u>1,024,880</u>	<u>-</u>
Total current liabilities.....	<u>992,348</u>	<u>473,690</u>	<u>34,930</u>	<u>102,778</u>	<u>221,027</u>	<u>1,824,773</u>	<u>-</u>
NONCURRENT:							
Compensated absences.....	30,335	30,335	15,238	19,076	-	94,984	-
Other postemployment benefits obligation.....	234,922	234,630	113,818	273,753	44,397	901,520	-
Bonds payable.....	<u>12,340,400</u>	<u>1,585,000</u>	<u>140,000</u>	<u>575,000</u>	<u>-</u>	<u>14,640,400</u>	<u>-</u>
Total noncurrent liabilities.....	<u>12,605,657</u>	<u>1,849,965</u>	<u>269,056</u>	<u>867,829</u>	<u>44,397</u>	<u>15,636,904</u>	<u>-</u>
TOTAL LIABILITIES.....	<u>13,598,005</u>	<u>2,323,655</u>	<u>303,986</u>	<u>970,607</u>	<u>265,424</u>	<u>17,461,677</u>	<u>-</u>
NET ASSETS							
Invested in capital assets, net of related debt.....	3,397,684	568,840	364,871	3,916,791	-	8,248,186	-
Unrestricted.....	<u>1,219,259</u>	<u>3,145,592</u>	<u>195,751</u>	<u>(320,607)</u>	<u>126,237</u>	<u>4,366,232</u>	<u>33,622</u>
TOTAL NET ASSETS.....	<u>\$ 4,616,943</u>	<u>\$ 3,714,432</u>	<u>\$ 560,622</u>	<u>\$ 3,596,184</u>	<u>\$ 126,237</u>	<u>\$ 12,614,418</u>	<u>\$ 33,622</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2011

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Parking	Trash	Total	
OPERATING REVENUES:							
Charges for services	\$ 4,517,123	\$ 8,292,908	\$ 548,805	\$ 2,333,478	\$ 692,089	\$ 16,384,403	\$ -
Other.....	-	-	-	-	-	-	15,808
TOTAL OPERATING REVENUES	4,517,123	8,292,908	548,805	2,333,478	692,089	16,384,403	15,808
OPERATING EXPENSES:							
Cost of services and administration	1,200,149	800,588	322,042	727,777	2,617,948	5,668,504	-
District Assessment.....	2,313,119	5,672,103	-	-	-	7,985,222	-
Depreciation.....	290,235	86,165	38,148	236,426	-	650,974	-
TOTAL OPERATING EXPENSES	3,803,503	6,558,856	360,190	964,203	2,617,948	14,304,700	-
OPERATING INCOME (LOSS).....	713,620	1,734,052	188,615	1,369,275	(1,925,859)	2,079,703	15,808
NONOPERATING REVENUES (EXPENSES):							
Interest expense.....	(357,978)	(31,824)	(3,435)	(27,519)	-	(420,756)	-
Intergovernmental.....	39,804	-	-	-	-	39,804	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(318,174)	(31,824)	(3,435)	(27,519)	-	(380,952)	-
INCOME (LOSS) BEFORE TRANSFERS.....	395,446	1,702,228	185,180	1,341,756	(1,925,859)	1,698,751	15,808
TRANSFERS:							
Transfers in.....	36,000	-	363,764	-	1,970,475	2,370,239	-
Transfers out.....	(728,958)	(759,264)	(548,276)	(1,584,800)	-	(3,621,298)	-
TOTAL TRANSFERS.....	(692,958)	(759,264)	(184,512)	(1,584,800)	1,970,475	(1,251,059)	-
CHANGE IN NET ASSETS.....	(297,512)	942,964	668	(243,044)	44,616	447,692	15,808
NET ASSETS AT BEGINNING OF YEAR.....	4,914,455	2,771,468	559,954	3,839,228	81,621	12,166,726	17,814
NET ASSETS AT END OF YEAR.....	\$ 4,616,943	\$ 3,714,432	\$ 560,622	\$ 3,596,184	\$ 126,237	\$ 12,614,418	\$ 33,622

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2011

	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.....	\$ 4,662,837	\$ 7,955,103	\$ 548,805	\$ 2,333,478	\$ 697,048	\$ 16,197,271	\$ -
Receipts from interfund services provided.....	-	-	-	-	-	-	15,808
Receipts from other governments.....	-	-	-	-	-	-	-
Payments to vendors.....	(3,157,844)	(6,473,193)	(95,953)	(217,436)	(2,574,063)	(12,518,489)	-
Payments to employees.....	(376,888)	(344,172)	(227,251)	(440,988)	(23,595)	(1,412,894)	-
Payments for interfund services used.....	-	-	-	-	-	-	-
NET CASH FROM OPERATING ACTIVITIES.....	1,128,105	1,137,738	225,601	1,675,054	(1,900,610)	2,265,888	15,808
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:							
Transfers in.....	36,000	-	363,764	-	1,970,475	2,370,239	-
Transfers out.....	(728,958)	(759,264)	(548,276)	(1,584,800)	-	(3,621,298)	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(692,958)	(759,264)	(184,512)	(1,584,800)	1,970,475	(1,251,059)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Proceeds from the issuance of bonds and notes.....	8,464,000	1,900,000	-	-	-	10,364,000	-
Acquisition and construction of capital assets.....	(3,442,295)	(585,324)	-	-	-	(4,027,619)	-
Principal payments on bonds and notes.....	(5,691,822)	(1,641,000)	(30,000)	(75,000)	-	(7,437,822)	-
Interest expense.....	(356,451)	(48,234)	(10,560)	(30,238)	-	(445,483)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(1,026,568)	(374,558)	(40,560)	(105,238)	-	(1,546,924)	-
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(591,421)	3,916	529	(14,984)	69,865	(532,095)	15,808
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	5,547,018	643,810	327,208	14,984	217,776	6,750,796	17,814
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 4,955,597	\$ 647,726	\$ 327,737	\$ -	\$ 287,641	\$ 6,218,701	\$ 33,622
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:							
Operating income (loss).....	\$ 713,620	\$ 1,734,052	\$ 188,615	\$ 1,369,275	\$ (1,925,859)	\$ 2,079,703	\$ 15,808
Adjustments to reconcile operating income (loss) to net cash from operating activities:							
Depreciation.....	290,235	86,165	38,148	236,426	-	650,974	-
Changes in assets and liabilities:							
User fees.....	145,714	(337,805)	-	-	-	(192,091)	-
Trash fees.....	-	-	-	-	4,959	4,959	-
Investment in joint venture.....	-	(315,823)	-	-	-	(315,823)	-
Accrued liabilities.....	(5,189)	(14,057)	-	-	11,756	(7,490)	-
Accrued payroll.....	(7,457)	(5,975)	-	-	(600)	(14,032)	-
Other postemployment benefits.....	75,513	75,513	28,635	69,316	9,134	258,111	-
Accrued compensated absences.....	(84,331)	(84,331)	(29,797)	37	-	(198,422)	-
Total adjustments.....	414,485	(596,314)	36,986	305,779	25,249	186,185	-
NET CASH FROM OPERATING ACTIVITIES.....	\$ 1,128,105	\$ 1,137,738	\$ 225,601	\$ 1,675,054	\$ (1,900,610)	\$ 2,265,888	\$ 15,808

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2011

	Pension Trust Fund (as of December 31, 2010)	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds	Agency Fund
ASSETS				
Cash and cash equivalents.....	\$ 7,559,203	\$ 50,000	\$ 254,978	\$ 683,356
Investments:				
Corporate bonds.....	-	-	1,135,871	-
Real estate and alternative investment mutual funds.....	799,727	-	-	-
PRIT.....	85,296,150	-	-	-
Receivables, net of allowance for uncollectibles:				
Departmental and other.....	301,852	-	-	-
NONCURRENT:				
Capital assets, net of accumulated depreciation.....	107,031	-	-	-
TOTAL ASSETS.....	94,063,963	50,000	1,390,849	683,356
LIABILITIES				
Warrants payable.....	7,621	-	-	17,049
Liabilities due depositors.....	-	-	-	666,307
TOTAL LIABILITIES.....	7,621	-	-	683,356
NET ASSETS				
Held in trust for pension, OPEB benefits, and other purposes.....	\$ 94,056,342	\$ 50,000	\$ 1,390,849	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2011

	Pension Trust Fund (as of December 31, 2010)	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds
ADDITIONS:			
Contributions:			
Employer.....	\$ 9,991,587	\$ 50,000	\$ -
Plan member.....	3,209,500	-	-
Private donations.....	-	-	27,516
Total contributions.....	13,201,087	50,000	27,516
Net investment income:			
Net change in fair value of investments.....	8,141,432	-	251,697
Interest.....	2,311,954	-	198
Total investment income.....	10,453,386	-	251,895
Less: investment expense.....	(401,570)	-	-
Net investment income.....	10,051,816	-	251,895
Intergovernmental.....	314,507	-	-
Transfers from other systems.....	280,470	-	-
TOTAL ADDITIONS.....	23,847,880	50,000	279,411
DEDUCTIONS:			
Administration.....	331,631	-	-
Transfers to other systems.....	200,497	-	-
Retirement benefits and refunds.....	12,628,561	-	-
Educational scholarships.....	-	-	19,597
Housing subsidies.....	-	-	104,815
Depreciation.....	3,125	-	-
TOTAL DEDUCTIONS.....	13,163,814	-	124,412
CHANGE IN NET ASSETS.....	10,684,066	50,000	154,999
NET ASSETS AT BEGINNING OF YEAR.....	83,372,276	-	1,235,850
NET ASSETS AT END OF YEAR.....	\$ 94,056,342	\$ 50,000	\$ 1,390,849

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, 2011, the City's equity interest in the operations of the District totaled \$686,772, 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,

2011 totaled approximately \$2.3 million. 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 *school capital projects fund* is used to account for the ongoing construction and renovations of the City's school buildings.

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

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

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

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

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

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

The following major proprietary funds are reported:

The *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 *other postemployment benefit trust fund* is used to accumulate resources to provide funding for future other postemployment benefits (OPEB) liabilities.

The *private-purpose trust fund* is used to account for trust arrangements that exclusively benefit individuals, private organizations, or other governments. Some of these trusts have donor restrictions and trustee policies that do not allow the endowment portion and any unrealized appreciation to be spent. The donor restrictions and

trustee policies only allow the trustees to authorize spending of the realized investment earnings. The City's educational scholarships and housing subsidy trust funds are accounted for in this fund.

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

Government-Wide and Fund Financial Statements

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

D. Cash and Investments

Government-Wide and Fund Financial Statements

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

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

E. Accounts Receivable

Government-Wide and Fund Financial Statements

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

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

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

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

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

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

Motor Vehicle and Other Excise Taxes

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

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

User Fees

Water and Sewer user fees are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Unbilled user fees are estimated at year-end and are recorded as revenue in the current period. The City abides by a strict policy for unpaid user fees which includes lienning any unpaid balance plus interest to the corresponding real estate tax bills.

Trash user fees are levied monthly based on the number of units located on the property. The monthly per unit fee collected is \$24 for commercial and \$16 for residential. Collection from any one property shall not exceed \$100 per month. Unpaid trash fees are subject to interest and demand fees; any fees not paid within thirty (30) days may be lienning to the property in the following fiscal years' real estate bill.

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

Departmental and Other

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

Intergovernmental

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

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

Loans

Loan receivables are comprised of funds advanced to small businesses and developers under various Urban Development Action Grants (UDAG) and Community Development Block Grants (CDBG). The City loans funds to owners of commercial and residential properties for the purpose of rehabilitating these properties. The City receives funding for these loans from the U.S Department of Housing and Urban Development (HUD) under Community Development Block Grant (CDBG) programs for the City. These loans are repaid to the City under

various terms and conditions stipulated by each loan agreement. The loan repayments may be used by the City for any eligible activity relevant to the community development program.

F. Inventories

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 are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been “restricted for” the following:

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

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

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

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

Fund Financial Statements (Fund Balances)

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

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

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

“Assigned” fund balance includes amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed.

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

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, 2011 in the school capital projects major fund. This deficit will be funded through long-term borrowing.

Actual expenditures exceeded appropriations for snow and ice. These over-expenditures will be funded with available funds during fiscal year 2012. 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 City Treasurer is the custodian of funds held in the Other Postemployment Benefit (OPEB) Trust Fund. As of June 30, 2011, \$50,000 from the OPEB Trust Fund is included within the City's cash and investments balances in the following disclosures.

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

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

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk. At fiscal year-end, the carrying amount of deposits totaled \$24,504,618 and the bank balance totaled \$26,754,377. Of the bank balance, \$1,649,626 was covered by Federal Depository Insurance, \$4,563,563 was covered by the Share Insurance Fund, \$2,547,446 was covered by the Depositors Insurance Fund, \$12,095,115 was collateralized and \$5,898,627 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 \$158,304 and the bank balance totaled \$300,000. The entire bank balance was covered by Federal Depository Insurance.

Investments

As of June 30, 2011, the City had the following investments:

Investment Type	Fair Value	Maturity	
		Under 1 Year	1-5 Years
<u>Debt Securities:</u>			
Corporate Bonds.....	\$ 1,016,408	\$ 208,135	\$ 808,273
Federal National Mortgage Association.....	<u>377,792</u>	<u>276,753</u>	<u>101,039</u>
Total Debt Securities.....	1,394,200	\$ <u>484,888</u>	\$ <u>909,312</u>
<u>Other Investments:</u>			
Equity Securities.....	3,253,995		
Equity Mutual Funds.....	742,169		
Bond Mutual Funds.....	485,186		
International Emerging Market Mutual Funds.....	387,385		
Money Market Mutual Funds.....	780,863		
MMDT.....	<u>5,071,667</u>		
Total Investments.....	\$ <u>12,115,465</u>		

As of December 31, 2010, the System had the following investments:

Investment Type	Fair Value	Maturity
		Under 1 Year
Repurchase Agreements.....	\$ 6,160,439	\$ <u>6,160,439</u>
<u>Other Investments:</u>		
Government Short-term Investment Funds.....	1,240,460	
Venture Capital and Limited Partnerships.....	227,877	
Real Estate Investment Trust.....	571,850	
Pension Reserve Investment Trust (PRIT).....	<u>85,296,150</u>	
Total Investments.....	\$ <u>93,496,776</u>	

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

The System participates in PRIT which is unrated. The effective weighted duration rate for PRIT investments ranged from .08 to 11.6 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, \$1,016,408 in corporate bonds, \$377,792 in Federal National Mortgage Association and

\$3,253,995 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 investment not meeting this criteria are limited to no more than 5% of an institution’s assets and no more than 10% of the municipality’s cash.

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

Interest Rate Risk

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

Credit Risk

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

	Fair Value	AAA	AA	Rating		
				A	A+	A-
<u>Debt Securities:</u>						
Corporate Bonds.....	\$ 1,016,408	\$ -	\$ 167,055	\$ 559,015	\$ 185,869	\$ 104,469
Federal National Mortgage Association....	-	377,792	-	-	-	-
Total Debt Securities.....	\$ <u>1,016,408</u>	\$ <u>377,792</u>	\$ <u>167,055</u>	\$ <u>559,015</u>	\$ <u>185,869</u>	\$ <u>104,469</u>

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

Concentration of Credit Risk

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

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

NOTE 3 – RECEIVABLES

At June 30, 2011, 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.....	\$ 1,173,407	\$ -	\$ 1,173,407
Tax liens.....	1,351,357	-	1,351,357
Motor vehicle and other excise taxes.....	993,445	(454,457)	538,988
Departmental and other.....	84,730	-	84,730
Intergovernmental.....	26,168,153	-	26,168,153
Loans.....	837,257	(238,654)	598,603
Total.....	<u>\$ 30,608,349</u>	<u>\$ (693,111)</u>	<u>\$ 29,915,238</u>

At June 30, 2011, 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.....	\$ 1,089,390	\$ -	\$ 1,089,390
Sewer user fees.....	2,234,749	-	2,234,749
Trash fees.....	104,020	-	104,020
Total.....	<u>\$ 3,428,159</u>	<u>\$ -</u>	<u>\$ 3,428,159</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.....	\$ 836,460	\$ -	\$ 836,460
Tax liens.....	1,351,357	-	1,351,357
Motor vehicle and other excise taxes.....	538,988	-	538,988
Departmental and other.....	-	84,730	84,730
Intergovernmental.....	22,068,037	1,363,046	23,431,083
Loans.....	-	598,603	598,603
Total.....	<u>\$ 24,794,842</u>	<u>\$ 2,046,379</u>	<u>\$ 26,841,221</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 4,724,892	\$ 1,714,720	\$ -	\$ 6,439,612
Construction in progress.....	516,826	268,657	(227,826)	557,657
Total capital assets not being depreciated.....	5,241,718	1,983,377	(227,826)	6,997,269
<u>Capital assets being depreciated:</u>				
Land improvements.....	4,973,589	1,595,508	-	6,569,097
Buildings and improvements.....	171,233,847	-	-	171,233,847
Equipment.....	9,339,966	814,177	(81,870)	10,072,273
Infrastructure.....	55,048,008	2,005,276	-	57,053,284
Vehicles.....	5,604,194	24,386	(254,780)	5,373,800
Total capital assets being depreciated.....	246,199,604	4,439,347	(336,650)	250,302,301
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(1,743,053)	(222,396)	-	(1,965,449)
Buildings and improvements.....	(45,041,414)	(4,287,401)	-	(49,328,815)
Equipment.....	(4,403,327)	(581,173)	81,870	(4,902,630)
Infrastructure.....	(27,805,034)	(1,569,375)	-	(29,374,409)
Vehicles.....	(4,249,758)	(294,227)	254,780	(4,289,205)
Total accumulated depreciation.....	(83,242,586)	(6,954,572)	336,650	(89,860,508)
Total capital assets being depreciated, net.....	162,957,018	(2,515,225)	-	160,441,793
Total governmental activities capital assets.....	\$ 168,198,736	\$ (531,848)	\$ (227,826)	\$ 167,439,062

	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	29,835	-	1,529,595
Total capital assets not being depreciated.....	1,510,349	29,835	-	1,540,184
<u>Capital assets being depreciated:</u>				
Land improvements.....	114,550	-	-	114,550
Equipment.....	296,290	-	-	296,290
Vehicles.....	48,794	1,904,402	-	1,953,196
Infrastructure.....	15,101,050	-	-	15,101,050
Total capital assets being depreciated.....	15,560,684	1,904,402	-	17,465,086
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(48,685)	(5,728)	-	(54,413)
Equipment.....	(83,201)	(29,629)	-	(112,830)
Vehicles.....	(24,397)	(9,759)	-	(34,156)
Infrastructure.....	(6,388,791)	(245,119)	-	(6,633,910)
Total accumulated depreciation.....	(6,545,074)	(290,235)	-	(6,835,309)
Total capital assets being depreciated, net.....	9,015,610	1,614,167	-	10,629,777
Total water activities capital assets.....	\$ 10,525,959	\$ 1,644,002	\$ -	\$ 12,169,961
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.....	2,875,904	699,640	-	3,575,544
Total capital assets being depreciated.....	2,930,125	699,640	-	3,629,765
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(5,426)	-	-	(5,426)
Vehicles.....	(24,398)	(9,759)	-	(34,157)
Infrastructure.....	(1,144,488)	(76,406)	-	(1,220,894)
Total accumulated depreciation.....	(1,174,312)	(86,165)	-	(1,260,477)
Total capital assets being depreciated, net.....	1,755,813	613,475	-	2,369,288
Total sewer activities capital assets.....	\$ 1,855,365	\$ 613,475	\$ -	\$ 2,468,840

	Beginning Balance	Increases	Decreases	Ending Balance
Golf Course Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 118,067	\$ -	\$ -	\$ 118,067
<u>Capital assets being depreciated:</u>				
Land improvements.....	312,852	-	-	312,852
Buildings and improvements.....	453,988	-	-	453,988
Equipment.....	337,233	-	-	337,233
Total capital assets being depreciated.....	1,104,073	-	-	1,104,073
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(303,845)	(1,201)	-	(305,046)
Buildings and improvements.....	(129,488)	(11,000)	-	(140,488)
Equipment.....	(213,788)	(25,947)	-	(239,735)
Total accumulated depreciation.....	(647,121)	(38,148)	-	(685,269)
Total capital assets being depreciated, net.....	456,952	(38,148)	-	418,804
Total golf course activities capital assets.....	\$ 575,019	\$ (38,148)	\$ -	\$ 536,871
Parking Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 48,214	\$ -	\$ -	\$ 48,214
<u>Capital assets being depreciated:</u>				
Land improvements.....	1,338,366	-	-	1,338,366
Buildings and improvements.....	7,625,100	-	-	7,625,100
Equipment.....	73,805	-	-	73,805
Infrastructure.....	24,952	-	-	24,952
Total capital assets being depreciated.....	9,062,223	-	-	9,062,223
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(174,853)	(33,500)	-	(208,353)
Buildings and improvements.....	(4,121,337)	(191,066)	-	(4,312,403)
Equipment.....	(8,535)	(6,870)	-	(15,405)
Infrastructure.....	(2,495)	(4,990)	-	(7,485)
Total accumulated depreciation.....	(4,307,220)	(236,426)	-	(4,543,646)
Total capital assets being depreciated, net.....	4,755,003	(236,426)	-	4,518,577
Total parking activities capital assets.....	\$ 4,803,217	\$ (236,426)	\$ -	\$ 4,566,791

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, 2010 totals \$17,969, for a net book value of \$107,031.

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

Governmental Activities:	
General government.....	\$ 380,456
Public safety.....	511,311
Education.....	4,128,266
Public works.....	1,777,543
Health and human services.....	4,636
Culture and recreation.....	<u>152,360</u>
Total depreciation expense - governmental activities.....	<u>\$ 6,954,572</u>
 Business-Type Activities:	
Water.....	\$ 290,235
Sewer.....	86,165
Golf Course.....	38,148
Parking.....	<u>236,426</u>
Total depreciation expense - business-type activities.....	<u>\$ 650,974</u>
 Fiduciary Activities:	
Pension Trust.....	<u>\$ 3,125</u>

NOTE 5 – INTERFUND TRANSFERS AND BALANCES

Interfund transfers for the fiscal year ended June 30, 2011, are summarized as follows:

Transfers Out:	Transfers In:					Total
	General Fund	Golf Course Enterprise Fund	Water Enterprise Fund	Trash Enterprise Fund	Nonmajor Governmental Funds	
General Fund.....	\$ -	\$ 363,764	\$ -	\$ 1,970,475	\$ 980,122	\$ 3,314,361 (1)
Nonmajor Governmental Funds.....	467,295	-	-	-	104,732	572,027 (2)
Parking Enterprise Fund.....	1,584,800	-	-	-	-	1,584,800 (3)
Golf Course Enterprise Fund.....	548,276	-	-	-	-	548,276 (4)
Sewer Enterprise Fund.....	759,264	-	-	-	-	759,264 (5)
Water Enterprise Fund.....	<u>692,958</u>	<u>-</u>	<u>36,000</u>	<u>-</u>	<u>-</u>	<u>728,958 (6)</u>
Total.....	<u>\$ 4,052,593</u>	<u>\$ 363,764</u>	<u>\$ 36,000</u>	<u>\$ 1,970,475</u>	<u>\$ 1,084,854</u>	<u>\$ 7,507,686</u>

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

The City’s interfund balances at June 30, 2011 consisted of \$185,911 in balances within the nonmajor governmental funds all representing interfund borrowings for cash flow purposes.

NOTE 6 – CAPITAL LEASES

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

The assets acquired through capital leases are as follows:

<u>Asset:</u>	<u>Governmental Activities</u>
Machinery and equipment.....	\$ 541,403
Vehicles.....	285,954
Less: accumulated depreciation.....	<u>(225,152)</u>
 Total.....	 <u>\$ 602,205</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011, were as follows:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2012.....	\$ 196,085
2013.....	123,946
2014.....	<u>98,049</u>
 Total minimum lease payments.....	 418,080
 Less: amounts representing interest.....	 <u>(33,115)</u>
 Present value of minimum lease payments.....	 <u>\$ 384,965</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, 2011, are as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2010	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2011
Governmental Activities							
GAN	Wharf Expansion.....	1.00%	10/21/2011	\$ -	\$ 3,000,000	\$ -	\$ 3,000,000
BAN	Collins Middle School Feasibility Study.....	1.60%	6/29/2012	-	687,062	-	687,062
BAN	Saltonstall School Feasibility Study.....	1.60%	6/29/2012	-	312,000	-	312,000
	Sub-total government-type notes.....			-	3,999,062	-	3,999,062
Business-type Activities							
BAN	Water Improvements.....	1.50%	10/22/2010	36,000	-	36,000	-
BAN	Sewer Pump Station Upgrade.....	1.60%	6/29/2012	-	210,000	-	210,000
	Sub-total business-type notes.....			36,000	210,000	36,000	210,000
	Total notes payable.....			\$ 36,000	\$ 4,209,062	\$ 36,000	\$ 4,209,062

On October 21st 2011 the City paid down the \$3 million GAN for Wharf Expansion with grant proceeds.

NOTE 8 – LONG-TERM DEBT

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

In prior fiscal years, the City refunded debt on an advanced basis; as such, the proceeds of the refunding bonds have been placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. The trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. As of June 30, 2011, \$6,775,000 of the refunded bonds are considered defeased.

Details related to the outstanding general obligation indebtedness at June 30, 2011, and the debt service requirements are as follows:

Bonds Payable Schedule – Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2010	Issued	Redeemed	Outstanding at June 30, 2011
School Construction.....	2.25-6.75%	\$ 32,814,000	\$ -	\$ 3,892,000	\$ 28,922,000
HUD Section 108.....	9.00%	175,000	-	35,000	140,000
Swimming Pool.....	4.50-6.75%	40,000	-	40,000	-
Police Station.....	3.50-4.00%	586,000	-	293,000	293,000
Capital Improvements.....	3.50-4.00%	1,140,000	-	145,000	995,000
School Long-term BAN.....	3.60%	2,930,000	-	2,930,000	-
Refunding Bond.....	2.00-5.00%	8,071,100	-	213,800	7,857,300
Swimming Pool Refunding.....	2.00-5.00%	41,900	-	1,200	40,700
Capital Improvements.....	3.00-4.00%	<u>4,589,000</u>	<u>5,219,000</u>	<u>4,589,000</u>	<u>5,219,000</u>
Total Governmental bonds payable.....		50,387,000	5,219,000	12,139,000	43,467,000
Unamortized premiums on Bonds.....		-	1,167,420	52,894	1,114,526
Total.....		<u>\$ 50,387,000</u>	<u>\$ 6,386,420</u>	<u>\$ 12,191,894</u>	<u>\$ 44,581,526</u>

The future fiscal years payments are as follows:

Fiscal Year	Principal	Interest	Total
2012.....	\$ 4,717,000	\$ 1,694,755	\$ 6,411,755
2013.....	3,834,000	1,544,487	5,378,487
2014.....	3,975,000	1,389,345	5,364,345
2015.....	3,470,000	1,242,740	4,712,740
2016.....	3,485,000	1,117,921	4,602,921
2017.....	3,306,000	992,431	4,298,431
2018.....	3,385,000	863,842	4,248,842
2019.....	3,485,000	729,816	4,214,816
2020.....	3,580,000	575,378	4,155,378
2021.....	2,655,000	431,078	3,086,078
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>\$ 43,467,000</u>	<u>\$ 11,321,091</u>	<u>\$ 54,788,091</u>

The City had \$4,589,000 in long-term governmental BANs, \$5,389,000 in long-term water BANs, and \$1,641,000 in long-term sewer BANs outstanding on July 1, 2010 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 2011, \$4,311,000 of such assistance was received. Approximately \$28,846,000 will be received in future fiscal years. Of the \$28,846,000, \$6,778,000 represents reimbursement of long-term interest costs, and \$22,068,000 represents reimbursement of approved construction costs. Accordingly, a \$22,068,000 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 Payable Schedule – Water Enterprise Fund

Project	Interest Rate (%)	Outstanding at June 30, 2010	Issued	Redeemed	Outstanding at June 30, 2011
Water Project - MWPAT.....	2.00%	\$ 2,041,102	\$ -	\$ 101,822	\$ 1,939,280
Water Project.....	3.75-5.00%	2,915,000	-	165,000	2,750,000
Water System Improvements.....	3.00-4.00%	5,389,000	7,464,000	5,389,000	7,464,000
Water Storage Tanks.....	3.00-4.00%	-	1,000,000	-	1,000,000
Total Water Enterprise Fund.....		\$ 10,345,102	\$ 8,464,000	\$ 5,655,822	\$ 13,153,280

The future fiscal years payments are as follows:

Fiscal Year	Principal	Interest	Total
2012.....	\$ 812,880	\$ 450,669	\$ 1,263,549
2013.....	810,978	424,061	1,235,039
2014.....	813,119	398,295	1,211,414
2015.....	815,303	373,311	1,188,614
2016.....	817,532	348,489	1,166,021
2017.....	819,805	320,922	1,140,727
2018.....	817,124	290,502	1,107,626
2019.....	819,490	260,135	1,079,625
2020.....	821,904	229,721	1,051,625
2021.....	824,367	199,259	1,023,626
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.....	\$ 13,153,280	\$ 3,969,946	\$ 17,123,226

Bonds Payable Schedule – Sewer Enterprise Fund

Project	Interest Rate (%)	Outstanding at June 30, 2010	Issued	Redeemed	Outstanding at June 30, 2011
Sewer Improvements.....	3.00-4.00%	\$ 1,641,000	\$ 1,690,000	\$ 1,641,000	\$ 1,690,000

The future fiscal years payments are as follows:

Fiscal Year	Principal	Interest	Total
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	\$ 594,400	\$ 2,284,400

Bonds Payable Schedule – Golf Course Enterprise Fund

Project	Interest Rate (%)	Outstanding at June 30, 2010	Issued	Redeemed	Outstanding at June 30, 2011
Golf Course.....	4.50-6.75%	\$ 30,000	\$ -	\$ 30,000	\$ -
Refunding Bond 2010.....	2.00-5.00%	172,000	-	-	172,000
Total Golf Course Enterprise bonds payable.....		\$ 202,000	\$ -	\$ 30,000	\$ 172,000

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>
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.....	<u>19,000</u>	<u>285</u>	<u>19,285</u>
Total.....	<u>\$ 172,000</u>	<u>\$ 15,335</u>	<u>\$ 187,335</u>

Bonds Payable Schedule – Parking Enterprise Fund

<u>Project</u>	<u>Interest Rate (%)</u>	<u>Outstanding at June 30, 2010</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2011</u>
Parking Garage Repairs.....	3.00-5.00%	\$ <u>725,000</u>	\$ <u>-</u>	\$ <u>75,000</u>	\$ <u>650,000</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>
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.....	<u>50,000</u>	<u>2,000</u>	<u>52,000</u>
Total.....	<u>\$ 650,000</u>	<u>\$ 132,300</u>	<u>\$ 782,300</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, 2011, the City had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
School Construction.....	\$ 1,100,094
Water Systems Improvements.....	4,328,208
Capital Projects.....	7,082,500
Refunding Bonds.....	<u>1,215,000</u>
Total.....	<u>\$ 13,725,802</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2011, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Long-term bonds.....	\$ 50,387,000	\$ 5,219,000	\$ (12,139,000)	\$ 43,467,000	\$ 4,717,000
Add: unamortized premium.....	-	1,167,420	(52,894)	1,114,526	-
Total bonds payable.....	50,387,000	6,386,420	(12,191,894)	44,581,526	4,717,000
Capital leases.....	317,032	185,715	(117,782)	384,965	178,027
Compensated absences.....	8,184,100	160,785	(1,296,866)	7,048,019	1,381,116
Landfill Closure.....	500,000	1,900,000	-	2,400,000	600,000
Workers' compensation.....	812,132	446,538	(83,717)	1,174,953	98,787
Other postemployment benefits.....	16,515,995	11,120,411	(5,717,684)	21,918,722	-
Total governmental activity long-term liabilities.....	\$ 76,716,259	\$ 20,199,869	\$ (19,407,943)	\$ 77,508,185	\$ 6,974,930
Business-Type Activities:					
Long-term bonds.....	\$ 12,913,102	\$ 10,154,000	\$ (7,401,822)	\$ 15,665,280	\$ 1,024,880
Compensated absences.....	325,069	57,238	(255,660)	126,647	31,663
Other postemployment benefits.....	643,409	457,384	(199,273)	901,520	-
Total business-type activity long-term liabilities.....	\$ 13,881,580	\$ 10,668,622	\$ (7,856,755)	\$ 16,693,447	\$ 1,056,543

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 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

In fiscal year 2011, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the City's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

In accordance with Statement No. 54, the stabilization funds have been reported in the general fund, and accordingly, the general fund, the nonmajor fund and City Stabilization funds beginning balances have been revised from \$1,632,919 to \$3,554,623, from \$9,417,110 to \$9,409,319 and from \$1,913,913 to \$0, respectively.

Massachusetts General Law Ch.40 §5B allows for the establishment of Stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund along with any additions to or appropriations from the fund requires a two-thirds vote of the legislative body. At year end the balances of the General Stabilization Fund and the Retirement Stabilization Fund totaled \$2,736,777 and \$256,089, respectively and are reported as unassigned fund balance within the General Fund.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The City has reported principal portions of endowment funds as nonspendable.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

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

As of June 30, 2011, the governmental fund balances consisted of the following:

	GOVERNMENTAL FUNDS			
	General	School Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
FUND BALANCES				
Nonspendable:				
Permanent fund principal.....	\$ -	\$ -	\$ 1,707,276	\$ 1,707,276
Restricted for:				
School Capital Projects fund.....	-	10,970	-	10,970
City revolving funds.....	-	-	1,253,294	1,253,294
City grant funds.....	-	-	1,081,780	1,081,780
School lunch.....	-	-	55,458	55,458
School revolving funds.....	-	-	277,524	277,524
School grant funds.....	-	-	2,044,738	2,044,738
Donations and gifts.....	-	-	1,385,819	1,385,819
Receipts reserved.....	-	-	454,639	454,639
Community development grants.....	-	-	99,758	99,758
Salem Redevelopment Authority.....	-	-	20,786	20,786
Police station equipment.....	-	-	9,668	9,668
Salem Ferry.....	-	-	38,086	38,086
Other capital projects.....	-	-	952,983	952,983
Cemetery fund.....	-	-	1,892,144	1,892,144
Human services fund.....	-	-	1,177,159	1,177,159
Other permanent funds.....	-	-	574,826	574,826
Assigned to:				
General government.....	31,005	-	-	31,005
Public safety.....	39,807	-	-	39,807
Education.....	393,287	-	-	393,287
Public works.....	3,360	-	-	3,360
Human services.....	33,900	-	-	33,900
Culture and recreation.....	20,963	-	-	20,963
Pension benefits.....	32,473	-	-	32,473
Debt service interest.....	35,099	-	-	35,099
Unassigned.....	8,405,585	(665,295)	-	7,740,290
TOTAL FUND BALANCES (DEFICIT).....	\$ 8,995,479	\$ (654,325)	\$ 13,025,938	\$ 21,367,092

NOTE 10 – RISK FINANCING

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

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

Workers’ Compensation

Workers’ compensation claims incurred prior to July 1, 2008 are administered by the City and are funded on a pay-as-you-go basis from annual appropriations. The estimated future workers’ compensation liability is based on history and injury type. At June 30, 2011, the amount of the liability for workers’ compensation claims totaled \$1,174,953.

Changes in the reported liability since July 1, 2009, 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 2010.....	\$ 394,442	\$ 663,363	\$ (245,673)	\$ 812,132	\$ 73,150
Fiscal Year 2011.....	812,132	639,627	(276,806)	1,174,953	98,787

NOTE 11 – PENSION PLAN

Plan Description - The City contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Salem Contributory Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$9,290,000 for the fiscal year ended June 30, 2011, 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, 2010, the System's membership consists of the following:

Active members.....	878
Inactive members.....	149
Retirees and beneficiaries currently receiving benefits.....	<u>578</u>
 Total.....	 <u><u>1,605</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 86% of the total. Chapter 32 of the MGL governs the contributions of plan members and the City.

Annual Pension Cost - The City's contributions to the System for the fiscal years ended June 30, 2011, 2010, and 2009, were \$8,543,631, \$8,233,450, and \$7,952,910, 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, 2011 was 19 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 86% of the unfunded liability.

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

of the plan’s annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the City.

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description – The City of Salem administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the City’s group health insurance plan, which covers both active and retired members. Chapter 32b of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the City and the unions representing City employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report. Additionally, retired teachers and their spouses receive health insurance through the Group Insurance Commission of the Commonwealth of Massachusetts (GIC). Each participating municipality is assessed for the governmental share of health and life insurance premiums paid on behalf of its teacher retirees by the state. The employer’s share is 90% of the total premium; the retiree’s co-payment is 10% of the total premium as well as full payment for catastrophic illness coverage. The City’s assessment of the employer’s share by the GIC, for retired teachers, for fiscal year 2011, totaled \$2.3 million.

Funding Policy – Contribution requirements are also negotiated between the City and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The City contributes 70% of the cost of current-year premiums for retirees in active plans and 65% for those in senior plans. The City contributes 50% for surviving spouses. The City will contribute 65% in fiscal year 2012 for retirees in active plans. Plan members receiving benefits contribute the remainder of their premium costs. For fiscal year 2011, the City contributed \$3.6 million to the plan, and total member contributions totaled \$1.4 million.

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

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

Annual required contribution.....	\$ 11,374,693
Interest on net OPEB obligation.....	857,970
Adjustments to annual required contribution.....	(654,868)
Annual OPEB cost (expense).....	<u>11,577,795</u>
Contributions made (including retired teachers).....	<u>(5,916,957)</u>
Increase in net OPEB obligation.....	5,660,838
Net OPEB obligation-beginning of year.....	<u>17,159,404</u>
Net OPEB obligation-end of year.....	<u>\$ 22,820,242</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2010 and 2011 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>
6/30/2011	\$ 11,577,795	51%	\$ 22,820,242
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 – The funded status of the Plan is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Liability (AAL) Projected Unit Credit (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll ((B-A)/C)</u>
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%

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 13 – MAJOR TAXPAYER

The City receives a significant portion of its real estate and personal property tax revenue from one taxpayer, Dominion, who is the operator of a coal-fired electric generating power plant on the waterfront in Salem. In fiscal 2009, the City and the taxpayer entered into a three-year agreement, which would provide total payments of \$4.75 million in fiscal years 2009, 2010, and 2011, in the form of annual tax payments of \$3 million, and annual additional contributions of \$1.75 million, to be used exclusively for public purposes. During fiscal year 2011, Dominion filed paperwork to decommission all four of its generating units in Salem, which would have a negative impact on the City's revenue stream. To provide relief to municipalities from the decommissioning of electric generating stations, if the change in operating status also reduces the Commonwealth's greenhouse gas emissions, the Commonwealth has enacted Section 33 of Chapter 68 of the Acts of 2011 (the Act). The Act will defray the burden of the closure on the taxpayers by supplementing the difference between the payments in taxes from the plant and what the City would have otherwise collected until fiscal year 2016. Meanwhile, the mayor has established a task force to identify possible alternatives for the future development of the site.

NOTE 14 – ENVIRONMENTAL REMEDIATION LIABILITY

State and federal laws and regulations require the City to construct a final capping system on its inactive landfill site, the Salem Transfer Station, when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The City has stopped accepting waste at the site and the site is closed. The City is the owner and permittee of the Salem Transfer Station site, while Northside Carting, Inc. operated the facility. The City has completed a preliminary study in order to estimate the cost of the landfill closure and postclosure care which are to be paid for equally by the City and the operator. As a result, the City has recorded a liability of \$600,000 in the entity-wide financial statements, which represents 50% of the total estimated closure and postclosure costs. In addition, the City has identified two additional sites that will require environmental remediation by the City. The current estimated liability for the additional sites totals \$1.8 million which has also been recorded as a liability 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 15 – SALEM COMMUNITY CHARTER SCHOOL

During fiscal year 2011, the City was approved to operate a Horace Mann Charter School to address the needs of the City's high school dropouts and at-risk youth. The Salem Community Charter School is scheduled to open during fiscal year 2012. During fiscal year 2011, the Charter School has incurred start-up costs totaling approximately \$25,000; which were funded through state grants and have been reported within the City's basic financial statements. The Charter School will be managed independently by an appointed Board of Trustees and not by the School Committee and Superintendent. Ongoing funding for the school's operations will be provided by the City based upon a negotiated amount between the School Committee and Board of Trustees within the guidelines established by the authorizing legislation of the Commonwealth of Massachusetts. The activity will be included within the City's basic financial statements and will be audited independently.

NOTE 16 – COMMITMENTS

The City entered into contracts totaling approximately \$10.6 million. Of this amount, \$866,000 relates to the water main cleaning and lining, \$1.7 million relates to the furnish and delivery of water meters, \$100,000 relates to the install of water meters, \$355,000 relates to traffic signal improvements and \$331,000 relates to the Dove Avenue 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 \$1.5 million for roadway pavement services.

NOTE 17 – 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, 2011, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of the liability, if any, at June 30, 2011, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2011.

NOTE 18 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2011, the following GASB pronouncements were implemented:

- The GASB issued Statement #54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented in fiscal year 2011. Financial statement changes include new fund balance designations and the reclassification of stabilization funds from the special revenue fund to the general fund. Notes to the basic financial statements were changed to provide additional disclosure on the new designations of fund balance.
- 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. The implementation of this standard did not impact the basic financial statements.

Other Future GASB Pronouncements:

- The GASB issued Statement #60, Accounting and Financial Reporting for Service Concession Arrangements, which is required to be implemented in fiscal year 2013. This Statement addresses service concession arrangements, which are a type of public-private or public-public partnership. Management is evaluating whether this pronouncement will require additional disclosure or impact the basic financial statements.
- The GASB issued Statement #61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No.34, which is required to be implemented in fiscal year 2013. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. Management does not believe that this pronouncement will require additional disclosure or impact the basic financial statements.
- The GASB issued Statement #62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which is required to be implemented in fiscal year 2013. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that does not conflict with or contradict GASB pronouncements. Management does not believe that this pronouncement will require additional disclosure or impact the basic financial statements.

- The GASB issued Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will have a significant impact on the basic financial statements.
- The GASB issued Statement #64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*, which is required to be implemented in fiscal year 2012. Management does not believe that this pronouncement will require additional disclosure or impact the basic financial statements.

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Required Supplementary Information

General Fund Budgetary Comparison Schedule

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

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

FISCAL YEAR ENDED JUNE 30, 2011

	Budgeted Amounts						
	Amounts	Current Year			Actual	Amounts	Variance
	Carried forward From Prior Year	Initial Budget	Original Budget	Final Budget	Budgetary Amounts	Carried Forward To Next Year	To Final Budget
REVENUES:							
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 71,553,250	\$ 71,553,250	\$ 71,553,250	\$ 71,557,825	\$ -	\$ 4,575
Tax liens.....	-	-	-	-	241,637	-	241,637
Motor vehicle and other excise taxes.....	-	2,770,000	2,770,000	2,770,000	3,180,552	-	410,552
Hotel/motel and meals taxes.....	-	960,000	960,000	960,000	955,092	-	(4,908)
Charges for services.....	-	1,050,000	1,050,000	1,050,000	1,168,187	-	118,187
Penalties and interest on taxes.....	-	383,000	383,000	383,000	437,282	-	54,282
Payments in lieu of taxes.....	-	1,320,000	1,320,000	1,320,000	1,319,079	-	(921)
Licenses and permits.....	-	450,000	450,000	450,000	510,375	-	60,375
Fines and forfeitures.....	-	950,000	950,000	950,000	1,208,272	-	258,272
Intergovernmental.....	-	30,854,431	30,854,431	30,854,431	30,816,309	-	(38,122)
Departmental and other.....	-	2,300,000	2,300,000	2,300,000	2,515,144	-	215,144
Investment income.....	-	50,000	50,000	50,000	63,021	-	13,021
TOTAL REVENUES.....	-	112,640,681	112,640,681	112,640,681	113,972,775	-	1,332,094
EXPENDITURES:							
Current:							
General government							
City Council							
Personnel.....	-	119,700	119,700	119,700	119,672	-	28
Non - Personnel.....	-	42,450	42,450	52,450	40,165	2,500	9,785
Total.....	-	162,150	162,150	172,150	159,837	2,500	9,813
Mayor							
Personnel.....	-	261,784	261,784	261,784	261,693	-	91
Non - Personnel.....	17,600	95,250	112,850	112,850	94,630	13,000	5,220
Total.....	17,600	357,034	374,634	374,634	356,323	13,000	5,311
Finance/Auditing							
Personnel.....	-	234,594	234,594	235,418	233,875	-	1,543
Non - Personnel.....	2,719	22,485	25,204	25,204	20,675	4,360	169
Total.....	2,719	257,079	259,798	260,622	254,550	4,360	1,712
Purchasing							
Personnel.....	-	96,558	96,558	97,632	97,594	-	38
Non - Personnel.....	-	21,500	21,500	21,500	19,517	-	1,983
Fixed Costs.....	-	53,000	53,000	53,000	52,013	-	987
Total.....	-	171,058	171,058	172,132	169,124	-	3,008
Assessors							
Personnel.....	-	242,674	242,674	244,025	242,851	-	1,174
Non - Personnel.....	-	27,177	27,177	27,177	18,345	-	8,832
Total.....	-	269,851	269,851	271,202	261,196	-	10,006
Treasurer							
Personnel.....	-	151,194	151,194	160,842	159,124	-	1,718
Non - Personnel.....	-	58,295	58,295	77,795	65,396	-	12,399
Total.....	-	209,489	209,489	238,637	224,520	-	14,117
Collector							
Personnel.....	-	197,897	197,897	174,236	171,377	-	2,859
Non - Personnel.....	-	6,600	6,600	5,200	4,019	1,000	181
Total.....	-	204,497	204,497	179,436	175,396	1,000	3,040
Solicitor							
Personnel.....	-	151,528	151,528	153,195	151,224	1,900	71
Non - Personnel.....	-	64,176	64,176	62,509	61,400	-	1,109
Total.....	-	215,704	215,704	215,704	212,624	1,900	1,180

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2011

	Budgeted Amounts						
	Amounts	Current Year			Actual	Amounts	Variance
	Carried forward From Prior Year	Initial Budget	Original Budget	Final Budget	Budgetary Amounts	Carried Forward To Next Year	To Final Budget
Human Resources							
Personnel.....	-	902,799	902,799	216,166	216,154	-	12
Non - Personnel.....	-	31,450	31,450	31,450	30,375	-	1,075
Total.....	-	934,249	934,249	247,616	246,529	-	1,087
Data Processing							
Personnel.....	-	171,043	171,043	171,043	164,760	-	6,283
Non - Personnel.....	-	14,100	14,100	14,100	12,696	-	1,404
Fixed Costs.....	-	315,140	315,140	316,240	314,016	1,270	954
GIS Expenses.....	-	13,294	13,294	46,071	40,596	450	5,025
GIS Personnel.....	-	32,777	32,777	-	-	-	-
Total.....	-	546,354	546,354	547,454	532,068	1,720	13,666
City Clerk Record Maintenance							
Personnel.....	-	247,940	247,940	250,381	245,210	-	5,171
Non - Personnel.....	-	6,550	6,550	6,550	5,987	500	63
Total.....	-	254,490	254,490	256,931	251,197	500	5,234
Elections & Registrations							
Personnel.....	-	95,242	95,242	96,066	96,061	-	5
Non - Personnel.....	9,139	50,100	59,239	54,239	46,404	6,025	1,810
Total.....	9,139	145,342	154,481	150,305	142,465	6,025	1,815
Licensing							
Personnel.....	-	49,858	49,858	50,682	50,679	-	3
Non - Personnel.....	-	1,740	1,740	1,740	561	-	1,179
Total.....	-	51,598	51,598	52,422	51,240	-	1,182
Conservation Commission							
Personnel.....	-	24,448	24,448	24,448	23,281	-	1,167
Non - Personnel.....	-	425	425	425	425	-	-
Total.....	-	24,873	24,873	24,873	23,706	-	1,167
Subdivision, Planning, and Zoning Board							
Personnel.....	-	23,409	23,409	23,409	22,394	-	1,015
Non - Personnel.....	-	3,000	3,000	3,000	2,597	-	403
Total.....	-	26,409	26,409	26,409	24,991	-	1,418
Board of Appeals							
Personnel.....	-	3,000	3,000	3,000	2,960	-	40
Non - Personnel.....	-	900	900	900	388	-	512
Total.....	-	3,900	3,900	3,900	3,348	-	552
Planning Department							
Personnel.....	-	200,740	200,740	200,740	198,113	-	2,627
Non - Personnel.....	-	7,275	7,275	7,275	6,644	-	631
Total.....	-	208,015	208,015	208,015	204,757	-	3,258
Public Property/Building Maintenance							
Fixed Costs.....	2,000	645,500	647,500	685,461	681,752	-	3,709
Market and Tourism.....	-	195,500	195,500	195,500	195,492	-	8
Total General Government.....	31,458	4,883,092	4,914,550	4,283,403	4,171,115	31,005	81,283

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2011

	Budgeted Amounts				Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget			
Public safety							
Police							
Personnel.....	-	7,266,743	7,266,743	7,245,325	7,089,200	-	156,125
Non - Personnel.....	12,527	481,250	493,777	516,777	476,730	16,607	23,440
Total.....	12,527	7,747,993	7,760,520	7,762,102	7,565,930	16,607	179,565
Fire							
Personnel.....	36,717	6,616,227	6,652,944	6,768,259	6,619,714	13,500	135,045
Non - Personnel.....	28,331	370,514	398,845	418,845	395,481	9,700	13,664
Total.....	65,048	6,986,741	7,051,789	7,187,104	7,015,195	23,200	148,709
Building, Plumbing, Gas Inspections							
Personnel.....	-	288,678	288,678	297,896	297,409	-	487
Non - Personnel.....	-	27,400	27,400	15,850	14,347	-	1,503
Total.....	-	316,078	316,078	313,746	311,756	-	1,990
Electrical Inspection and Maintenance							
Personnel.....	-	257,695	257,695	261,213	254,921	-	6,292
Non - Personnel.....	-	789,000	789,000	789,000	722,672	-	66,328
Total.....	-	1,046,695	1,046,695	1,050,213	977,593	-	72,620
Harbormaster							
Personnel.....	-	175,307	175,307	175,307	164,026	-	11,281
Non - Personnel.....	-	40,730	40,730	42,230	40,452	-	1,778
Total.....	-	216,037	216,037	217,537	204,478	-	13,059
Total Public Safety.....	77,575	16,313,544	16,391,119	16,530,702	16,074,952	39,807	415,943
Education							
School.....	217,684	47,000,000	47,217,684	47,750,305	47,019,720	393,287	337,298
NSRS/Charter/Choice.....	-	1,588,602	1,588,602	1,588,602	1,588,226	-	376
Total Education.....	217,684	48,588,602	48,806,286	49,338,907	48,607,946	393,287	337,674
Public Works							
Public Services							
Personnel.....	-	1,490,253	1,490,253	1,512,274	1,444,443	-	67,831
Non - Personnel.....	23,814	536,836	560,650	567,650	541,575	-	26,075
Total.....	23,814	2,027,089	2,050,903	2,079,924	1,986,018	-	93,906
Engineering							
Personnel.....	-	70,671	70,671	70,671	70,595	-	76
Non - Personnel.....	-	3,500	3,500	3,500	2,644	-	856
Total.....	-	74,171	74,171	74,171	73,239	-	932
Snow and Ice							
Personnel.....	-	50,000	50,000	50,000	94,631	-	(44,631)
Non - Personnel.....	-	344,560	344,560	344,560	892,296	-	(547,736)
Total.....	-	394,560	394,560	394,560	986,927	-	(592,367)
Parking Garage							
Personnel.....	-	536,219	536,219	541,052	510,304	-	30,748
Non - Personnel.....	7,095	136,700	143,795	143,795	135,738	3,360	4,697
Total.....	7,095	672,919	680,014	684,847	646,042	3,360	35,445
Total Public Works.....	30,909	3,168,739	3,199,648	3,233,502	3,692,226	3,360	(462,084)

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2011

	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.....	-	337,609	337,609	342,181	275,925	-	66,256
Non - Personnel.....	-	21,200	21,200	21,200	16,014	-	5,186
Total.....	-	358,809	358,809	363,381	291,939	-	71,442
Council on Aging							
Personnel.....	-	237,631	237,631	238,455	232,305	-	6,150
Non - Personnel.....	15,000	31,100	46,100	46,100	35,032	-	11,068
Total.....	15,000	268,731	283,731	284,555	267,337	-	17,218
Veterans Services							
Personnel.....	-	72,881	72,881	72,881	72,096	-	785
Non - Personnel.....	11,944	141,200	153,144	285,644	249,302	33,900	2,442
Total.....	11,944	214,081	226,025	358,525	321,398	33,900	3,227
Total Health and Human Services.....	26,944	841,621	868,565	1,006,461	880,674	33,900	91,887
Culture and Recreation							
Library							
Personnel.....	-	861,915	861,915	862,731	820,649	-	42,082
Non - Personnel.....	-	281,601	281,601	281,601	278,576	-	3,025
Total.....	-	1,143,516	1,143,516	1,144,332	1,099,225	-	45,107
Parks and Recreation							
Personnel.....	-	331,695	331,695	332,519	311,390	-	21,129
Non - Personnel.....	14,078	151,610	165,688	168,188	144,965	12,843	10,380
Total.....	14,078	483,305	497,383	500,707	456,355	12,843	31,509
Golf Course							
Personnel.....	-	230,220	230,220	231,878	226,089	-	5,789
Non - Personnel.....	4,758	99,500	104,258	113,258	105,358	4,284	3,616
Total.....	4,758	329,720	334,478	345,136	331,447	4,284	9,405
Witch House							
Personnel.....	-	74,066	74,066	74,066	69,210	-	4,856
Non - Personnel.....	15,576	64,280	79,856	79,856	60,558	2,994	16,304
Total.....	15,576	138,346	153,922	153,922	129,768	2,994	21,160
Historical Commission							
Personnel.....	-	7,913	7,913	7,913	7,612	-	301
Non - Personnel.....	-	1,350	1,350	1,350	1,274	-	76
Total.....	-	9,263	9,263	9,263	8,886	-	377
Winter Island							
Personnel.....	-	105,054	105,054	105,054	93,133	-	11,921
Non - Personnel.....	2,843	50,000	52,843	52,843	49,018	842	2,983
Total.....	2,843	155,054	157,897	157,897	142,151	842	14,904
Total Culture and Recreation.....	37,255	2,259,204	2,296,459	2,311,257	2,167,832	20,963	122,462
Debt service:							
Principal.....	-	4,690,000	4,690,000	4,690,000	4,690,000	-	-
Interest.....	-	1,831,152	1,831,152	1,831,152	1,799,231	-	31,921
Short Term Interest and fees.....	-	172,472	172,472	172,472	117,373	35,099	20,000
Total.....	-	6,693,624	6,693,624	6,693,624	6,606,604	35,099	51,921
State and county charges.....	-	6,992,578	6,992,578	6,992,578	6,445,380	-	547,198
Pension benefits							
Contributory Retirement.....	-	8,392,927	8,392,927	8,392,927	8,331,689	32,473	28,765
Non-Contributory Retirement.....	-	106,448	106,448	106,448	86,134	-	20,314
Total.....	-	8,499,375	8,499,375	8,499,375	8,417,823	32,473	49,079

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2011

	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.....	-	431,474	431,474	431,474	420,991	-	10,483
Unemployment Compensation.....	-	300,000	300,000	300,000	227,026	-	72,974
Group Insurance.....	-	10,680,005	10,680,005	10,630,635	10,293,265	-	337,370
Medicare.....	-	717,344	717,344	810,944	810,409	-	535
Municipal Insurance.....	-	291,535	291,535	291,535	239,410	-	52,125
TOTAL EXPENDITURES.....	421,825	110,660,737	111,082,562	111,354,397	109,055,653	589,894	1,708,850
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(421,825)	1,979,944	1,558,119	1,286,284	4,917,122	(589,894)	3,040,944
OTHER FINANCING SOURCES (USES):							
Premium from issuance of bonds.....	-	-	-	-	1,167,420	-	1,167,420
Transfers in.....	-	2,386,292	2,386,292	2,406,292	2,467,793	-	61,501
Transfers out.....	-	(4,100,249)	(4,100,249)	(4,599,021)	(4,599,021)	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	-	(1,713,957)	(1,713,957)	(2,192,729)	(963,808)	-	1,228,921
NET CHANGE IN FUND BALANCE.....	(421,825)	265,987	(155,838)	(906,445)	3,953,314	(589,894)	4,269,865
BUDGETARY FUND BALANCE, Beginning of year.....	-	2,132,396	2,132,396	2,132,396	2,132,396	-	-
BUDGETARY FUND BALANCE, End of year.....	\$(421,825)	\$ 2,398,383	\$ 1,976,558	\$ 1,225,951	\$ 6,085,710	\$(589,894)	\$ 4,269,865

(concluded)

See notes to required supplementary information.

Retirement System Schedules of Funding Progress and Employer Contributions

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

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

SALEM CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/10	\$ 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
2011	\$ 9,991,587	\$ 9,991,587	100%	\$ 8,543,631	85.51%
2010	9,628,758	9,628,758	100%	8,233,450	85.51%
2009	9,239,327	9,239,327	100%	7,952,910	86.08%
2008	8,939,812	8,939,812	100%	7,693,291	86.06%
2007	8,431,371	8,431,371	100%	7,209,359	85.51%

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

See notes to required supplementary information.

Other Postemployment Benefit Plan Schedules

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

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

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

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
12/31/2009	\$ -	\$ 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
2011	\$ 11,374,693	\$ 5,916,957	52%
2010	10,869,698	5,287,195	49%
2009	11,068,269	6,799,394	61%
2008	10,554,680	3,443,274	33%

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods:

Valuation date	December 31, 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 as of December 31, 2009, 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 2011 approved budget authorized approximately \$115 million in appropriations and other amounts to be raised. During the fiscal year, increases to the original budget were approved totaling approximately \$771,000.

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, 2011, is presented below:

Net change in fund balance - budgetary basis.....	\$ 3,953,314
<u>Perspective differences:</u>	
Reclassification of enterprise fund revenue budgeted in the general fund.....	1,942,949
Reclassification of enterprise fund expenditures budgeted in the general fund.....	(1,942,949)
Activity of the Salem Community Charter School.....	131,813
Activity of the stabilization funds recorded in the general fund for GAAP.....	1,071,162
<u>Basis of accounting differences:</u>	
Net change in revenues in recording tax refunds payable.....	196,991
Net change in short-term debt service interest accrual.....	43,390
Recognition of revenue for on-behalf payments.....	9,290,000
Recognition of expenditures for on-behalf payments.....	(9,290,000)
Net difference in recognition of expenditures.....	<u>44,186</u>
Net change in fund balances - GAAP basis.....	<u>\$ 5,440,856</u>

3. Appropriation Deficits

During fiscal year 2011, expenditures exceeded budgeted appropriations for snow and ice. These over expenditures will be funded with available funds in fiscal year 2012.

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 Downtown Salem.

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

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

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

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

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

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

Capital Project Funds

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 Fund – 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.

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

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, 2011

	Special Revenue Funds							
	City Grants	School Grants	Community Development Grants	Salem Redevelopment Authority	School Lunch	Highway Grants	Donations and Gifts	Receipts Reserved
ASSETS								
Cash and cash equivalents.....	\$ 1,172,270	\$ 2,010,186	\$ 75,987	\$ 20,786	\$ 45,092	\$ -	\$ 947,451	\$ 454,639
Investments.....	-	-	-	-	-	-	438,368	-
Receivables, net of uncollectibles:								
Departmental and other.....	-	-	-	-	-	-	-	84,730
Intergovernmental.....	-	281,100	45,796	-	24,756	1,729,955	-	-
Loans.....	-	-	415,354	-	-	-	-	-
Due from other funds.....	185,911	-	-	-	-	-	-	-
TOTAL ASSETS.....	\$ 1,358,181	\$ 2,291,286	\$ 537,137	\$ 20,786	\$ 69,848	\$ 1,729,955	\$ 1,385,819	\$ 539,369
LIABILITIES AND FUND BALANCES								
LIABILITIES:								
Warrants payable.....	\$ 243,413	\$ 61,601	\$ 17,176	\$ -	\$ -	\$ 180,998	\$ -	\$ -
Accrued payroll.....	32,988	184,947	4,849	-	14,390	-	-	-
Deferred revenues.....	-	-	415,354	-	-	1,363,046	-	84,730
Due to other funds.....	-	-	-	-	-	185,911	-	-
Notes payable.....	-	-	-	-	-	-	-	-
TOTAL LIABILITIES.....	276,401	246,548	437,379	-	14,390	1,729,955	-	84,730
FUND BALANCES:								
Nonspendable.....	-	-	-	-	-	-	-	-
Restricted.....	1,081,780	2,044,738	99,758	20,786	55,458	-	1,385,819	454,639
TOTAL FUND BALANCES.....	1,081,780	2,044,738	99,758	20,786	55,458	-	1,385,819	454,639
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 1,358,181	\$ 2,291,286	\$ 537,137	\$ 20,786	\$ 69,848	\$ 1,729,955	\$ 1,385,819	\$ 539,369

(Continued)

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

JUNE 30, 2011

				Capital Project Funds					
	City Revolving Accounts	School Revolving Accounts	Subtotal	Police Station Equipment	Salem Ferry	Wharf Renovation	Other	Subtotal	
ASSETS									
Cash and cash equivalents.....	\$ 1,253,562	\$ 292,742	\$ 6,272,715	\$ 9,668	\$ 38,086	\$ 1,264,206	\$ 1,001,454	\$ 2,313,414	
Investments.....	-	-	438,368	-	-	-	-	-	
Receivables, net of uncollectibles:									
Departmental and other.....	-	-	84,730	-	-	-	-	-	
Intergovernmental.....	-	-	2,081,607	-	-	1,991,671	-	1,991,671	
Loans.....	183,249	-	598,603	-	-	-	-	-	
Due from other funds.....	-	-	185,911	-	-	-	-	-	
TOTAL ASSETS.....	\$ 1,436,811	\$ 292,742	\$ 9,661,934	\$ 9,668	\$ 38,086	\$ 3,255,877	\$ 1,001,454	\$ 4,305,085	
LIABILITIES AND FUND BALANCES									
LIABILITIES:									
Warrants payable.....	\$ -	\$ 13,730	\$ 516,918	\$ -	\$ -	\$ 255,877	\$ 48,471	\$ 304,348	
Accrued payroll.....	268	1,488	238,930	-	-	-	-	-	
Deferred revenues.....	183,249	-	2,046,379	-	-	-	-	-	
Due to other funds.....	-	-	185,911	-	-	-	-	-	
Notes payable.....	-	-	-	-	-	3,000,000	-	3,000,000	
TOTAL LIABILITIES.....	183,517	15,218	2,988,138	-	-	3,255,877	48,471	3,304,348	
FUND BALANCES:									
Nonspendable.....	-	-	-	-	-	-	-	-	
Restricted.....	1,253,294	277,524	6,673,796	9,668	38,086	-	952,983	1,000,737	
TOTAL FUND BALANCES.....	1,253,294	277,524	6,673,796	9,668	38,086	-	952,983	1,000,737	
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 1,436,811	\$ 292,742	\$ 9,661,934	\$ 9,668	\$ 38,086	\$ 3,255,877	\$ 1,001,454	\$ 4,305,085	

(Continued)

Permanent Funds				Total Nonmajor Governmental Funds
Cemetery Fund	Human Service Fund	Other	Subtotal	
\$ 358,434	\$ 165,304	\$ 138,971	\$ 662,709	\$ 9,248,838
2,523,469	1,233,029	932,198	4,688,696	5,127,064
-	-	-	-	84,730
-	-	-	-	4,073,278
-	-	-	-	598,603
-	-	-	-	185,911
<u>\$ 2,881,903</u>	<u>\$ 1,398,333</u>	<u>\$ 1,071,169</u>	<u>\$ 5,351,405</u>	<u>\$ 19,318,424</u>
\$ -	\$ -	\$ -	\$ -	\$ 821,266
-	-	-	-	238,930
-	-	-	-	2,046,379
-	-	-	-	185,911
-	-	-	-	3,000,000
-	-	-	-	6,292,486
989,759	221,174	496,343	1,707,276	1,707,276
1,892,144	1,177,159	574,826	3,644,129	11,318,662
<u>2,881,903</u>	<u>1,398,333</u>	<u>1,071,169</u>	<u>5,351,405</u>	<u>13,025,938</u>
<u>\$ 2,881,903</u>	<u>\$ 1,398,333</u>	<u>\$ 1,071,169</u>	<u>\$ 5,351,405</u>	<u>\$ 19,318,424</u>

(Concluded)

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

FISCAL YEAR ENDED JUNE 30, 2011

	Special Revenue Funds						
	City Grants	School Grants	Community Development Grants	Salem Redevelopment Authority	School Lunch	Highway Grants	Donations and Gifts
REVENUES:							
Charges for services.....	\$ 6,263	\$ 66,501	\$ -	\$ -	\$ -	\$ -	\$ -
Penalties and interest on taxes.....	-	-	-	-	-	-	-
Intergovernmental.....	7,578,678	9,727,646	1,724,779	-	1,710,534	452,632	-
Departmental and other.....	195,082	297,249	54,904	-	-	-	403
Contributions.....	7,146	24,255	-	-	-	-	1,102,267
Investment income (loss).....	548	-	496	41	-	-	681
TOTAL REVENUES.....	7,787,717	10,115,651	1,780,179	41	1,710,534	452,632	1,103,351
EXPENDITURES:							
Current:							
General government.....	1,077,000	-	-	-	-	-	75,005
Public safety.....	1,451,949	-	-	-	-	-	43,476
Education.....	6,655	8,889,627	-	-	1,788,800	-	26,827
Public works.....	262,318	-	-	-	-	452,632	-
Community development.....	523,928	-	1,715,923	-	-	-	120
Health and human services.....	5,021,545	-	-	-	-	-	17,944
Culture and recreation.....	40,349	-	-	-	-	-	29,676
Debt service:							
Principal.....	-	-	35,000	-	-	-	-
Interest.....	-	-	4,303	-	-	-	-
TOTAL EXPENDITURES.....	8,383,744	8,889,627	1,755,226	-	1,788,800	452,632	193,048
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(596,027)	1,226,024	24,953	41	(78,266)	-	910,303
OTHER FINANCING SOURCES (USES):							
Issuance of bonds and notes.....	-	-	-	-	-	-	-
Capital lease financing.....	-	-	-	-	-	-	-
Transfers in.....	915,518	19,258	72	-	-	-	-
Transfers out.....	(144,469)	(19,258)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	771,049	-	72	-	-	-	-
NET CHANGE IN FUND BALANCES.....	175,022	1,226,024	25,025	41	(78,266)	-	910,303
FUND BALANCES AT BEGINNING OF YEAR, AS REVISED.....	906,758	818,714	74,733	20,745	133,724	-	475,516
FUND BALANCES AT END OF YEAR.....	\$ 1,081,780	\$ 2,044,738	\$ 99,758	\$ 20,786	\$ 55,458	\$ -	\$ 1,385,819

(Continued)

Special Revenue Funds				Capital Project Funds				
Receipts Reserved	City Revolving Accounts	School Revolving Accounts	Subtotal	Police Station Equipment	Salem Ferry	Wharf Renovation	Other	Subtotal
\$ -	\$ -	\$ -	\$ 72,764	\$ -	\$ -	\$ -	\$ -	\$ -
1,205	-	-	1,205	-	-	-	-	-
-	-	-	21,194,269	-	-	3,696,671	-	3,696,671
459,237	564,346	824,335	2,395,556	-	-	-	-	-
-	10,360	-	1,144,028	-	-	-	-	-
-	2,173	488	4,427	-	-	-	-	-
<u>460,442</u>	<u>576,879</u>	<u>824,823</u>	<u>24,812,249</u>	<u>-</u>	<u>-</u>	<u>3,696,671</u>	<u>-</u>	<u>3,696,671</u>
-	119,569	-	1,271,574	-	-	-	-	-
-	-	-	1,495,425	-	-	-	105,986	105,986
-	-	916,432	11,628,341	-	-	-	128,743	128,743
-	91,381	-	806,331	-	-	1,276,003	409,106	1,685,109
-	134,790	-	2,374,761	-	-	2,090,998	-	2,090,998
-	-	-	5,039,489	-	-	-	-	-
-	228,699	-	298,724	-	-	-	13,775	13,775
-	-	-	35,000	-	-	-	-	-
-	-	-	4,303	-	-	-	10,143	10,143
<u>-</u>	<u>574,439</u>	<u>916,432</u>	<u>22,953,948</u>	<u>-</u>	<u>-</u>	<u>3,367,001</u>	<u>667,753</u>	<u>4,034,754</u>
<u>460,442</u>	<u>2,440</u>	<u>(91,609)</u>	<u>1,858,301</u>	<u>-</u>	<u>-</u>	<u>329,670</u>	<u>(667,753)</u>	<u>(338,083)</u>
-	-	-	-	-	-	-	630,000	630,000
-	-	75,000	75,000	-	-	-	-	-
-	-	6	934,854	-	-	150,000	-	150,000
<u>(405,794)</u>	<u>(2,500)</u>	<u>(6)</u>	<u>(572,027)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(405,794)</u>	<u>(2,500)</u>	<u>75,000</u>	<u>437,827</u>	<u>-</u>	<u>-</u>	<u>150,000</u>	<u>630,000</u>	<u>780,000</u>
54,648	(60)	(16,609)	2,296,128	-	-	479,670	(37,753)	441,917
<u>399,991</u>	<u>1,253,354</u>	<u>294,133</u>	<u>4,377,668</u>	<u>9,668</u>	<u>38,086</u>	<u>(479,670)</u>	<u>990,736</u>	<u>558,820</u>
\$ <u>454,639</u>	\$ <u>1,253,294</u>	\$ <u>277,524</u>	\$ <u>6,673,796</u>	\$ <u>9,668</u>	\$ <u>38,086</u>	\$ <u>-</u>	\$ <u>952,983</u>	\$ <u>1,000,737</u>

(Continued)

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

FISCAL YEAR ENDED JUNE 30, 2011

	Permanent Funds				Total Nonmajor Governmental Funds
	Cemetery Fund	Human Service Fund	Other	Subtotal	
REVENUES:					
Charges for services.....	-	-	-	-	72,764
Penalties and interest on taxes.....	-	-	-	-	1,205
Intergovernmental.....	-	-	-	-	24,890,940
Departmental and other.....	-	-	-	-	2,395,556
Contributions.....	18,000	-	3,853	21,853	1,165,881
Investment income (loss).....	524,589	257,719	220,975	1,003,283	1,007,710
TOTAL REVENUES.....	542,589	257,719	224,828	1,025,136	29,534,056
EXPENDITURES:					
Current:					
General government.....	-	-	715	715	1,272,289
Public safety.....	-	-	2,000	2,000	1,603,411
Education.....	-	-	-	-	11,757,084
Public works.....	66,764	-	51,204	117,968	2,609,408
Community development.....	-	-	-	-	4,465,759
Health and human services.....	-	25,879	-	25,879	5,065,368
Culture and recreation.....	-	-	-	-	312,499
Debt service:					
Principal.....	-	-	-	-	35,000
Interest.....	-	-	-	-	14,446
TOTAL EXPENDITURES.....	66,764	25,879	53,919	146,562	27,135,264
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	475,825	231,840	170,909	878,574	2,398,792
OTHER FINANCING SOURCES (USES):					
Issuance of bonds and notes.....	-	-	-	-	630,000
Capital lease financing.....	-	-	-	-	75,000
Transfers in.....	-	-	-	-	1,084,854
Transfers out.....	-	-	-	-	(572,027)
TOTAL OTHER FINANCING SOURCES (USES).....	-	-	-	-	1,217,827
NET CHANGE IN FUND BALANCES.....	475,825	231,840	170,909	878,574	3,616,619
FUND BALANCES AT BEGINNING OF YEAR.....	2,406,078	1,166,493	900,260	4,472,831	9,409,319
FUND BALANCES AT END OF YEAR.....	\$ 2,881,903	\$ 1,398,333	\$ 1,071,169	\$ 5,351,405	\$ 13,025,938

(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, 2011

	Private Purpose Trust Funds		
	Trust Fund Commissioners	Scholarship Funds	Total
ASSETS			
Cash and cash equivalents.....	\$ 159,185	\$ 95,793	\$ 254,978
Investments.....	1,135,871	-	1,135,871
TOTAL ASSETS.....	1,295,056	95,793	1,390,849
NET ASSETS			
Held in trust for other purposes.....	\$ 1,295,056	\$ 95,793	\$ 1,390,849

PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2011

	Private Purpose Trust Funds		
	Trust Fund Commissioners	Scholarship Funds	Total
ADDITIONS:			
Contributions:			
Private donations.....	\$ 1,942	\$ 25,574	\$ 27,516
Net investment income:			
Net change in fair value of investments.....	251,697	-	251,697
Interest.....	15	183	198
TOTAL ADDITIONS.....	253,654	25,757	279,411
DEDUCTIONS:			
Educational scholarships.....	5,398	14,199	19,597
Housing subsidies.....	104,815	-	104,815
TOTAL DEDUCTIONS.....	110,213	14,199	124,412
CHANGE IN NET ASSETS.....	143,441	11,558	154,999
NET ASSETS AT BEGINNING OF YEAR.....	1,151,615	84,235	1,235,850
NET ASSETS AT END OF YEAR.....	\$ 1,295,056	\$ 95,793	\$ 1,390,849

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, 2011

	Beginning of Year	Additions	Deletions	End of Year
ASSETS				
CURRENT:				
Cash and cash equivalents.....	\$ 778,528	\$ 8,668,949	\$ (8,764,121)	\$ 683,356
LIABILITIES				
Warrants payable.....	\$ 51,680	\$ 17,050	\$ (51,681)	\$ 17,049
Liabilities due depositors.....	726,848	35,634,616	(35,695,157)	666,307
TOTAL LIABILITIES.....	\$ 778,528	\$ 35,651,666	\$ (35,746,838)	\$ 683,356

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Statistical Section



Winter Island Light House



Winter Island

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

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



Statistical Section

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

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

SOURCES: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

Net Assets By Component

Last Ten Fiscal Years

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
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	\$ 144,887,020
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	10,562,103
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>	<u>(17,992,385)</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>	\$ <u>137,456,738</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	8,245,799	8,248,186
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>3,920,927</u>	<u>4,366,232</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>	\$ <u>12,614,418</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	155,559,548	153,135,206
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	10,562,103
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>(13,986,299)</u>	<u>(13,626,153)</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>	\$ <u>150,071,156</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 Ten Fiscal Years

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
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	\$ 11,702,186
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	27,989,181
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	86,938,434
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	8,894,659
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	1,845,141
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	6,228,498	6,622,114	5,930,089
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	2,997,090
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	1,582,033
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	147,878,813
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	4,161,481
Sewer services.....	(A)	(A)	(A)	6,616,318	5,686,595	5,612,230	5,894,870	7,467,332	7,400,431	6,590,680
Golf course.....	387,935	333,512	320,632	292,187	279,981	363,651	386,099	278,007	399,023	363,625
Parking.....	719,042	679,171	665,458	664,686	800,506	792,903	936,826	905,834	844,615	991,722
Trash.....	(C)	(C)	(C)	(C)	(C)	(C)	3,230,500	2,558,263	2,573,421	2,617,948
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	14,725,456
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	\$ 162,604,269
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	\$ 1,277,950
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	2,115,452
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	1,744,351
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	51,358,511
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	5,197,515
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	61,693,779
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	4,517,123
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	8,292,908
Charges for services - Golf.....	615,878	549,091	543,467	502,770	525,404	546,841	570,142	547,301	589,345	548,805
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	2,333,478
Charges for services - Trash.....	(C)	(C)	(C)	(C)	(C)	(C)	908,577	720,193	740,511	692,089
Capital grants and contributions.....	-	-	-	-	-	-	49,707	43,796	41,820	39,804
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	16,424,207
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	\$ 78,117,986
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)	\$ (86,185,034)
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)	1,698,751
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)	\$ (84,486,283)
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	\$ 71,828,412
Tax liens.....	(B)	(B)	(B)	690,557	635,624	182,650	752,178	527,492	234,353	510,973
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	3,181,247
Hotel/motel tax.....	(B)	(B)	(B)	219,628	263,962	282,324	373,655	324,622	294,214	955,092
Penalties and interest on taxes.....	330,035	391,429	322,003	288,874	350,651	266,246	353,952	412,572	437,361	438,487
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	1,319,079
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	6,404,395
Unrestricted investment income.....	125,481	816,614	568,503	521,585	183,980	965,694	462,275	(35,188)	435,769	1,095,518
Miscellaneous.....	504,968	536,979	431,558	77,454	214,067	248,905	168,417	203,848	250,681	358,720
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	1,251,059
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	87,342,982
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)	(1,251,059)
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	\$ 86,091,923
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)	\$ 1,157,948
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)	447,692
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)	\$ 1,605,640

(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									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Fund										
Reserved.....	\$ 1,442,182	\$ 1,382,756	\$ 1,153,872	\$ 68,524	\$ 197,581	\$ 69,631	\$ 220,608	\$ 372,027	\$ 421,825	\$ -
Unreserved.....	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	-
Assigned.....	-	-	-	-	-	-	-	-	-	589,894
Unassigned.....	-	-	-	-	-	-	-	-	-	8,405,585
Total general fund.....	\$ 6,075,460	\$ 5,363,449	\$ 4,552,406	\$ 404,167	\$ 1,360,295	\$ (1,081,568)	\$ 1,542,005	\$ 1,121,876	\$ 1,632,919	\$ 8,995,479
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.....	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.....	(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	-
Nonspendable.....	-	-	-	-	-	-	-	-	-	1,707,276
Restricted.....	-	-	-	-	-	-	-	-	-	11,329,632
Unassigned.....	-	-	-	-	-	-	-	-	-	(665,295)
Total all other governmental funds.....	\$ (13,851,325)	\$ (846,537)	\$ (13,945,352)	\$ 1,739,076	\$ 8,240,549	\$ 10,465,523	\$ 11,516,537	\$ 9,431,977	\$ 14,261,740	\$ 12,371,613

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

Changes in Fund Balances, Governmental Funds

Last Ten Fiscal Years

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues:										
Real estate and personal property taxes,										
net of tax refunds.....	\$ 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	\$ 71,754,816
Motor vehicle and other excise taxes.....	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	3,180,552
Intergovernmental.....	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	51,562,915
Departmental and other.....	8,122,563	8,628,161	9,324,193	7,539,132	8,496,446	9,017,710	10,086,572	9,382,460	8,511,803	9,656,996
Investment income.....	127,462	816,821	568,503	828,933	927,302	925,771	462,585	(32,923)	436,686	1,096,747
Commonwealth school construction grants.....	-	-	-	(B) 12,739,570	16,559,515	35,025,316	17,324,905	13,130,784	7,095,272	4,310,837
On-behalf pension payments by Commonwealth..... (C)	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	9,290,000
Total Revenue.....	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	150,852,863
Expenditures:										
General government.....	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	5,678,376
Public safety.....	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	17,129,546
Education.....	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	51,429,439
Public works.....	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	3,573,118
Community development.....	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	1,933,227
Health and human services.....	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	5,927,137
Culture and recreation.....	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	2,152,872
Pension benefits.....	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	17,707,823
Massachusetts teachers' retirement..... (C)	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	9,290,000
Employee benefits.....	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	11,751,691
State and county charges.....	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	6,445,380
Capital outlay.....	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	6,194,898
Debt service										
Principal.....	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	7,550,000
Interest.....	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	1,851,117
Total Expenditures.....	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	148,614,624
Excess of revenues over (under) expenditures.....	(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)	2,238,239
Other Financing Sources (Uses)										
Issuance of debt.....	-	28,670,000	-	2,465,000	-	8,319,497	3,930,000	-	4,589,000	630,000
Premium from issuance of bonds.....	-	-	-	232,856	-	85,169	84,840	-	575,986	1,167,420
Issuance of refunding bonds.....	-	-	-	-	-	-	-	3,785,000	11,043,000	4,589,000
Payments to refunded bond escrow agent.....	-	-	-	-	-	-	-	-	(8,512,000)	-
Refunding bonds redeemed.....	-	-	-	-	-	-	-	(3,785,000)	(2,930,000)	(4,589,000)
Capital lease financing.....	-	-	-	807,283	1,046,619	378,169	394,779	167,454	43,500	185,715
Sale of capital assets.....	-	300,000	-	-	-	-	-	-	-	-
Transfers in.....	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	5,137,447
Transfers out.....	(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)	(3,886,388)
Total other financing sources (uses).....	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	3,234,194
Net change in fund balance.....	\$ (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	\$ 5,472,433
Debt service as a percentage of noncapital expenditures.....	4.87%	4.51%	6.16%	5.95%	5.94%	5.39%	7.13%	5.34%	5.48%	6.60%

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

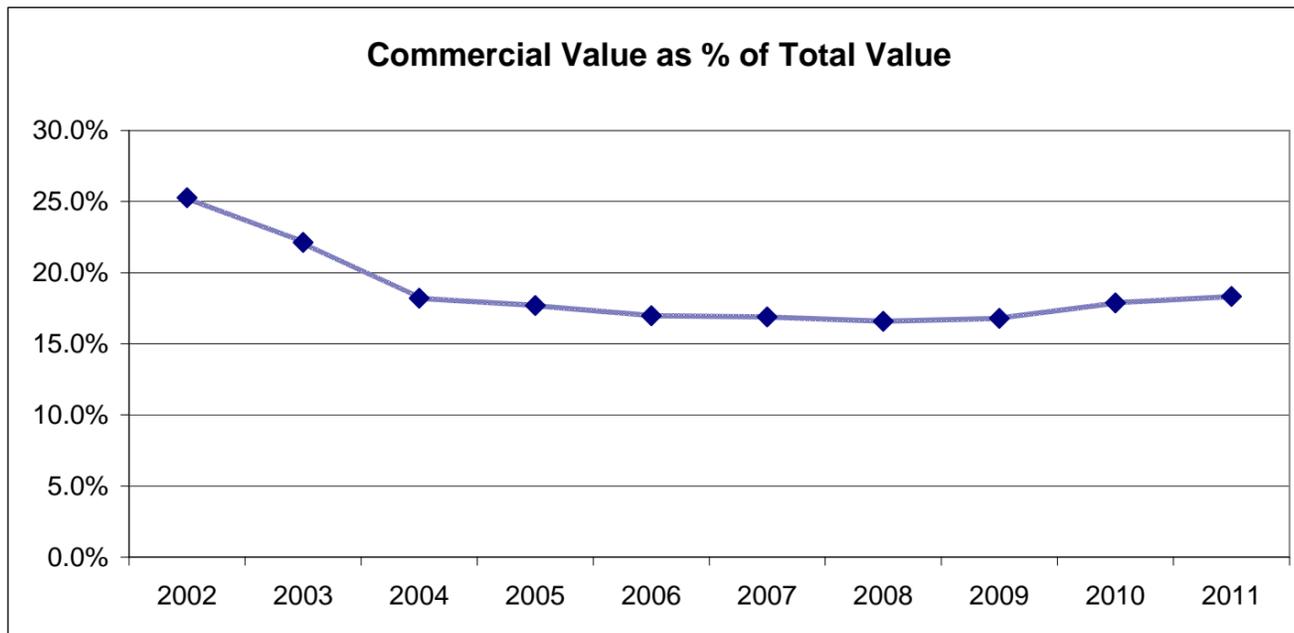
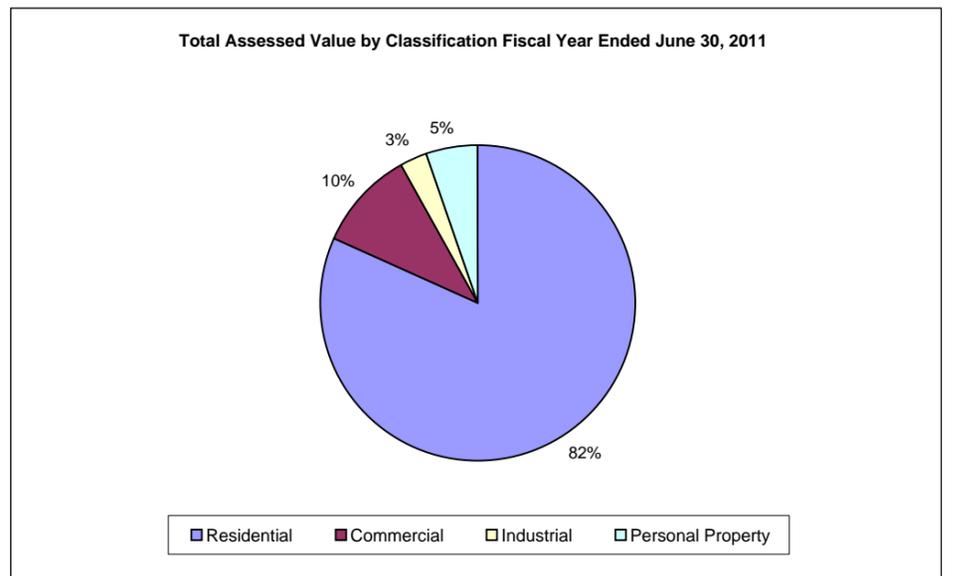
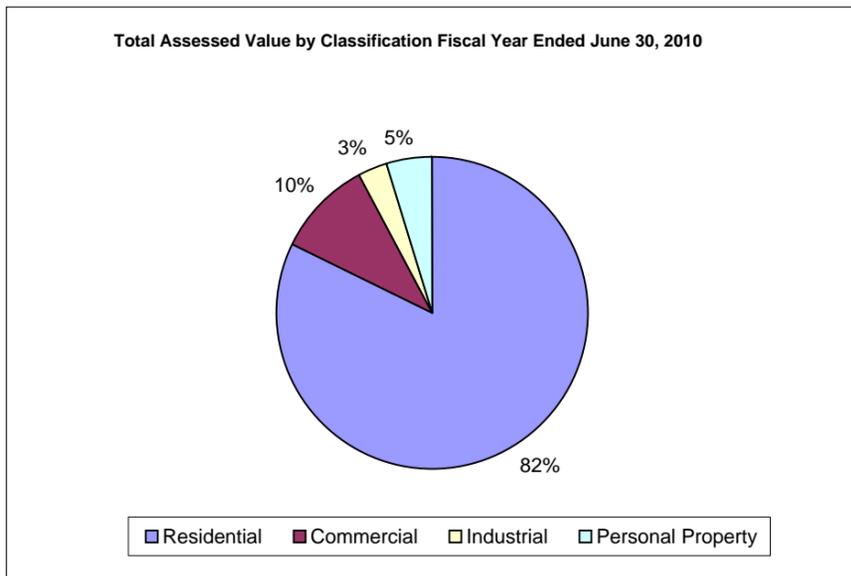
(B) Prior to fiscal year 2005 any receipts from the Commonwealth for school construction projects were included in intergovernmental revenue.

(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
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
2011	3,361,382,273	15.05	417,668,102	123,342,500	213,577,900	754,588,502	29.08	17.62	4,115,970,775



(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	2011			2002		
		Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value	Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value
Dominion	Personal & Industrial Property	\$103,172,200	1	2.5%	-	-	-
New England Power Company	Personal & Industrial Property	\$32,131,420	2	0.8%	\$10,651,310	6	0.4%
Salem Station LLC	Apartments	\$32,000,700	3	0.8%	-	-	-
Massachusetts Electric	Personal Property	\$28,878,740	4	0.7%	-	-	-
Princeton Crossing Apartments	Apartments	\$27,635,200	5	0.7%	\$17,614,329	4	0.6%
Shetland Properties	Industrial & Commercial Property	\$25,849,900	6	0.6%	\$22,347,900	2	0.8%
Algonquin Gas Transmission	Personal Property	\$21,690,400	7	0.5%	-	-	-
Hawthorne Commons	Apartments	\$21,000,000	8	0.5%	-	-	-
Highlander Plazas	Commercial Property	\$20,417,800	9	0.5%	\$18,814,000	3	0.7%
TMG Vinnin Square LLC	Apartments	\$20,405,900	10	0.5%	-	-	-
US Gen New England	Personal & Industrial Property	-	-	-	\$258,556,760	1	9.0%
Second Pickwick Trust	Commercial Property	-	-	-	\$12,655,700	5	0.4%
Home Depot	Commercial Property	-	-	-	\$8,874,550	7	0.3%
Boston Gas	Personal & Industrial Property	-	-	-	\$7,665,500	8	0.3%
Grosvenor Park Nursing Home	Commercial Property	-	-	-	\$6,788,400	9	0.3%
Applied Extrusions Technologies	Electronics	-	-	-	\$6,505,100	10	0.2%
Totals		<u>\$333,182,260</u>		<u>8.1%</u>	<u>\$370,473,549</u>		<u>13.0%</u>

Source: Board of Assessors

Property Tax Levies and Collections

Last Ten Fiscal Years

Fiscal Year	Total Tax Levy	Less Abatements & Exemptions	Net Tax Levy	Current Tax Collections	Percent of Net Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Net Tax Levy
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%	1,176,616	69,469,496	100.0%
2011	72,532,237	402,324	72,129,913	70,936,056	98.3%	0	70,936,056	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
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%
2011	41,361	1,226,898,824	4,115,970,775	44,581,526	384,965	1,087	3.67%	1.09%

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
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%
2011	15,665,280	0	60,631,771	1,466	4.94%	1.47%

Source: Audited Financial Statements, U. S. Census

Direct and Overlapping Governmental Activities Debt

As of June 30, 2011

	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
North Shore Regional Vocational School District..... \$	1,005,000	23.75%	\$ <u>238,688</u>
City direct debt.....			<u>43,467,000</u>
Total direct and overlapping debt.....			\$ <u><u>43,705,688</u></u>

Source: Treasurer and North Shore Regional Vocational School District

Computation of Legal Debt Margin

Last Ten Fiscal Years

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Equalized Valuation.....	\$ 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	\$ 4,521,039,500
Debt Limit -5% of Equalized Valuation.....	\$ 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	\$ 226,051,975
Less:										
Outstanding debt applicable to limit.....	5,625,000	4,646,000	4,167,000	6,695,447	6,064,000	5,435,000	12,004,000	12,004,000	10,884,900	16,669,700
Authorized and unissued debt.....	83,033,130	69,000,988	70,336,913	39,296,218	48,682,895	54,169,239	28,769,240	38	11,128,240	13,725,802
Legal debt margin.....	\$ 34,942,495	\$ 83,753,832	\$ 82,896,907	\$ 163,214,770	\$ 156,439,895	\$ 186,562,281	\$ 205,393,280	\$ 17	\$ 204,038,835	\$ 195,656,473
Total debt applicable to the limit as a percentage of debt limit.....	71.73%	46.79%	47.33%	21.98%	25.92%	24.21%	16.56%	4.65%	9.74%	13.45%

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
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%
2011	41,361	1,226,898,824	29,663	36.5	4,647	9.2%

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	2011			2002		
		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	15.2%
City of Salem	Municipal Government	1,650	2	7.4%	1,347	2	5.9%
Salem State College	Higher Education	1,500	3	6.8%	1,215	3	5.3%
Commonwealth of Massachusetts	State Government	520	4	2.3%	-	-	-
Market Basket	Food Market	325	5	1.5%	-	-	-
Peabody Essex Museum	Cultural Tourism	290	6	1.3%	165	10	0.7%
Salem Five Savings	Banking	236	7	1.1%	300	5	1.3%
Hawthorne Hotel	Lodging	210	8	0.9%	-	-	-
Grovenor Park Nursing	Health Care	202	9	0.9%	-	-	-
Home Depot	Retail	187	10	0.8%	-	-	-
Sears Boston Credit Central	Credit Collection	-	-	-	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 Utilities	-	-	-	184	8	0.8%
District Attorney's Office	Legal	-	-	-	168	9	0.7%
		<u>7,995</u>		<u>36.0%</u>	<u>7,652</u>		<u>33.3%</u>

Source: The City Planning Department

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

Function	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government.....	62	68	62	64	40	34	36	35	35	35
Public safety.....	183	185	180	190	181	190	185	187	191	190
Education.....	755	755	756	756	752	752	753	752	752	752
Public works.....	59	47	45	55	35	38	40	37	38	39
Engineering.....	-	-	-	-	-	1	3	1	1	1
Health and human services.....	22	22	21	21	21	20	17	14	17	15
Culture and recreation.....	35	34	31	31	34	23	21	22	22	23
Total	1,116	1,111	1,095	1,117	1,063	1,058	1,054	1,048	1,056	1,054

Source: Various City Departments

Operating Indicators by Function/Program

Last Ten Fiscal Years

Function/Program	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government										
Marriage recordings.....	362	327	330	327	375	322	306	276	243	381
Birth recordings.....	1,708	1,804	1,839	1,761	2,044	2,043	1,712	1,614	1,774	1,599
Death recordings.....	848	823	935	847	737	755	520	535	557	492
Police										
Physical arrests.....	1,057	984	965	685	2,792	2,793	2,502	2,502	2,072	2,629
Motor vehicle violations.....	4,872	5,489	5,238	4,334	6,477	8,672	6,604	191	6,631	10,309
Police personnel and officers.....	105	94	85	85	81	84	85	85	87	89
Fire										
Inspections.....	2,950	1,972	3,231	2,789	1,187	1,562	886	886	935	1,077
Emergency responses.....	3,993	3,911	4,281	4,572	6,235	6,719	6,330	17	6,409	6,079
Fire personnel and officers.....	96	85	78	78	75	76	81	81	79	83
Education										
Number of students.....	5,064	5,016	4,727	4,676	4,744	4,573	4,404	4,474	4,647	4,585
Number of graduates.....	237	218	257	246	255	269	254	273	283	246
Number of teachers.....	397	406	415	409	477	484	479	479	488	507
Water										
Service connections.....	9,842	9,898	10,516	10,568	11,000	11,811	11,701	11,737	11,719	11,719
Consumption in gallons.....	2,064	2,090	2,111	2,136	2,000	2,056	2,123	1,994	2,103	2,025
Daily consumption (MG).....	5.66	5.73	5.78	6.43	6.84	6.74	5.80	5.44	6.00	6.00
Sewer										
Service connections.....	9,842	9,898	10,516	10,568	11,000	11,811	11,701	11,727	11,709	11,706
Health and human services										
Number of persons using COA transportation....	47,220	44,804	44,500	45,976	37,497	39,052	18,678	15,526	16,076	16,908
Libraries										
Volumes in circulation.....	128,626	124,435	125,516	128,569	141,595	143,052	148,752	145,634	143,512	148,634
Total volumes borrowed.....	453,548	470,192	464,453	490,116	508,728	500,907	514,708	538,184	508,507	508,293

Source: Various City Departments; Massachusetts Department of Education

Capital Asset Statistics by Function/Program

Last Ten Fiscal Years

<u>Function/Program</u>	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
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	191	4	4
Education										
Number of elementary schools.....	7	7	7	7	7	7	7	38	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	17	1	1
Public Works										
Water mains (miles).....	103	108	108	108	108	108	108	102	102	102
Health and human services										
Number of personnel.....	18	17	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	128	128	128	128	128	128	128	128
Railroad right of way (acreage).....	89	89	89	89	89	89	89	89	89	89
Public beaches.....	7	7	7	7	7	7	7	7	7	7
Ball fields.....	13	13	13	13	13	13	13	13	13	13
Tennis courts.....	10	10	10	10	10	10	10	10	10	10

Source: Various City Departments, Manual of the City Government

Free Cash and Stabilization Fund Balances

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Free Cash</u>	<u>Stabilization Fund</u>
FY2011.....	\$ 3,249,238	\$ 2,736,777
FY2010.....	\$ 750,607	\$ 1,913,913
FY2009.....	\$ 1,261,200	\$ 1,489,907
FY2008.....	\$ 1,114,950	\$ 648,947
FY2007.....	\$ 691,149	\$ 487,980
FY2006.....	\$ 538,372	\$ 277,759
FY2005.....	\$ 2,732,090	\$ 1,021,351
FY2004.....	\$ 1,867,737	\$ 1,297,417
FY2003.....	\$ 3,212,194	\$ 2,278,823
FY2002.....	\$ 4,010,382	\$ 2,248,337

Source: City Records