

CITY OF SALEM, MASSACHUSETTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended June 30, 2005



Prepared by Finance Department

On the cover:

The Friendship is a reconstruction of a 171-foot three-masted Salem East Indiaman originally built in 1797. The new Friendship is the largest wooden, Coast Guard certified, sailing vessel to be built in New England in more than a century. She arrived in Salem, after two years of construction, in 1998. The ship is open for tours at historic Derby Wharf as part of the programs of the Salem Maritime National Historic Site and sails as an ambassador ship for the Essex National Heritage Area.



Custom House at McAllister Waterfront

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JUNE 30, 2005

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Introductory Section



Light House at Winter Island

Winter Island Park is a former Coast Guard base located on Salem harbor. The site is a seasonal recreation site. The site also has a beach, boat launch, wind surfing, scuba diving, picnic areas, and a snack bar. Historic Fort Pickering and Fort Pickering Light are located within the site.

Introductory Section

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CITY OF SALEM, MASSACHUSETTS

OFFICE OF FINANCE

NINA BRIDGMAN

ACTING DIRECTOR OF FINANCE

Letter of Transmittal

October 6, 2005

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, 2005 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, 2005, are fairly presented in conformity with GAAP.

The City of Salem's financial statements have been audited by Powers & Sullivan, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2005, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principals used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2005 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

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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 approximately 40,407 and occupies a land area of approximately 8 square miles. The second city in the Commonwealth to be incorporated, it is the Shire City of Essex County. Salem has operated under the Plan B form of government, with a mayor and an eleven-person City Council, seven elected from wards, and four at-large, since 1915.

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

The City Council is primarily the legislative branch of the city government. As the legislative body, the Council confirms appointments made by the Mayor and appropriates all monies necessary to city operation. It can approve, disapprove, or reduce the amount of appropriations, but not add to the appropriation. The Council receives orders of recommendation by the Mayor and petitions from the public, and acts on them after committee study. The City Council also has the power to enact the Ordinances and other regulations. A majority of the City Council constitutes a quorum, and the affirmative vote of a majority of all the members of the Council is necessary for the adoption of any motion resolution, or ordinance. In some instance, adoption by a two-thirds vote of the members is required by statute.

The City provides general governmental services for the territory within its boundaries, including police and fire protection, disposal of garbage and rubbish (for residential properties); public education, including vocational-technical education at the high school level; street maintenance; certain water services, through the Salem and Beverly Water Supply Board; certain sewerage disposal services, through the South Essex Sewerage District; and parks and recreational facilities. Approximately 95 percent of the City is connected to the sewerage system; the entire area of the City is served by the municipal water system. 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 developments. These units are owned and operated by the Authority. The principal highways serving the City are state Routes 1A, 107, and 114, all of which provide immediate access to Routes 1 and 128 and other major highways serving the greater

Boston area. The City is a member municipality of the Massachusetts Bay Commuter Railroad, which provides passenger and freight service.

Within 170 days after the annual organization of the city government (which is ordinarily in early January), the Mayor is required to submit a budget of proposed expenditures for the fiscal year beginning on the next July 1. The City Council may make appropriations for the recommended purposes and may reduce or reject any item. Without recommendation of the Mayor, the City Council may not increase any item or make an appropriation for a purpose not included in the proposed budget (except by a two-thirds vote in case of the failure of the Mayor to recommend an appropriation for such a purpose within 7 days after a request from the City Council, pursuant to state statute). If the Council fails to act on any item of the proposed budget within 45 days, that item takes effect. The City's operating budget for fiscal year 2005 totaled approximately \$102 million.

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

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

The City also enjoys a mix of commercial businesses and markets. Commercial development has been prominent in the Highland Avenue and Vinnin Square areas. Additionally, the City has recently experienced a \$100 million expansion of the Peabody Essex Museum and the privately funded renovation and reuse of several key properties. In fact, private investment in commercial and residential developments in downtown since 2001 totals close to \$50 million, and expected future investment over the next two years totals close to an additional \$10 million. The redevelopment of long dormant and underutilized industrial sites is helping to revitalize our central business district.

The Salem waterfront is also experiencing a great deal of investment from the addition of the Pickering Wharf Hotel and a municipally managed Harbor Walkway project which will connect pedestrians walking along the harbor from the Pickering Wharf area to adjacent areas.

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 Department of Employment and Training, in October 2005, the City had a labor force of 23,464, of whom 22,530 were employed and 934, or 4% were unemployed. The Commonwealth, for the same period, had an unadjusted unemployment rate of 4.3%.

On the operating side, the City has experienced financial challenges during fiscal year 2005 and into the 2006 budget cycle. One of the key challenges for the City has been rising health care costs 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.

Lastly, the City has been in the process of renovating several schools which is being financed, in part, by the State's School Building Assistance Program which is run by the Massachusetts School Building Authority. Through this program, the City is reimbursed for 90% of the construction and debt interest costs of the projects.

Acknowledgements

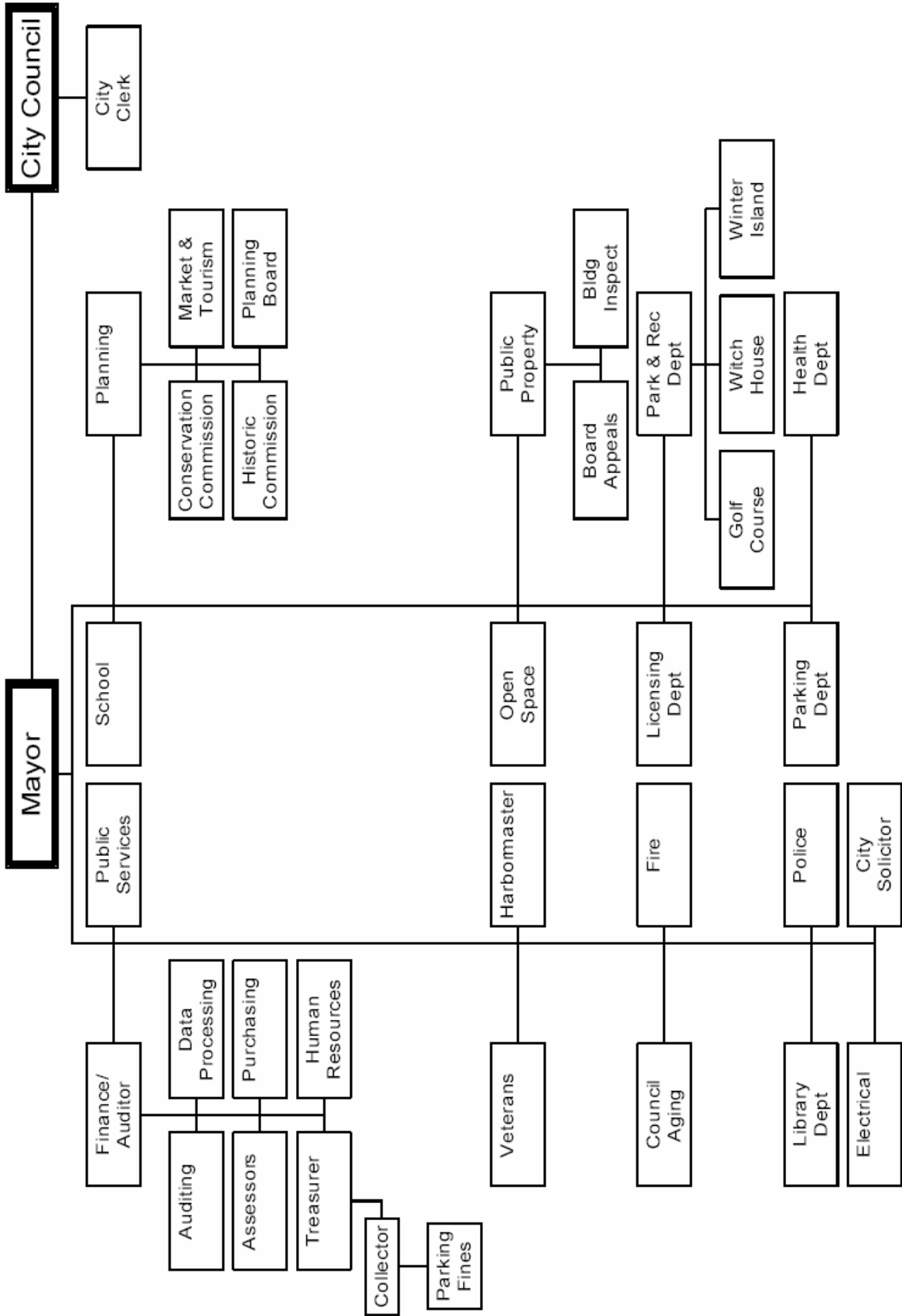
The preparation of this report would not have been possible without the efficient and dedicated services of the Finance department's staff. We would like to express our appreciation to all the members of the departments who assisted and contributed to the preparation of this report. Credit must also 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,

A handwritten signature in black ink that reads "Nina Bridgman". The signature is written in a cursive, flowing style.

Nina Bridgman
Acting Finance Director

Organizational Chart - City of Salem



Principal Executive Officers

TITLE	NAME	FIRST TOOK OFFICE	TERM EXPIRES
Mayor	Kimberley Driscoll	1/2/2006	12/31/09
Mayor	Stanley J. Usovicz Jr.	01/01/98	12/31/05
President, City Council	Michael Bencal	01/01/05	12/31/05
President, City Council	Jean Pelletier	01/02/06	12/31/06
Acting Finance Director	Nina Bridgman	01/23/06	03/06/06
Treasurer /Collector	Anne Busteed	05/01/01	01/31/07
City Clerk	Cheryl Lapointe	07/15/04	11/09/06
Acting City Solicitor	Elizabeth Rennard	01/10/06	Indefinite
City Planner	Lynn Duncan	07/15/04	01/31/06
Superintendent of Schools	Dr. Lawrence Callahan	07/01/05	06/01/07

Financial Section



Downtown Salem

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, 2005 (except for the Salem Contributory Retirement System which is as of and for the year ended December 31, 2004), 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. The basic financial statements of the City as of June 30, 2004, were audited by other auditors whose opinion, dated December 15, 2004, on those statements was unqualified. As discussed in Note 15, the City has restated its 2004 basic financial statements during the current year. The other auditors reported on the 2004 basic financial statements before the restatement.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 opinion.

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, 2005 (except for the Salem Contributory Retirement System which is as of December 31, 2004), 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.

We also audited the adjustments described in Note 15 that were applied to restate the 2004 basic financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2005 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 and grants. 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.

A handwritten signature in cursive script that reads "Powers + Sullivan". The signature is written in black ink and is positioned above the date.

October 6, 2005

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, 2005. We encourage readers to consider the information presented in this report in conjunction with additional information that we have furnished in our letter of transmittal.

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

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

Proprietary funds. The City maintains two types of propriety 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, sewer activities and parking services as well as the municipal golf course.

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

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for propriety 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 \$90 million at the close of Fiscal 2005 a decrease of \$6 million from the prior year.

Net assets of \$84 million (93%) reflects its 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.

An additional portion of the governmental net assets, \$9.7 million (11%), represents resources that are subject to external restrictions on how they may be used. The balance of *unrestricted net assets* has a year end deficit of \$3.7 million, which reflects the City's lack of resources available to be used to meet the City's ongoing obligations to citizens and creditors. The main factors in the decrease in the City's unrestricted net assets include a \$3.9 million increase in the City's estimated long term liability for compensated absences and an increased deficit in the City's self-insured health insurance fund.

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

	Fiscal 2005	Fiscal 2004
Assets:		
Current assets.....	\$ 35,292,646	\$ 24,703,084
Noncurrent assets (excluding capital).....	45,917,070	79,710,010
Capital assets.....	92,868,638	92,409,692
Total assets.....	174,078,354	196,822,786
Liabilities:		
Current liabilities (excluding debt).....	8,572,285	12,130,244
Noncurrent liabilities (excluding debt).....	5,467,647	4,543,506
Current debt.....	15,541,418	28,800,000
Noncurrent debt.....	54,475,000	56,340,000
Total liabilities.....	84,056,350	101,813,750
Net Assets:		
Capital assets net of related debt.....	83,954,370	79,729,492
Restricted.....	9,734,998	8,759,761
Unrestricted.....	(3,667,364)	6,519,783
Total net assets.....	\$ 90,022,004	\$ 95,009,036

	Fiscal 2005	Fiscal 2004
Program revenues:		
Charges for services.....	\$ 4,429,151	\$ 5,061,963
Operating grants and contributions.....	34,087,248	35,305,349
Capital grants and contributions.....	2,090,467	2,129,821
General Revenues:		
Real estate and personal property taxes.....	55,915,767	54,855,784
Motor vehicle and other excise taxes.....	3,489,584	3,478,999
Nonrestricted grants.....	8,097,351	6,932,546
Unrestricted investment income.....	521,585	568,503
Other revenues.....	2,350,052	753,561
Total revenues.....	110,981,205	109,086,526
Expenses:		
General government.....	7,103,324	7,095,121
Public safety.....	21,912,834	22,066,959
Education.....	65,870,306	60,090,740
Public works.....	7,081,997	6,517,047
Community development.....	2,066,749	2,085,553
Health and human services.....	4,856,306	5,092,521
Culture and recreation.....	3,689,992	4,186,622
Interest.....	2,689,312	3,136,763
State and county charges.....	4,028,333	4,212,549
Total expenses.....	119,299,153	114,483,875
Increase in net assets before transfers.....	(8,317,948)	(5,397,349)
Transfers.....	2,542,444	2,466,477
Change in net assets.....	\$ (5,775,504)	\$ (2,930,872)

The governmental expenses totaled \$119 million of which \$40.6 million (34%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$70 million, primarily coming from property taxes, motor vehicle and other excise, and non-restricted state aid.

The governmental net assets decreased by \$6 million during the current fiscal year. This was primarily due to increasing costs for the City's share of providing employees and retiree's health insurance coverage and an increase in the City's estimated liability for compensated absences.

Business-type Activities

As mentioned previously, the City's business-type activities consist of water, sewer, parking and the municipal golf course activities. The results of operations of each of these activities are discussed individually below.

The water enterprise fund's net assets of \$3.7 million (74%) represent the investment in capital assets while \$1.3 million (26%) is unrestricted. The water department experienced a net decrease of \$693 thousand in net assets from the prior year. The deficit is the result of a budgeted transfer of \$618 thousand to the sewer fund. The water fund pays an annual assessment to the Salem Beverly Water Supply Board, which totaled \$1.9 million, or 60% of the funds expenses for fiscal year 2005.

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

	<u>Fiscal 2005</u>	<u>Fiscal 2004</u>
Assets:		
Current assets.....	\$ 3,752,502	\$ 3,083,056
Capital assets.....	<u>4,761,105</u>	<u>4,010,707</u>
Total assets.....	<u>8,513,607</u>	<u>7,093,763</u>
Liabilities:		
Current liabilities (excluding debt).....	226,218	99,475
Noncurrent liabilities (excluding debt).....	36,000	54,000
Current debt.....	<u>3,253,582</u>	<u>1,249,012</u>
Total liabilities.....	<u>3,515,800</u>	<u>1,402,487</u>
Net Assets:		
Capital assets net of related debt.....	3,717,450	2,761,695
Unrestricted.....	<u>1,280,357</u>	<u>2,929,581</u>
Total net assets.....	<u>\$ 4,997,807</u>	<u>\$ 5,691,276</u>
	<u>Fiscal 2005</u>	<u>Fiscal 2004</u>
Program revenues:		
Charges for services.....	<u>\$ 3,853,505</u>	<u>\$ 3,982,209</u>
Expenses:		
Cost of service and administration.....	1,105,609	833,348
District assessment.....	1,923,601	1,794,228
Depreciation.....	126,015	5,863
Interest.....	<u>31,615</u>	<u>-</u>
Total expenses.....	<u>3,186,840</u>	<u>2,633,439</u>
Increase in net assets before transfers.....	666,665	1,348,770
Transfers.....	<u>(1,360,134)</u>	<u>(1,311,820)</u>
Change in net assets.....	<u>\$ (693,469)</u>	<u>\$ 36,950</u>

The sewer enterprise fund's net assets of \$533 thousand (15%) represent the investment in capital assets net of related debt, and \$3.0 million (88%) is unrestricted. The unrestricted balance includes the City's equity interest in the South Essex Sewerage District. The sewer department operations experienced a decrease of \$1.2 million during the current fiscal year. The current rates are not sufficient to cover annual expenses. Approximately 85% of the expenses in the sewer fund consist of the annual assessments paid to the South Essex Sewerage District.

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

	<u>Fiscal 2005</u>	<u>Fiscal 2004</u>
Assets:		
Current assets.....	\$ 3,088,767	\$ 4,758,830
Capital assets.....	<u>532,597</u>	<u>316,748</u>
Total assets.....	<u>3,621,364</u>	<u>5,075,578</u>
Liabilities:		
Current liabilities (excluding debt).....	44,205	407,069
Noncurrent liabilities (excluding debt).....	<u>36,000</u>	<u>-</u>
Total liabilities.....	<u>80,205</u>	<u>407,069</u>
Net Assets:		
Capital assets net of related debt.....	532,597	217,196
Unrestricted.....	<u>3,008,562</u>	<u>4,451,313</u>
Total net assets.....	<u>\$ 3,541,159</u>	<u>\$ 4,668,509</u>
	<u>Fiscal 2005</u>	<u>Fiscal 2004</u>
Program revenues:		
Charges for services.....	\$ <u>5,512,922</u>	\$ <u>5,890,555</u>
Total revenues.....	<u>5,512,922</u>	<u>5,890,555</u>
Expenses:		
Cost of service and administration.....	976,807	1,069,500
District assessment.....	5,622,545	5,715,601
Depreciation.....	<u>16,966</u>	<u>17,168</u>
Total expenses.....	<u>6,616,318</u>	<u>6,802,269</u>
Increase in net assets before transfers.....	(1,103,396)	(911,714)
Transfers.....	<u>(23,954)</u>	<u>(50,612)</u>
Change in net assets.....	<u>\$ (1,127,350)</u>	<u>\$ (962,326)</u>

The golf course enterprise fund's net assets of \$245 thousand (56%) represent the investment in capital assets while \$192 thousand (44%) is unrestricted. The golf course operations experienced an increase of \$42 thousand. On a budgetary basis, the City budgets for the expenditures of the golf course in the City's general operating

budget and the proceeds from operations are voted, as necessary, to offset those expenditures as a funding source in the operating budget.

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

	Business-type Activities	
	Fiscal 2005	Fiscal 2004
Assets:		
Current assets.....	\$ 249,960	\$ 273,302
Capital assets.....	595,173	568,413
Total assets.....	845,133	841,715
Liabilities:		
Current liabilities (excluding debt).....	25,536	6,522
Noncurrent liabilities (excluding debt).....	32,000	58,966
Current debt.....	30,000	30,000
Noncurrent debt.....	320,000	350,000
Total liabilities.....	407,536	445,488
Net Assets:		
Capital assets net of related debt.....	245,173	188,413
Unrestricted.....	192,424	207,784
Total net assets.....	\$ 437,597	\$ 396,197

	Business-type Activities	
	Fiscal 2005	Fiscal 2004
Program revenues:		
Charges for services.....	\$ 502,770	\$ 543,467
Total revenues.....	502,770	543,467
Expenses:		
Cost of service and administration.....	235,388	294,725
Depreciation.....	33,905	25,907
Interest.....	22,894	18,988
Total expenses.....	292,187	339,620
Increase in net assets before transfers.....	210,583	203,847
Transfers.....	(169,183)	(189,587)
Change in net assets.....	\$ 41,400	\$ 14,260

The parking enterprise fund's net assets of \$4.7 million (99.8%) represent the investment in capital assets net of related debt while \$11 thousand (0.2%) is unrestricted. The parking operations experienced a net decrease of \$200 thousand. The City budgets for the operations (both revenues and expenditures) of the parking operations in the City's general operating budget. Consequently, the funds remaining in the enterprise fund at year end represent non-current assets and liabilities and the assets and liabilities related to the enterprise funds capital construction projects.

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

	Business-type Activities	
	Fiscal 2005	Fiscal 2004
Assets:		
Current assets.....	\$ 63,468	\$ -
Capital assets.....	5,817,671	4,980,074
Total assets.....	5,881,139	4,980,074
Liabilities:		
Current liabilities (excluding debt).....	34,119	5,028
Noncurrent liabilities (excluding debt).....	18,000	45,255
Current debt.....	75,000	-
Noncurrent debt.....	1,025,000	-
Total liabilities.....	1,152,119	50,283
Net Assets:		
Capital assets net of related debt.....	4,717,671	4,980,074
Unrestricted.....	11,349	(50,283)
Total net assets.....	\$ 4,729,020	\$ 4,929,791
	Business-type Activities	
	Fiscal 2005	Fiscal 2004
Program revenues:		
Charges for services.....	\$ 1,453,088	\$ 1,536,390
Total revenues.....	1,453,088	1,536,390
Expenses:		
Cost of service and administration.....	444,632	468,442
Depreciation.....	198,935	197,016
Interest.....	21,119	-
Total expenses.....	664,686	665,458
Increase in net assets before transfers.....	788,402	870,932
Transfers.....	(989,173)	(914,458)
Change in net assets.....	\$ (200,771)	\$ (43,526)

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$2.1 million of which \$400 thousand is reported in the general fund, \$1.0 million is reported in the stabilization major fund, and \$11.2 million is reported in the nonmajor governmental funds and a deficit of \$10.5 million is reported in the school capital projects major fund. Cumulatively there was an increase of \$11.5 million in fund balances from the prior year.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$335 thousand, while total fund balance was \$404 thousand. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and the total fund balance to total fund expenditures. Both unreserved fund balance and total fund balance represent less than 1% of the total general fund expenditures.

The City's general fund decreased by \$3 million in fiscal 2005. The key factor in this reduction was the City's planned use of reserves to balance the budget, the under-budgeting of snow removal costs and the insufficient budget for employee benefits costs. The general fund was required to fund the cash deficit in the City's health insurance trust fund at year end which required a transfer of approximately \$2.2 million from the general fund to the internal service fund.

The stabilization major fund is used to account for the accumulation of resources to be used for general and/or capital purposes upon approval of City Council. The fund decreased by \$276 thousand in fiscal 2005, primarily due to appropriation of funds to support the City's operating budget. In FY2006 the City voted to use all of the remaining funds to balance the general fund budget.

The School Capital Projects fund is used to account for the City's ongoing major school construction projects. The fund balance is in a deficit position because short-term notes have not yet been borrowed long-term or funded by state grants. Permanent long-term borrowing is anticipated to occur for the City's share of the projects once the Commonwealth reimburses the City for 90% of approved project costs. During fiscal 2005, the City received a lump sum payment of approximately \$12 million to pay down a portion of its short-term debt on school construction projects.

General Fund Budgetary Highlights

The \$1.9 million (2%) increase between the original budget and the final amended budget was primarily due to supplemental appropriations to various City departmental budgets. Approximately \$875 of this was raised in taxes to fund additional fire personnel and approximately \$1 million represents the use of available fund balance, once certified as available by the Department of Revenue, appropriated to fund human resources (\$214,000), police (\$282,000), education (\$125,000), libraries (\$151,000), building maintenance (\$94,000), and other various general fund line items.

The total general fund revenues exceeded the final budget by \$1.1 million. The majority of this surplus is the result of collections in excess of budget for tax title accounts, motor vehicle excise, and intergovernmental revenues primarily related to charter school reimbursements. Fortunately, the excesses made up for shortfalls in anticipated real estate collections, hotel taxes, penalties on taxes and investment income.

In most instances, expenditures were very close to budgeted appropriations for the general fund. The fire department had a surplus of approximately \$375,000 at year end which was due to the cutback and reinstatement and re-funding of several positions during the year. Expenditures exceeded appropriations for state and county charges and for snow & ice removal. Both over-expenditures are allowable under state law.

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, 2005, amounts to \$105 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, system improvements, machinery and equipment, and infrastructure related to business-type activities. The City has delayed retroactively reporting general infrastructure assets until fiscal year 2006 as allowed by GASB 34. The City's total investment in capital assets for the current year was \$3.5 million for governmental activities and \$2.2 million for business-type activities.

Major capital asset events during the current fiscal year included the construction and remodeling of the Witchcraft Elementary School and the High School. As detailed below, both projects qualify for the state's school building assistance program which will allow the City to be reimbursed for 90% of construction costs and short-term interest related to the projects.

The \$1.1 million in additions to water and sewer fund capital assets are attributable to infrastructure improvements.

The \$1 million in additions to the parking fund were due to improvements to the City's parking garage. The \$60 thousand additions to the golf course fund were due to equipment purchases.

Debt Administration. Outstanding long-term debt of the general government, as of June 30, 2005, totaled \$58,770,000, of which \$55,957,000 is related to school projects, leaving a balance of \$2,813,000 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, 2005 the City has recorded a receivable from the MSBA of \$60 million, which is equal to 90% of approved construction and interest costs incurred by the City to date.

During fiscal 2005, the City issued \$2,465,000 in governmental long-term bonds to fund the ongoing school construction projects.

The City has \$14,500,000 outstanding at year-end in short-term notes due on 1/12/06 with an interest rate of 3.5%.

The City issued long-term bonds of \$1,100,000 for garage repairs in fiscal 2005. At year end the golf course and parking enterprise funds have \$350,000 and \$1,100,000, respectively, of outstanding long-term debt, which is fully supported by fees and does not rely on a general fund subsidy.

Please refer to notes 4, 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

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STATEMENT OF NET ASSETS

JUNE 30, 2005

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 10,973,825	\$ 3,603,792	\$ 14,577,617
Investments.....	3,726,856	-	3,726,856
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	937,055	-	937,055
Tax liens.....	1,341,001	-	1,341,001
Motor vehicle and other excise taxes.....	753,626	-	753,626
User fees.....	-	2,762,450	2,762,450
Departmental and other.....	205,460	-	205,460
Intergovernmental.....	17,016,255	-	17,016,255
Loans.....	173,568	-	173,568
Investment in joint venture.....	-	788,455	788,455
Working capital deposit.....	165,000	-	165,000
Total current assets.....	<u>35,292,646</u>	<u>7,154,697</u>	<u>42,447,343</u>
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	45,142,000	-	45,142,000
Loans.....	775,070	-	775,070
Capital assets, non depreciable.....	6,732,337	2,189,367	8,921,704
Capital assets, net of accumulated depreciation.....	86,136,301	9,517,179	95,653,480
Total noncurrent assets.....	<u>138,785,708</u>	<u>11,706,546</u>	<u>150,492,254</u>
TOTAL ASSETS.....	<u>174,078,354</u>	<u>18,861,243</u>	<u>192,939,597</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	1,602,421	161,348	1,763,769
Accrued liabilities.....	556,462	46,775	603,237
Accrued payroll.....	1,098,447	-	1,098,447
Health claims payable.....	900,000	-	900,000
Tax refunds payable.....	178,317	-	178,317
Accrued interest.....	1,130,846	48,750	1,179,596
Capital lease obligations.....	337,792	20,205	357,997
Compensated absences.....	2,448,000	53,000	2,501,000
Workers' compensation.....	320,000	-	320,000
Bonds and notes payable.....	15,541,418	3,358,582	18,900,000
Total current liabilities.....	<u>24,113,703</u>	<u>3,688,660</u>	<u>27,802,363</u>
NONCURRENT:			
Capital lease obligations.....	385,422	-	385,422
Compensated absences.....	4,697,000	122,000	4,819,000
Workers' compensation.....	385,225	-	385,225
Bonds and notes payable.....	54,475,000	1,345,000	55,820,000
Total noncurrent liabilities.....	<u>59,942,647</u>	<u>1,467,000</u>	<u>61,409,647</u>
TOTAL LIABILITIES.....	<u>84,056,350</u>	<u>5,155,660</u>	<u>89,212,010</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	83,954,370	9,212,891	93,167,261
Restricted for:			
Loans.....	948,638	-	948,638
Permanent funds:			
Expendable.....	2,897,589	-	2,897,589
Nonexpendable.....	1,591,750	-	1,591,750
Grants and gifts.....	4,297,021	-	4,297,021
Unrestricted.....	(3,667,364)	4,492,692	825,328
TOTAL NET ASSETS.....	<u>\$ 90,022,004</u>	<u>\$ 13,705,583</u>	<u>\$ 103,727,587</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2005

		Program Revenues				
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue	
Primary Government:						
<i>Governmental Activities:</i>						
General government.....	\$ 7,103,324	\$ 603,927	\$ 708,193	\$ -	\$ (5,791,204)	
Public safety.....	21,912,834	1,923,845	636,958	-	(19,352,031)	
Education.....	65,870,306	1,023,839	26,013,132	383,124	(38,450,211)	
Public works.....	7,081,997	246,868	107,404	1,707,343	(5,020,382)	
Community development.....	2,066,749	29,216	1,362,397	-	(675,136)	
Health and human services.....	4,856,306	74,151	3,486,216	-	(1,295,939)	
Culture and recreation.....	3,689,992	527,305	88,269	-	(3,074,418)	
Interest.....	2,689,312	-	1,684,679	-	(1,004,633)	
State and county charges.....	4,028,333	-	-	-	(4,028,333)	
Total Governmental Activities...	119,299,153	4,429,151	34,087,248	2,090,467	(78,692,287)	
<i>Business-Type Activities:</i>						
Water.....	3,186,840	3,853,505	-	-	666,665	
Sewer.....	6,616,318	5,512,922	-	-	(1,103,396)	
Golf Course.....	292,187	502,770	-	-	210,583	
Parking.....	664,686	1,453,088	-	-	788,402	
Total Business-Type Activities..	10,760,031	11,322,285	-	-	562,254	
Total Primary Government.....	\$ 130,059,184	\$ 15,751,436	\$ 34,087,248	\$ 2,090,467	\$ (78,130,033)	

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2005

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (78,692,287)	\$ 562,254	\$ (78,130,033)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	55,915,767	-	55,915,767
Tax liens.....	690,557	-	690,557
Motor vehicle and other excise taxes.....	3,489,584	-	3,489,584
Hotel/motel tax.....	219,628	-	219,628
Penalties and interest on taxes.....	288,874	-	288,874
Payments in lieu of taxes.....	1,073,539	-	1,073,539
Grants and contributions not restricted to specific programs.....	8,097,351	-	8,097,351
Unrestricted investment income.....	521,585	-	521,585
Miscellaneous.....	77,454	-	77,454
<i>Transfers, net</i>	2,542,444	(2,542,444)	-
Total general revenues and transfers.....	72,916,783	(2,542,444)	70,374,339
Change in net assets.....	(5,775,504)	(1,980,190)	(7,755,694)
<i>Net Assets:</i>			
Beginning of year, as restated.....	95,797,508	15,685,773	111,483,281
End of year.....	\$ 90,022,004	\$ 13,705,583	\$ 103,727,587

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2005

	General	Stabilization	School Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents.....	\$ 2,406,430	\$ 1,021,351	\$ 733,148	\$ 6,812,896	\$ 10,973,825
Investments.....	-	-	-	3,726,856	3,726,856
Receivables, net of uncollectibles:					
Real estate and personal property taxes.....	937,055	-	-	-	937,055
Tax liens.....	1,341,001	-	-	-	1,341,001
Motor vehicle and other excise taxes.....	753,626	-	-	-	753,626
Departmental and other.....	105,001	-	-	49,432	154,433
Intergovernmental.....	60,210,035	-	-	1,948,220	62,158,255
Loans.....	-	-	-	948,638	948,638
Due from other funds.....	143,490	-	-	514,049	657,539
TOTAL ASSETS.....	\$ 65,896,638	\$ 1,021,351	\$ 733,148	\$ 14,000,091	\$ 81,651,228
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable.....	\$ 1,205,387	\$ -	\$ -	\$ 324,497	\$ 1,529,884
Accrued liabilities.....	556,462	-	-	-	556,462
Accrued payroll.....	1,098,447	-	-	-	1,098,447
Tax refunds payable.....	178,317	-	-	-	178,317
Accrued interest on short-term debt.....	77,300	-	-	-	77,300
Deferred revenues.....	62,376,558	-	-	1,930,550	64,307,108
Due to other funds.....	-	-	-	514,049	514,049
Notes payable.....	-	-	11,246,418	-	11,246,418
TOTAL LIABILITIES.....	65,492,471	-	11,246,418	2,769,096	79,507,985
FUND BALANCES:					
Reserved for:					
Encumbrances and continuing appropriations.....	68,524	-	-	-	68,524
Perpetual permanent funds.....	-	-	-	1,591,750	1,591,750
Unreserved:					
Undesignated, reported in:					
General fund.....	335,643	-	-	-	335,643
Special revenue funds.....	-	1,021,351	-	6,741,656	7,763,007
Capital projects funds.....	-	-	(10,513,270)	-	(10,513,270)
Permanent funds.....	-	-	-	2,897,589	2,897,589
TOTAL FUND BALANCES.....	404,167	1,021,351	(10,513,270)	11,230,995	2,143,243
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 65,896,638	\$ 1,021,351	\$ 733,148	\$ 14,000,091	\$ 81,651,228

See notes to basic financial statements.

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

JUNE 30, 2005

Total governmental fund balances.....	\$ 2,143,243
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....	92,868,638
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....	64,307,108
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.....	(900,000)
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....	(1,053,546)
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.....	(58,770,000)
Workers' compensation.....	(705,225)
Capital leases.....	(723,214)
Compensated absences.....	(7,145,000)
Net effect of reporting long-term liabilities.....	(67,343,439)
Net assets of governmental activities.....	\$ <u>90,022,004</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2005

	General	Stabilization	School Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 55,866,348	\$ -	\$ -	\$ -	\$ 55,866,348
Tax liens.....	330,548	-	-	-	330,548
Motor vehicle and other excise taxes.....	3,531,673	-	-	-	3,531,673
Hotel/motel tax.....	219,628	-	-	-	219,628
Charges for services.....	1,252,782	-	-	8,522	1,261,304
Penalties and interest on taxes.....	288,874	-	-	-	288,874
Payments in lieu of taxes.....	1,073,539	-	-	-	1,073,539
Licenses and permits.....	474,284	-	-	-	474,284
Fines and forfeitures.....	973,995	-	-	-	973,995
Intergovernmental.....	31,558,968	-	12,739,570	14,932,436	59,230,974
Departmental and other.....	77,454	-	-	1,969,656	2,047,110
Contributions.....	-	-	-	869,856	869,856
Investment income.....	147,055	23,934	366,715	291,229	828,933
TOTAL REVENUES.....	95,795,148	23,934	13,106,285	18,071,699	126,997,066
EXPENDITURES:					
Current:					
General government.....	4,454,927	-	-	408,370	4,863,297
Public safety.....	14,147,030	-	-	270,246	14,417,276
Education.....	42,395,426	-	1,422,955	9,620,407	53,438,788
Public works.....	5,847,055	-	-	816,088	6,663,143
Community development.....	-	-	-	2,066,749	2,066,749
Health and human services.....	810,325	-	-	3,537,773	4,348,098
Culture and recreation.....	2,132,771	-	-	146,128	2,278,899
Pension benefits.....	11,926,982	-	-	-	11,926,982
Employee benefits.....	10,433,140	-	-	-	10,433,140
State and county charges.....	4,028,333	-	-	-	4,028,333
Debt service:					
Principal.....	4,015,000	-	-	90,000	4,105,000
Interest.....	2,887,574	-	-	32,094	2,919,668
TOTAL EXPENDITURES.....	103,078,563	-	1,422,955	16,987,855	121,489,373
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(7,283,415)	23,934	11,683,330	1,083,844	5,507,693
OTHER FINANCING SOURCES (USES):					
Issuance of bonds and notes.....	-	-	2,465,000	-	2,465,000
Premium from issuance of bonds and notes.....	232,856	-	-	-	232,856
Capital lease financing.....	807,283	-	-	-	807,283
Transfers in.....	3,597,240	-	-	-	3,597,240
Transfers out.....	(356,899)	(300,000)	-	(397,897)	(1,054,796)
TOTAL OTHER FINANCING SOURCES (USES).....	4,280,480	(300,000)	2,465,000	(397,897)	6,047,583
NET CHANGE IN FUND BALANCES.....	(3,002,935)	(276,066)	14,148,330	685,947	11,555,276
FUND BALANCES AT BEGINNING OF YEAR, as restated.....	3,407,102	1,297,417	(24,661,600)	10,545,048	(9,412,033)
FUND BALANCES AT END OF YEAR.....	\$ 404,167	\$ 1,021,351	\$ (10,513,270)	\$ 11,230,995	\$ 2,143,243

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, 2005

Net change in fund balances - total governmental funds.....	\$ 11,555,276
<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.....	3,558,516
Depreciation expense.....	<u>(3,099,571)</u>
Net effect of reporting capital assets.....	458,945
<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>	
	(16,023,675)
<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.....	391,429
Capital lease issuance.....	(807,283)
Issuance of bonds and notes.....	(2,465,000)
Debt service principal payments.....	<u>4,105,000</u>
Net effect of reporting long-term debt.....	1,224,146
<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.....	(3,901,856)
Net change in workers' compensation.....	190,000
Net change in accrued interest on long-term debt.....	<u>(2,500)</u>
Net effect of recording long-term liabilities and amortizing deferred losses.....	(3,714,356)
<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>724,160</u>
Change in net assets of governmental activities.....	\$ <u><u>(5,775,504)</u></u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2005

	Water	Sewer	Golf Course	Parking	Total	Governmental Activities - Internal Service Funds
ASSETS						
CURRENT:						
Cash and cash equivalents.....	\$ 2,675,642	\$ 614,722	\$ 249,960	\$ 63,468	\$ 3,603,792	\$ -
Receivables, net of allowance for uncollectibles						
User fees.....	1,076,860	1,685,590	-	-	2,762,450	-
Departmental and other.....	-	-	-	-	-	51,027
Working capital deposit.....	-	-	-	-	-	165,000
Investment in joint venture.....	-	788,455	-	-	788,455	-
Total current assets.....	3,752,502	3,088,767	249,960	63,468	7,154,697	216,027
NONCURRENT:						
Capital assets, non depreciable.....	887,002	99,552	118,067	1,084,746	2,189,367	-
Capital assets, net of accumulated depreciation	3,874,103	433,045	477,106	4,732,925	9,517,179	-
Total noncurrent assets.....	4,761,105	532,597	595,173	5,817,671	11,706,546	-
TOTAL ASSETS.....	8,513,607	3,621,364	845,133	5,881,139	18,861,243	216,027
LIABILITIES						
CURRENT:						
Warrants payable.....	155,528	5,820	-	-	161,348	72,537
Accrued liabilities.....	28,390	18,385	-	-	46,775	-
Health claims payable.....	-	-	-	-	-	900,000
Accrued interest.....	22,300	-	5,331	21,119	48,750	-
Capital lease obligations.....	-	-	20,205	-	20,205	-
Due to other funds.....	-	-	-	-	-	143,490
Compensated absences.....	20,000	20,000	-	13,000	53,000	-
Bonds and notes payable.....	3,253,582	-	30,000	75,000	3,358,582	-
Total current liabilities.....	3,479,800	44,205	55,536	109,119	3,688,660	1,116,027
NONCURRENT:						
Compensated absences.....	36,000	36,000	32,000	18,000	122,000	-
Bonds and notes payable.....	-	-	320,000	1,025,000	1,345,000	-
Total noncurrent liabilities.....	36,000	36,000	352,000	1,043,000	1,467,000	-
TOTAL LIABILITIES.....	3,515,800	80,205	407,536	1,152,119	5,155,660	1,116,027
NET ASSETS						
Invested in capital assets, net of related debt.....	3,717,450	532,597	245,173	4,717,671	9,212,891	-
Unrestricted.....	1,280,357	3,008,562	192,424	11,349	4,492,692	(900,000)
TOTAL NET ASSETS.....	\$ 4,997,807	\$ 3,541,159	\$ 437,597	\$ 4,729,020	\$ 13,705,583	\$ (900,000)

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2005

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Parking	Total	
OPERATING REVENUES:						
Employee contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,909,687
Employer contributions	-	-	-	-	-	9,780,572
Charges for services	3,853,505	5,512,922	502,770	1,453,088	11,322,285	-
Other.....	-	-	-	-	-	181,848
TOTAL OPERATING REVENUES	3,853,505	5,512,922	502,770	1,453,088	11,322,285	12,872,107
OPERATING EXPENSES:						
Cost of services and administration	1,105,609	976,807	235,388	444,632	2,762,436	-
District Assessment.....	1,923,601	5,622,545	-	-	7,546,146	-
Depreciation.....	126,015	16,966	33,905	198,935	375,821	-
Employee benefits	-	-	-	-	-	12,155,762
TOTAL OPERATING EXPENSES	3,155,225	6,616,318	269,293	643,567	10,684,403	12,155,762
OPERATING INCOME (LOSS).....	698,280	(1,103,396)	233,477	809,521	637,882	716,345
NONOPERATING REVENUES (EXPENSES):						
Investment income.....	-	-	-	-	-	7,815
Interest expense.....	(31,615)	-	(22,894)	(21,119)	(75,628)	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(31,615)	-	(22,894)	(21,119)	(75,628)	7,815
INCOME (LOSS) BEFORE TRANSFERS.....	666,665	(1,103,396)	210,583	788,402	562,254	724,160
TRANSFERS:						
Transfers in.....	-	618,480	356,899	-	975,379	-
Transfers out.....	(1,360,134)	(642,434)	(526,082)	(989,173)	(3,517,823)	-
TOTAL TRANSFERS.....	(1,360,134)	(23,954)	(169,183)	(989,173)	(2,542,444)	-
CHANGE IN NET ASSETS.....	(693,469)	(1,127,350)	41,400	(200,771)	(1,980,190)	724,160
NET ASSETS AT BEGINNING OF YEAR, as restated...	5,691,276	4,668,509	396,197	4,929,791	15,685,773	(1,624,160)
NET ASSETS AT END OF YEAR.....	\$ 4,997,807	\$ 3,541,159	\$ 437,597	\$ 4,729,020	\$ 13,705,583	\$ (900,000)

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2005

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Parking	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers and users.....	\$ 4,273,572	\$ 6,699,323	\$ 502,770	\$ 1,453,088	\$ 12,928,753	\$ -
Receipts from interfund services provided.....	-	-	-	-	-	12,898,384
Receipts from other governments.....	-	1,179,539	-	-	1,179,539	-
Payments to vendors.....	(2,540,165)	(6,588,337)	(63,268)	(102,628)	(9,294,398)	-
Payments to employees.....	(358,202)	(337,879)	(205,608)	(361,287)	(1,262,976)	-
Payments for interfund services used.....	-	-	-	-	-	(11,983,225)
NET CASH FROM OPERATING ACTIVITIES.....	1,375,205	952,646	233,894	989,173	3,550,918	915,159
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Transfers in.....	-	618,480	356,899	-	975,379	-
Transfers out.....	(1,360,134)	(642,434)	(526,082)	(989,173)	(3,517,823)	-
Advances from other funds.....	-	-	-	-	-	143,490
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(1,360,134)	(23,954)	(169,183)	(989,173)	(2,542,444)	143,490
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Proceeds from the issuance of bonds and notes.....	3,253,582	-	-	1,100,000	4,353,582	-
Acquisition and construction of capital assets.....	(876,413)	(232,815)	-	(1,036,532)	(2,145,760)	-
Principal payments on bonds and notes.....	(1,249,012)	-	(30,000)	-	(1,279,012)	-
Principal payments on capital lease obligations.....	-	-	(40,490)	-	(40,490)	-
Interest expense.....	(53,715)	-	(17,563)	-	(71,278)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	1,074,442	(232,815)	(88,053)	63,468	817,042	-
CASH FLOWS FROM INVESTING ACTIVITIES:						
Investment income.....	-	-	-	-	-	7,815
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	1,089,513	695,877	(23,342)	63,468	1,825,516	1,066,464
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	1,586,129	(81,155)	273,302	-	1,778,276	(1,066,464)
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 2,675,642	\$ 614,722	\$ 249,960	\$ 63,468	\$ 3,603,792	\$ -
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:						
Operating income (loss).....	\$ 698,280	\$ (1,103,396)	\$ 233,477	\$ 809,521	\$ 637,882	\$ 716,345
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation.....	126,015	16,966	33,905	198,935	375,821	-
Changes in assets and liabilities:						
User fees.....	420,067	686,401	-	-	1,106,468	-
Investment in joint venture.....	-	1,179,539	-	-	1,179,539	-
Departmental and other.....	-	-	-	-	-	26,277
Intergovernmental.....	-	500,000	-	-	500,000	-
Warrants payable.....	136,672	(323,421)	-	-	(186,749)	72,537
Accrued liabilities.....	(7,829)	18,385	-	-	10,556	-
Health claims payable.....	-	-	-	-	-	100,000
Accrued compensated absences.....	2,000	(21,828)	(33,488)	(19,283)	(72,599)	-
Total adjustments.....	676,925	2,056,042	417	179,652	2,913,036	198,814
NET CASH FROM OPERATING ACTIVITIES.....	\$ 1,375,205	\$ 952,646	\$ 233,894	\$ 989,173	\$ 3,550,918	\$ 915,159
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:						
Borrowing under capital leases.....			\$ 60,665			
Purchase of equipment by capital leases.....			\$ (60,665)			

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2005

	Pension Trust Fund (as of December 31, 2004)	Private Purpose Trust Funds	Agency Fund
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 3,900,127	\$ 106,868	\$ 274,062
Investments:			
U.S. Treasury Notes.....	2,113,914	-	-
Corporate bonds.....	9,782,717	1,290,597	-
Equity securities.....	49,076,552	-	-
Real estate and alternative investments.....	13,365,816	-	-
Federal Home Loan Mortgages.....	117,178	-	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	159,664	-	18,092
Intergovernmental.....	292,474	-	70,467
TOTAL ASSETS.....	78,808,442	1,397,465	362,621
LIABILITIES			
Warrants payable.....	83,353	-	18,753
Liabilities due depositors.....	-	-	343,868
TOTAL LIABILITIES.....	83,353	-	362,621
NET ASSETS			
Held in trust for pension benefits and other purposes.....	\$ 78,725,089	\$ 1,397,465	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2005

	Pension Trust Fund (as of December 31, 2004)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer.....	\$ 6,617,862	\$ -
Plan member.....	2,675,807	-
Private donations.....	-	69,006
Total contributions.....	9,293,669	69,006
Net investment income (loss):		
Net change in fair value of investments.....	6,146,448	-
Interest.....	880,863	81,150
Total investment income (loss).....	7,027,311	81,150
Less: investment expense.....	(436,757)	-
Net investment income (loss).....	6,590,554	81,150
Intergovernmental.....	551,370	-
Transfers from other systems.....	404,205	-
TOTAL ADDITIONS.....	16,839,798	150,156
DEDUCTIONS:		
Administration.....	313,258	-
Transfers to other systems.....	102,404	-
Retirement benefits and refunds.....	10,869,113	-
Educational scholarships.....	-	17,032
Housing subsidies.....	-	24,779
TOTAL DEDUCTIONS.....	11,284,775	41,811
CHANGE IN NET ASSETS.....	5,555,023	108,345
NET ASSETS AT BEGINNING OF YEAR.....	73,170,066	1,289,120
NET ASSETS AT END OF YEAR.....	\$ 78,725,089	\$ 1,397,465

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, account groups, 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, 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 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, 2005, the City's equity interest in the operations of the District totaled \$788,455, 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 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, 2005 totaled approximately \$1.9 million. Complete financial information for the Water Board can be obtained by contacting them at 50 Arlington Avenue, Beverly, MA 01915.

Availability of Financial Information for Component Units

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.

B. Government-Wide and Fund Financial Statements*Government-Wide Financial Statements*

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

Fund Financial Statements

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

Major Fund Criteria

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

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

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

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

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation*Government-Wide Financial Statements*

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

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

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

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

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions are charges between the general fund and proprietary funds. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

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

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

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

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

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

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

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

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

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

The following major proprietary funds are reported:

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

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

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

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

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 active employees' and retirees' health insurance.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The *pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

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, and police and fire special detail accounts.

Government-Wide and Fund Financial Statements

For enterprise fund accounting, all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, are applied, unless those pronouncements conflict with or contradict GASB pronouncements.

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.

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. 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 fees resulting in the discontinuation of service also known as a "shut off" policy. The water department provides strict guidelines as to the process of discontinuation of service.

Since the receivables are secured via a shut off 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 claims and settlements received after year end that are recorded as receivables in the fiscal year accrued. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Intergovernmental

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

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

Loans

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

F. Inventories and Prepaid Items

Government-Wide and Fund Financial Statements

Inventories and prepaid items 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.

H. 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 \$10,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land) 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

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.

I. Interfund Receivables and Payables

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

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net 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.

J. Interfund Transfers

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

Government-Wide Financial Statements

Transfers between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net 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.

K. Deferred Revenue

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

L. Net Assets and Fund Equity

Government-Wide Financial Statements (Net Assets)

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

Net assets have been "restricted for" the following:

"Loans" represents community development outstanding loans receivable balances.

"Permanent funds - expendable" represents amounts held in trust for which the expenditures are restricted by various trust agreements.

"Permanent funds - nonexpendable" represents amounts held in trust for which only investment earnings may be expended.

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

Fund Financial Statements (Fund Balances)

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

Fund balances have been "reserved for" the following:

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

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

M. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net 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.

N. Investment Income

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

O. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

P. Post Retirement Benefits

Government-Wide and Fund Financial Statements

In addition to providing pension benefits, health insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. The cost of providing health insurance is recognized by recording its share of insurance premiums in the general fund in the fiscal year paid. For the

fiscal year ended June 30, 2005, this expenditure totaled approximately \$2,099,000. There were approximately 588 participants eligible to receive benefits at June 30, 2005.

The Commonwealth of Massachusetts administers a health insurance plan for all retired teachers of the Commonwealth. The cost of providing that benefit is assessed to each community annually. For the fiscal year ending June 30, 2005 this expense/expenditure amounted to approximately \$1,381,000. The number of participants covered is not provided by the Commonwealth.

Q. Fund Deficits and Appropriation Deficits

Individual fund deficits exist at June 30, 2005 in the School Capital Projects F and the School Lunch nonmajor governmental fund. These deficits will be funded by grants, departmental revenues and available fund balance.

Massachusetts General Laws require that any operating deficit within the health insurance internal service fund be funded by a general fund transfer. In addition any deficit created by recording the incurred but not reported liability must be funded through general fund contributions or other available funds beginning in FY2006.

Actual expenditures exceeded appropriations for state and county charges, group insurance, and snow and ice removal. These over-expenditures will be funded through available funds during fiscal year 2006.

R. 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.

S. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

NOTE 2 – CASH AND INVESTMENTS

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

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment

Pool (the Pool). The Treasurer and Trust Fund Commission may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth; provided, that not more than fifteen per cent of any trust fund may be invested in bank stocks and insurance company stocks, and not more than one and one-half per cent of any trust fund can be invested in the stock of any one bank or insurance company.

The System 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.

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.

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 deposit policy for custodial credit risk. At fiscal year-end, the carrying amount of deposits totaled \$6,792,448 and the bank balance totaled \$9,823,889. Of the bank balance, \$542,523 was covered by Federal Depository Insurance, \$2,834,033 was covered by the Depositors Insurance Fund, and \$6,447,333 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The System does not have a deposit policy for custodial credit risk. At fiscal year-end, the carrying amount of deposits totaled \$1,458,029 and the bank balance totaled \$1,547,595. Of the bank balance \$200,000 was covered by Federal Depository Insurance and \$1,347,595 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

As of June 30, 2005, the City had the following investments:

Investment Type	Fair Value	Maturity		
		Under 1 Year	1-5 Years	6-10 Years
<u>Debt Securities:</u>				
Federal Farm Credit Bank.....	\$ 101,844	\$ -	\$ -	\$ 101,844
Corporate Bonds.....	1,416,131	505,086	608,110	302,935
Repurchase Agreements.....	8,112,233	8,112,233	-	-
Money Market Mutual Funds.....	23,000	23,000	-	-
Total Debt Securities.....	9,653,208	\$ 8,640,319	\$ 608,110	\$ 404,779
<u>Other Investments:</u>				
Equity Securities.....	3,499,478			
MMDT.....	30,866			
Total Investments.....	\$ 13,183,552			

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, \$101,844 in Federal Farm Credit Bank securities, \$1,416,131 in corporate bonds and \$3,499,478 in equity securities are exposed to custodial credit risk because the related securities are uninsured, unregistered and are held by the counterparty. The investments in money market mutual funds and MMDT are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The \$8,112,233 repurchase agreement is invested in collateralized Federal Home Loan Bank government backed securities. The City does not have an investment policy related to custodial credit risk. As of December 31, 2004, the System had the following investments:

		Maturity				
	Fair Value	Under 1 Year	1-5 Years	6-10 Years	Over 10 Years	
Investment Type						
Debt Securities:						
U.S. Treasury Notes.....	\$ 2,113,914	\$ 1,869,108	\$ -	\$ 244,806	\$ -	
Corporate Bonds.....	9,782,717	882,202	2,215,604	492,762	6,192,149	
Federal Home Loan Mortgages..	117,178	-	117,178	-	-	
Repurchase Agreements.....	2,442,098	2,442,098	-	-	-	
Total Debt Securities.....	14,455,907	\$ 5,193,408	\$ 2,332,782	\$ 737,568	\$ 6,192,149	
Other Investments:						
Equity Securities.....	49,076,552					
Alternative Investments.....	7,337,383					
Real Estate.....	6,028,433					
Total Investments.....	\$ 76,898,275					

Of the System's investments, \$9,782,717 in corporate bonds, \$117,178 in Federal Home Loan Mortgages, \$49,076,552 in equity securities, \$7,337,383 in alternate venture capital investments, and \$6,028,433 in real estate investments are exposed to custodial credit risk exposure because the related securities are uninsured, unregistered and held by the counterparty. The U.S. Treasury Notes are not subject to custodial credit risk. The \$2,442,098 repurchase agreement is invested in collateralized Federal Home Loan Bank government backed securities. The System does not have an investment policy for custodial credit risk.

Interest Rate Risk

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

Credit Risk

The City has not adopted a formal policy related to Credit Risk. Moody's Investors Service rated \$405,494 of corporate bonds Aaa, \$408,721 Aa, and \$301,144 A. The federal farm credit bank investment of \$101,844 is rated AAA. The repurchase agreements, money market mutual funds, equity securities and MMDT investments are unrated.

The System has not adopted a formal policy related to Credit Risk. Moody's Investors Service rated \$558,782 of corporate bonds Aaa, \$1,349,736 Aa, \$3,328,534 A, \$2,288,946 Baa, and \$395,522 Ba. The repurchase agreement, equity securities, and alternate and real estate investments are unrated.

Concentration of Credit Risk

The City places no limit on the amount the government may invest in any one issuer. More than 5 percent of the City's investments are in the following securities:

<u>Issuer</u>	<u>Percentage of Total Investments</u>
Federal Home Loan Bank Repurchase Agreement.....	62%

The retirement system places no limit on the amount the government may invest in any one issuer. More than 5 percent of the System's investments are in the following securities:

<u>Issuer</u>	<u>Percentage of Total Investments</u>
Invesco Equity Real Estate	7%
TBC International Core Equity.....	9%
Freedom Capital.....	31%

NOTE 3 – RECEIVABLES

At June 30, 2005, 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:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 937,055	\$ -	\$ 937,055
Tax liens.....	1,341,001	-	1,341,001
Motor vehicle and other excise taxes.....	952,389	(198,763)	753,626
Departmental and other.....	205,460	-	205,460
Intergovernmental.....	62,158,255	-	62,158,255
Loans.....	948,638	-	948,638
Total.....	<u>\$ 66,542,798</u>	<u>\$ (198,763)</u>	<u>\$ 66,344,035</u>

At June 30, 2005, receivables for the water and sewer enterprise funds consist of the following:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Water user fees.....	\$ 1,076,860	\$ -	\$ 1,076,860
Sewer user fees.....	1,685,590	-	1,685,590
Total.....	<u>\$ 2,762,450</u>	<u>\$ -</u>	<u>\$ 2,762,450</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.....	\$ 503,931	\$ -	\$ 503,931
Tax liens.....	1,341,001	-	1,341,001
Motor vehicle and other excise.....	753,626	-	753,626
Intergovernmental.....	59,778,000	981,912	60,759,912
Loans.....	-	948,638	948,638
Total.....	<u>\$ 62,376,558</u>	<u>\$ 1,930,550</u>	<u>\$ 64,307,108</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 4,684,753	\$ -	\$ -	\$ 4,684,753
Construction in progress.....	-	2,047,584	-	2,047,584
Total capital assets not being depreciated.....	<u>4,684,753</u>	<u>2,047,584</u>	<u>-</u>	<u>6,732,337</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	2,401,862	-	-	2,401,862
Buildings and improvements.....	108,288,058	-	-	108,288,058
Equipment.....	3,135,122	756,150	-	3,891,272
Infrastructure.....	-	666,425	-	666,425
Vehicles.....	6,385,656	88,357	-	6,474,013
Total capital assets being depreciated.....	<u>120,210,698</u>	<u>1,510,932</u>	<u>-</u>	<u>121,721,630</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(1,095,854)	(89,582)	-	(1,185,436)
Buildings and improvements.....	(24,295,663)	(2,405,213)	-	(26,700,876)
Equipment.....	(2,327,788)	(238,374)	-	(2,566,162)
Infrastructure.....	-	(16,661)	-	(16,661)
Vehicles.....	(4,766,454)	(349,740)	-	(5,116,194)
Total accumulated depreciation.....	<u>(32,485,759)</u>	<u>(3,099,570)</u>	<u>-</u>	<u>(35,585,329)</u>
Total capital assets being depreciated, net.....	<u>87,724,939</u>	<u>(1,588,638)</u>	<u>-</u>	<u>86,136,301</u>
Total governmental activities capital assets.....	<u>\$ 92,409,692</u>	<u>\$ 458,946</u>	<u>\$ -</u>	<u>\$ 92,868,638</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Water Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 10,589	\$ -	\$ -	\$ 10,589
Construction in progress.....	-	876,413	-	876,413
Total capital assets not being depreciated.....	10,589	876,413	-	887,002
<u>Capital assets being depreciated:</u>				
Land improvements.....	114,550	-	-	114,550
Infrastructure.....	9,081,083	-	-	9,081,083
Total capital assets being depreciated.....	9,195,633	-	-	9,195,633
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(14,319)	(5,728)	-	(20,047)
Infrastructure.....	(5,181,196)	(120,287)	-	(5,301,483)
Total accumulated depreciation.....	(5,195,515)	(126,015)	-	(5,321,530)
Total capital assets being depreciated, net.....	4,000,118	(126,015)	-	3,874,103
Total water activities capital assets.....	\$ 4,010,707	\$ 750,398	\$ -	\$ 4,761,105
Sewer Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 99,552	\$ -	\$ -	\$ 99,552
Total capital assets not being depreciated.....	99,552	-	-	99,552
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	5,425	-	-	5,425
Vehicles.....	125,486	-	-	125,486
Infrastructure.....	1,212,000	232,815	-	1,444,815
Total capital assets being depreciated.....	1,342,911	232,815	-	1,575,726
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(4,679)	(136)	-	(4,815)
Vehicles.....	(125,486)	-	-	(125,486)
Infrastructure.....	(995,550)	(16,830)	-	(1,012,380)
Total accumulated depreciation.....	(1,125,715)	(16,966)	-	(1,142,681)
Total capital assets being depreciated, net.....	217,196	215,849	-	433,045
Total sewer activities capital assets.....	\$ 316,748	\$ 215,849	\$ -	\$ 532,597

	Beginning Balance	Increases	Decreases	Ending Balance
Golf Course Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 118,067	\$ -	\$ -	\$ 118,067
Total capital assets not being depreciated.....	118,067	-	-	118,067
<u>Capital assets being depreciated:</u>				
Land improvements.....	312,852	-	-	312,852
Buildings and improvements.....	453,988	-	-	453,988
Equipment.....	213,744	60,665	-	274,409
Total capital assets being depreciated.....	980,584	60,665	-	1,041,249
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(272,568)	(10,829)	-	(283,397)
Buildings and improvements.....	(53,389)	(11,350)	-	(64,739)
Equipment.....	(204,281)	(11,726)	-	(216,007)
Total accumulated depreciation.....	(530,238)	(33,905)	-	(564,143)
Total capital assets being depreciated, net.....	450,346	26,760	-	477,106
Total golf course activities capital assets.....	\$ 568,413	\$ 26,760	\$ -	\$ 595,173
Parking Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 48,214	\$ -	\$ -	\$ 48,214
Construction in progress.....	-	1,036,532	-	1,036,532
Total capital assets not being depreciated.....	48,214	1,036,532	-	1,084,746
<u>Capital assets being depreciated:</u>				
Land improvements.....	292,700	-	-	292,700
Buildings and improvements.....	7,625,100	-	-	7,625,100
Equipment.....	5,100	-	-	5,100
Vehicles.....	10,668	-	-	10,668
Total capital assets being depreciated.....	7,933,568	-	-	7,933,568
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(13,294)	(7,359)	-	(20,653)
Buildings and improvements.....	(2,974,941)	(191,066)	-	(3,166,007)
Equipment.....	(2,805)	(510)	-	(3,315)
Vehicles.....	(10,668)	-	-	(10,668)
Total accumulated depreciation.....	(3,001,708)	(198,935)	-	(3,200,643)
Total capital assets being depreciated, net.....	4,931,860	(198,935)	-	4,732,925
Total parking activities capital assets.....	\$ 4,980,074	\$ 837,597	\$ -	\$ 5,817,671

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

Governmental Activities:

General government.....	\$ 151,124
Public safety.....	362,744
Education.....	2,190,471
Public works.....	130,530
Health and human services.....	67,124
Culture and recreation.....	<u>197,578</u>

Total depreciation expense - governmental activities..... \$ 3,099,571

Business-Type Activities:

Water.....	\$ 126,015
Sewer.....	16,966
Golf Course.....	33,905
Parking.....	<u>198,935</u>

Total depreciation expense - business-type activities..... \$ 375,821

NOTE 5 – INTERFUND TRANSFERS AND BALANCES

Interfund transfers for the fiscal year ended June 30, 2005, are summarized as follows:

Transfers Out:	Transfers In:				Total
	General Fund	Golf Course Enterprise Fund	Sewer Enterprise Fund		
General Fund.....	\$ -	\$ 356,899	\$ -	\$ -	\$ 356,899 (1)
Stabilization Fund.....	300,000	-	-	-	300,000 (2)
Nonmajor Governmental Funds.....	397,897	-	-	-	397,897 (3)
Parking Enterprise Fund.....	989,173	-	-	-	989,173 (4)
Golf Course Enterprise Fund.....	526,082	-	-	-	526,082 (5)
Sewer Enterprise Fund.....	642,434	-	-	-	642,434 (6)
Water Enterprise Fund.....	<u>741,654</u>	<u>-</u>	<u>618,480</u>	<u>-</u>	<u>1,360,134 (7)</u>
Total.....	<u>\$ 3,597,240</u>	<u>\$ 356,899</u>	<u>\$ 618,480</u>	<u>\$ -</u>	<u>\$ 4,572,619</u>

- (1) Transfer from general fund to golf course enterprise fund to reimburse for amounts raised by taxation
 (2) Transfer from stabilization fund to general fund to support general operating budget
 (3) Transfer from non major funds to general fund to support general operating budget
 (4) Transfer from parking enterprise fund to general fund to support general operating budget
 (5) Transfer from golf course enterprise fund to general fund to support general operating budget
 (6) Transfer from sewer enterprise fund to general fund to reimburse for indirect costs
 (7) Transfer from water enterprise fund to general fund to reimburse for indirect costs and
 transfer from water enterprise fund to sewer enterprise fund for South Essex Sewer
 District assessment

The City's interfund balances at June 30, 2005 consisted of \$143,490 due from the general fund to the internal service fund for transfers not yet recorded and \$514,049 in balances within the nonmajor governmental funds which represent interfund borrowings to fund cash deficits.

NOTE 6 – CAPITAL & OPERATING LEASES

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

The assets acquired through capital leases are as follows:

<u>Asset:</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Machinery and equipment.....	\$ 1,386,277	\$ 60,665
Vehicles.....	26,574	-
Less: accumulated depreciation.....	<u>(259,914)</u>	<u>(9,100)</u>
Total.....	<u>\$ 1,152,937</u>	<u>\$ 51,565</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2005, were as follows:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2006.....	\$ 376,660	\$ 21,300
2007.....	367,333	-
2008.....	<u>39,560</u>	<u>-</u>
Total minimum lease payments.....	783,553	21,300
Less: amounts representing interest.....	<u>(60,339)</u>	<u>(1,095)</u>
Present value of minimum lease payments.....	<u>\$ 723,214</u>	<u>\$ 20,205</u>

The City leases office space for the City Hall Annex under an operating lease that expires on February 28, 2011. The cost of the lease for the fiscal year ended June 30, 2005, totaled \$360,000, and is reported as a general government expenditure in the general fund.

The future minimum lease payments are as follows:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2006.....	\$ 360,000
2007.....	360,000
2008.....	360,000
2009.....	360,000
2010.....	360,000
2011.....	<u>240,000</u>
Total.....	\$ <u><u>2,040,000</u></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, 2005, is as follows:

<u>Type</u>	<u>Purpose</u>	<u>Rate (%)</u>	<u>Due Date</u>	<u>Balance at June 30, 2004</u>	<u>Renewed/ Issued</u>	<u>Retired/ Redeemed</u>	<u>Balance at June 30, 2005</u>
BAN	School Construction.....	1.5%	01/15/05	\$ 26,450,988	\$ -	\$ 26,450,988	\$ -
BAN	Parking Garage.....	1.5%	01/15/05	1,100,000	-	1,100,000	-
BAN	School Construction.....	3.5%	01/12/06	-	7,000,000	-	7,000,000
BAN	School Construction.....	3.5%	01/12/06	-	4,246,418	-	4,246,418
	Sub-total governmental notes.....			<u>27,550,988</u>	<u>11,246,418</u>	<u>27,550,988</u>	<u>11,246,418</u>
BAN	Water System.....	1.5%	01/15/05	1,249,012	-	1,249,012	-
BAN	Water System.....	3.5%	01/12/06	-	3,253,582	-	3,253,582
	Sub-total business-type notes.....			<u>1,249,012</u>	<u>3,253,582</u>	<u>1,249,012</u>	<u>3,253,582</u>
	Total notes payable.....			<u>\$ 28,800,000</u>	<u>\$ 14,500,000</u>	<u>\$ 28,800,000</u>	<u>\$ 14,500,000</u>

NOTE 8 – LONG-TERM DEBT

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

Details related to the outstanding indebtedness at June 30, 2005, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2004	Issued	Redeemed	Outstanding at June 30, 2005
School Construction.....	5.125-5.750%	\$ 4,950,000	\$ -	\$ 375,000	\$ 4,575,000
School Construction.....	5.125-5.750%	1,120,000	-	95,000	1,025,000
HUD Section 108.....	3.41-3.70%	220,000	-	55,000	165,000
HUD Section 108.....	9.00%	350,000	-	35,000	315,000
School Construction.....	4.50-6.75%	9,715,000	-	375,000	9,340,000
Swimming Pool.....	4.50-6.75%	320,000	-	40,000	280,000
School Construction.....	3.50-4.00%	3,795,000	-	575,000	3,220,000
School Construction.....	3.50-4.00%	5,388,000	-	731,000	4,657,000
Police Station.....	3.50-4.00%	2,347,000	-	294,000	2,053,000
School Construction.....	3.00-5.00%	17,070,000	-	600,000	16,470,000
School Construction.....	3.00-5.00%	9,215,000	-	325,000	8,890,000
School Construction.....	3.00-5.00%	1,440,000	-	65,000	1,375,000
School Construction.....	2.25-4.50%	4,480,000	-	540,000	3,940,000
School Construction.....	3.00-5.00%	-	1,887,447	-	1,887,447
School Construction.....	3.00-5.00%	-	577,553	-	577,553
Total Governmental bonds payable.....		\$ 60,410,000	\$ 2,465,000	\$ 4,105,000	\$ 58,770,000

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006..... \$	4,295,000 \$	2,459,125 \$	6,754,125
2007.....	4,345,000	2,297,438	6,642,438
2008.....	4,390,000	2,136,191	6,526,191
2009.....	4,390,000	1,968,429	6,358,429
2010.....	4,465,000	1,787,278	6,252,278
2011.....	4,540,000	1,603,724	6,143,724
2012.....	4,115,000	1,427,507	5,542,507
2013.....	3,285,000	1,268,175	4,553,175
2014.....	2,960,000	1,122,693	4,082,693
2015.....	2,440,000	1,000,289	3,440,289
2016.....	2,500,000	892,458	3,392,458
2017.....	2,520,000	782,711	3,302,711
2018.....	2,645,000	667,644	3,312,644
2019.....	2,765,000	545,650	3,310,650
2020.....	2,890,000	405,391	3,295,391
2021.....	1,920,000	283,872	2,203,872
2022.....	2,000,000	198,072	2,198,072
2023.....	2,075,000	106,640	2,181,640
2024.....	115,000	9,776	124,776
2025.....	115,000	4,888	119,888
Totals..... \$	<u>58,770,000</u> \$	<u>20,967,951</u> \$	<u>79,737,951</u>

The Commonwealth has approved school construction assistance to the City. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding along with direct capital grants. During fiscal year 2005, \$18,302,803 of such assistance was received. Approximately \$78,566,000 will be received in future fiscal years. Of this amount, approximately \$18,197,000 represents reimbursement of long-term interest costs, and approximately \$60,369,000 represents reimbursement of approved construction costs. Accordingly, a \$60,369,000 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental fund financial statements. The net change in deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

Bonds and Notes Payable Schedule – Golf Course Enterprise Fund

<u>Project</u>	<u>Interest Rate (%)</u>	<u>Outstanding at June 30, 2004</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2005</u>
Golf Course.....	4.50-6.75%	\$ <u>380,000</u>	\$ <u>-</u>	\$ <u>30,000</u>	\$ <u>350,000</u>

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

Fiscal Year	Principal	Interest	Total
2006.....	\$ 30,000	\$ 16,175	\$ 46,175
2007.....	30,000	14,825	44,825
2008.....	30,000	13,475	43,475
2009.....	30,000	11,938	41,938
2010.....	30,000	10,401	40,401
2011.....	30,000	9,036	39,036
2012.....	30,000	7,641	37,641
2013.....	30,000	6,216	36,216
2014.....	30,000	4,761	34,761
2015.....	30,000	3,276	33,276
2016.....	30,000	1,776	31,776
2017.....	20,000	513	20,513
Totals.....	\$ <u>350,000</u>	\$ <u>100,033</u>	\$ <u>450,033</u>

Bonds and Notes Payable Schedule – Parking Enterprise Fund

Project	Interest Rate (%)	Outstanding at June 30, 2004	Issued	Redeemed	Outstanding at June 30, 2005
Parking Garage Repairs.....	3.00-5.00%	\$ <u>-</u>	\$ <u>1,100,000</u>	\$ <u>-</u>	\$ <u>1,100,000</u>

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

Fiscal Year	Principal	Interest	Total
2006.....	\$ 75,000	\$ 42,238	\$ 117,238
2007.....	75,000	39,238	114,238
2008.....	75,000	36,988	111,988
2009.....	75,000	34,738	109,738
2010.....	75,000	32,488	107,488
2011.....	75,000	30,238	105,238
2012.....	75,000	27,800	102,800
2013.....	75,000	25,250	100,250
2014.....	75,000	21,500	96,500
2015.....	75,000	17,750	92,750
2016.....	75,000	14,000	89,000
2017.....	75,000	11,000	86,000
2018.....	75,000	8,000	83,000
2019.....	75,000	5,000	80,000
2020.....	50,000	2,000	52,000
Total.....	\$ <u>1,100,000</u>	\$ <u>348,228</u>	\$ <u>1,448,228</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, 2005, the City had the following authorized and unissued debt:

Purpose	Amount
School construction.....	\$ 22,700,000
School construction.....	7,850,000
Water systems improvements.....	<u>8,746,418</u>
Total.....	<u>\$ 39,296,418</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2005, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Capital leases.....	\$ 307,360	\$ 807,283	\$ (391,429)	\$ 723,214	\$ 337,792
Long-term bonds and notes.....	60,410,000	2,465,000	(4,105,000)	58,770,000	4,295,000
Compensated absences.....	3,243,144	5,013,013	(1,111,157)	7,145,000	2,448,000
Workers' compensation.....	<u>895,225</u>	<u>129,331</u>	<u>(319,331)</u>	<u>705,225</u>	<u>320,000</u>
Total governmental activity long-term liabilities.....	<u>\$ 64,855,729</u>	<u>\$ 8,414,627</u>	<u>\$ (5,926,917)</u>	<u>\$ 67,343,439</u>	<u>\$ 7,400,792</u>
Business-Type Activities:					
Capital leases.....	\$ -	\$ 20,205	\$ -	\$ 20,205	\$ 20,205
Long-term bonds and notes.....	380,000	1,100,000	(30,000)	1,450,000	105,000
Compensated absences.....	<u>260,597</u>	<u>53,000</u>	<u>(138,597)</u>	<u>175,000</u>	<u>53,000</u>
Total business-type activity long-term liabilities.....	<u>\$ 640,597</u>	<u>\$ 1,173,205</u>	<u>\$ (168,597)</u>	<u>\$ 1,645,205</u>	<u>\$ 178,205</u>

Compensated absence and workers' compensation liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures.

NOTE 9 – RISK FINANCING

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

The City is self-insured for health care insurance of its active employees and retirees. The City is also self-insured for its workers' compensation and unemployment compensation activities which are accounted for in the funds incurring the expenditures. The self-insured health insurance activities are accounted for in the City's internal service fund where revenues are recorded when earned and expenses are recorded when the liability is incurred.

Health Insurance

Health insurance claims are administered by a third party administrator and are funded on an as needed basis from the City's internal service fund. The estimate of Incurred But Not Reported (IBNR) claims is based on 10% of the previous year's claims. The City purchases individual stop loss insurance for claims in excess of the coverage provided by the City in the amount of \$200,000 per claim. At June 30, 2005, the estimated future liability ranges from \$900,000 to \$1,350,000. This liability is the best estimate based on available information. Changes in the reported liability since July 1, 2003, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End	Current Portion
Fiscal Year 2004.....	\$ 700,000	\$ 7,845,000	\$ (7,745,000)	\$ 800,000	\$ 800,000
Fiscal Year 2005.....	800,000	8,878,000	(8,778,000)	900,000	900,000

Workers' Compensation

Workers' compensation claims are administered by the City and are funded on a pay-as-you-go basis from annual appropriations. The estimated future workers' compensation liability is based on history and injury type. At June 30, 2005, the amount of the liability for workers' compensation claims totaled \$705,225. Changes in the reported liability since July 1, 2003, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End	Current Portion
Fiscal Year 2004.....	\$ 984,748	\$ 490,818	\$ (580,341)	\$ 895,225	\$ 580,000
Fiscal Year 2005.....	895,225	129,331	(319,331)	705,225	320,000

NOTE 10 – PENSION PLAN

Plan Description - The City contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Salem Contributory Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$5,890,261 for the fiscal year ended June 30, 2005, 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, 2004, the System's membership consists of the following:

Active members.....	883
Inactive members.....	116
Retirees and beneficiaries currently receiving benefits.....	<u>640</u>
Total.....	<u><u>1,639</u></u>

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

Annual Pension Cost - The City's contributions to the System for the fiscal years ended June 30, 2005, 2004, and 2003 were \$5,918,415, \$4,923,382, and \$4,223,383, respectively, which equaled its required contribution for each fiscal year. At June 30, 2005, the City did not have a net pension obligation. The required contribution was determined as part of the January 1, 2004, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included an 8.5% investment rate of return and projected salary increases of 5.5% per year. The actuarial value of the System's assets was determined using the fair value of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at January 1, 2004, was 22 years.

Schedule of Funding Progress
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
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%
01/01/97	51,236,360	82,440,774	31,204,414	62.1%	22,930,939	136.1%
01/01/94	41,074,617	71,831,709	30,757,092	57.2%	17,753,129	173.2%

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

Noncontributory Retirement Allowance – The City pays the entire retirement allowance for certain retirees who are eligible for noncontributory benefits and are not members of the System. The general fund expenditure for fiscal year 2005 totaled approximately \$225,000.

NOTE 11 – MAJOR TAXPAYER

The City receives a significant portion of its real estate and personal property tax revenue from one taxpayer under a Real and Personal Property Tax Appeal Settlement Agreement (the Agreement). The Agreement was entered into in July 1997 and covers fiscal years 1997 through 2007. The City and the taxpayer have agreed on a real and personal property tax assessment amount for fiscal years 1997 through 2004. For fiscal years 2005 through 2007, the City and the taxpayer have agreed that a portion of the property would be assessed at fair market value as calculated by the City and that, in the absence of an agreement by the parties, the remaining property will be assessed at fair market value of the existing facilities as determined in binding arbitration, resulting in tax revenue not to exceed \$4.5 million in each fiscal year. The parties further agreed if additional facilities are constructed during this period, the total assessment would be based on the fair market value of the new facilities and existing facilities, resulting in a tax revenue not to exceed \$4.5 million plus 50% of any such taxes in excess of \$4.5 million resulting from the aggregate assessed valuation of any new facilities. For the fiscal year ended June 30, 2005, the City received approximately 8% (\$4.5 million) of its total real estate and personal property tax revenue from this taxpayer.

NOTE 12 – COMMITMENTS

The City is in the process of completing school construction projects. Consequently, the City has entered into, or is planning to enter into, contracts totaling approximately \$30,550,000 to complete the projects.

The City is in the process of completing improvements to its water system. Consequently, the City has entered into, or is planning to enter into, contracts totaling approximately \$8,746,000 to complete the improvements.

NOTE 13 – 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, 2005, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2005, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2005.

NOTE 14 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2005, the following GASB pronouncements were implemented:

The GASB issued Statement #40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement #3*, was required to be implemented during fiscal year 2005. This pronouncement only required changes to the note disclosure.

The GASB issued Statement #44, *Economic Condition Reporting: The Statistical Section*, which is required to be implemented in Fiscal 2006. This new GASB establishes and modifies requirements related to supplementary information presented in a statistical section. The presentation of a statistical section is not required by this pronouncement. This pronouncement did not impact the basic financial statements.

Other Future GASB Pronouncements:

The GASB issued Statement #42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which is required to be implemented in Fiscal 2006. Management does not believe that this pronouncement will significantly impact the basic financial statements.

The GASB issued Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in Fiscal 2007. Since there is no legally established separate trust for the postemployment benefit plan this pronouncement will not impact the basic financial statements.

The GASB issued Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is required to be implemented in Fiscal 2008. Management believes this pronouncement will require additional disclosure and impact the basic financial statements.

The GASB issued Statement # 46, *Net Assets Restricted by Legislation an amendment of GASB Statement No. 34*. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. It requires governments to disclose the portion of total net assets that is restricted by enabling legislation. This statement is required to be implemented in FY2006. Management believes that this statement will not impact the basic financial statements.

The GASB issued Statement # 47, *Accounting for Termination Benefits*. The Statement provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees that are involuntarily terminated. The Statement requires that similar forms of termination benefits be accounted for in the same manner and is intended to enhance both the consistency of reporting for termination benefits and the comparability of financial statements. This statement is required to be implemented in FY2006. Management believes that this statement will not impact the basic financial statements.

NOTE 15 – RESTATEMENT OF BEGINNING BALANCES**Government-wide Financial Statements**

The following restatements were made to beginning net assets of governmental and business-type activities:

Description	Governmental Activities	Business-Type Activities
Net assets at June 30, 2004, as previously reported.....	\$ 68,080,145	\$ 10,037,822
To record the School Building Assistance receivable.....	28,667,363	-
To record accrued interest on short term debt.....	(153,500)	(44,400)
To reclassify water capital projects to the water fund.....	302,057	(302,057)
To restate the health claims IBNR accrual.....	788,472	-
To record workers compensation liability.....	(895,225)	-
To record fixed assets.....	-	4,116,337
To record teacher's pay accrual.....	(991,804)	-
To record unbilled user charges receivable.....	-	1,878,071
Net assets at June 30, 2004, as restated.....	<u>\$ 95,797,508</u>	<u>\$ 15,685,773</u>

Fund Financial Statements

The following restatements were made to beginning fund balances of the governmental funds:

Description	General	School Capital Projects	Nonmajor Governmental Funds	Total
Fund balances at June 30, 2004, as previously reported.....	\$ 4,552,406	\$ -	\$ (15,242,769)	\$ (10,690,363)
To reclassify a major fund.....	-	(24,661,600)	24,661,600	-
To record accrued interest on short-term debt in the General Fund.....	(153,500)	-	-	(153,500)
To reclassify Water Capital Projects to the Water Fund.....	-	-	302,057	302,057
To record teacher's pay accrual.....	(991,804)	-	-	(991,804)
To reclassify the Health Claims Trust Fund to the Internal Service Fund.....	-	-	824,160	824,160
Fund balances at June 30, 2004, as restated.....	<u>\$ 3,407,102</u>	<u>\$ (24,661,600)</u>	<u>10,545,048</u>	<u>\$ (10,709,450)</u>

The following restatements were made to beginning net assets of the proprietary funds:

Description	Water and Sewer	Water	Sewer	Total	Internal Service Fund
Net assets at June 30, 2004, as previously reported.....	\$ 4,711,834	\$ -	\$ -	\$ 4,711,834	\$ -
To record sewer user charges receivable.....	-	-	1,109,744	1,109,744	-
To record water user charges receivable.....	-	768,327	-	768,327	-
To reclassify the Health Claims Trust Fund to the Internal Service Fund.....	-	-	-	-	(824,160)
To reclassify water and sewer as individual funds.....	(4,711,834)	1,369,519	3,342,315	-	-
To reclassify Water Capital Projects to the Water Fund.....	-	(302,057)	-	(302,057)	-
To record accrued interest on short-term debt in the Water Fund.....	-	(44,400)	-	(44,400)	-
To record fixed assets.....	-	3,899,887	216,450	4,116,337	-
To record the health claims liability.....	-	-	-	-	(800,000)
Net assets at June 30, 2004, as restated.....	\$ -	\$ 5,691,276	\$ 4,668,509	\$ 10,359,785	\$ (1,624,160)

Required Supplementary Information

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

FISCAL YEAR ENDED JUNE 30, 2005

	Budgeted Amounts							
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget	
REVENUES:								
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 55,338,484	\$ 55,338,484	\$ 56,214,209	\$ 56,044,664	\$ -	\$ (169,545)	
Tax liens.....	-	-	-	-	330,548	-	330,548	
Motor vehicle and other excise taxes.....	-	3,200,000	3,200,000	3,200,000	3,531,673	-	331,673	
Hotel/motel tax.....	-	268,451	268,451	268,451	219,628	-	(48,823)	
Charges for services.....	-	1,161,560	1,161,560	1,161,560	1,252,782	-	91,222	
Penalties and interest on taxes.....	-	392,350	392,350	392,350	288,874	-	(103,476)	
Payments in lieu of taxes.....	-	1,006,233	1,006,233	1,006,233	1,073,539	-	67,306	
Licenses and permits.....	-	454,300	454,300	454,300	474,284	-	19,984	
Fines and forfeitures.....	-	903,438	903,438	903,438	973,995	-	70,557	
Intergovernmental.....	-	25,026,277	25,026,277	25,026,277	25,668,707	-	642,430	
Departmental and other.....	-	1,445,500	1,445,500	1,445,500	1,530,543	-	85,043	
Investment income.....	-	361,375	361,375	361,375	147,055	-	(214,320)	
TOTAL REVENUES.....	-	89,557,968	89,557,968	90,433,693	91,536,292	-	1,102,599	
EXPENDITURES:								
Current:								
General government								
City Council								
Personnel.....	-	119,700	119,700	119,700	119,033	-	667	
Non - Personnel.....	-	17,450	17,450	22,450	21,404	-	1,046	
Total.....	-	137,150	137,150	142,150	140,437	-	1,713	
Mayor								
Personnel.....	-	251,336	251,336	253,104	248,400	-	4,704	
Non - Personnel.....	38,050	77,062	115,112	115,112	79,423	32,000	3,689	
Total.....	38,050	328,398	366,448	368,216	327,823	32,000	8,393	
Finance/Auditing								
Personnel.....	-	207,049	207,049	182,721	169,131	-	13,590	
Non - Personnel.....	7,050	3,955	11,005	11,005	4,852	3,100	3,053	
Total.....	7,050	211,004	218,054	193,726	173,983	3,100	16,643	
Purchasing								
Personnel.....	-	128,188	128,188	129,106	128,604	-	502	
Non - Personnel.....	-	14,200	14,200	18,200	15,295	-	2,905	
Fixed Costs.....	-	61,746	61,746	61,746	55,031	-	6,715	
Total.....	-	204,134	204,134	209,052	198,930	-	10,122	
Assessors								
Personnel.....	-	226,175	226,175	227,093	225,277	-	1,816	
Non - Personnel.....	-	35,773	35,773	35,773	26,272	-	9,501	
Total.....	-	261,948	261,948	262,866	251,549	-	11,317	
Treasurer								
Personnel.....	-	152,808	152,808	153,726	151,334	-	2,392	
Non - Personnel.....	-	108,443	108,443	108,443	107,952	-	491	
Total.....	-	261,251	261,251	262,169	259,286	-	2,883	
Collector								
Personnel.....	-	113,606	113,606	114,715	110,602	-	4,113	
Non - Personnel.....	-	31,525	31,525	31,525	24,949	-	6,576	
Total.....	-	145,131	145,131	146,240	135,551	-	10,689	
Solicitor								
Personnel.....	-	112,415	112,415	112,415	111,987	-	428	
Non - Personnel.....	54,799	90,000	144,799	224,799	224,711	-	88	
Total.....	54,799	202,415	257,214	337,214	336,698	-	516	

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2005

	Budgeted Amounts				Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget			
Human Resources							
Personnel.....	-	158,782	158,782	388,642	379,839	-	8,803
Non - Personnel.....	-	31,150	31,150	31,150	22,222	-	8,928
Total.....	-	189,932	189,932	419,792	402,061	-	17,731
Data Processing							
Personnel.....	-	140,101	140,101	140,101	139,606	-	495
Non - Personnel.....	-	9,116	9,116	9,116	7,525	985	606
Fixed Costs.....	-	152,897	152,897	152,897	151,803	-	1,094
GIS.....	-	57,000	57,000	57,000	57,000	-	-
Total.....	-	359,114	359,114	359,114	355,934	985	2,195
City Clerk Record Maintenance							
Personnel.....	-	145,053	145,053	145,512	144,648	-	864
Non - Personnel.....	-	4,550	4,550	4,550	4,549	-	1
Total.....	-	149,603	149,603	150,062	149,197	-	865
Elections & Registrations							
Personnel.....	-	156,711	156,711	158,443	148,227	-	10,216
Non - Personnel.....	-	45,525	45,525	45,525	44,273	-	1,252
Total.....	-	202,236	202,236	203,968	192,500	-	11,468
Licensing							
Personnel.....	-	44,277	44,277	48,336	47,329	-	1,007
Non - Personnel.....	-	1,539	1,539	1,539	1,094	-	445
Total.....	-	45,816	45,816	49,875	48,423	-	1,452
Conservation Commission							
Personnel.....	-	21,255	21,255	21,255	17,416	-	3,839
Non - Personnel.....	-	425	425	425	399	-	26
Total.....	-	21,680	21,680	21,680	17,815	-	3,865
Subdivision, Planning, and Zoning Board							
Personnel.....	-	21,255	21,255	21,255	21,121	-	134
Non - Personnel.....	-	3,500	3,500	3,500	3,403	-	97
Total.....	-	24,755	24,755	24,755	24,524	-	231
Board of Appeals							
Personnel.....	-	3,000	3,000	3,000	3,000	-	-
Non - Personnel.....	-	975	975	975	458	-	517
Total.....	-	3,975	3,975	3,975	3,458	-	517
Planning Department							
Personnel.....	-	177,742	177,742	177,742	173,470	-	4,272
Non - Personnel.....	-	7,275	7,275	7,275	7,249	-	26
Total.....	-	185,017	185,017	185,017	180,719	-	4,298
Public Property/Building Maintenance							
Personnel.....	-	83,456	83,456	84,468	82,509	-	1,959
Non - Personnel.....	-	122,160	122,160	208,115	194,206	11,906	2,003
Fixed Costs.....	-	483,500	483,500	523,500	500,589	-	22,911
Total.....	-	689,116	689,116	816,083	777,304	11,906	26,873
Market and Tourism.....	-	8,767	8,767	8,767	7,431	-	1,336
Total General Government.....	99,899	3,631,442	3,731,341	4,164,721	3,983,623	47,991	133,107

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2005

	Budgeted Amounts				Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget			
Public safety							
Police							
Personnel.....	-	6,085,017	6,085,017	6,308,758	6,296,159	-	12,599
Non - Personnel.....	-	343,650	343,650	408,331	352,469	9,047	46,815
Total.....	-	6,428,667	6,428,667	6,717,089	6,648,628	9,047	59,414
Fire							
Personnel.....	-	5,343,736	5,343,736	6,223,020	5,847,100	-	375,920
Non - Personnel.....	-	378,995	378,995	378,995	367,864	-	11,131
Total.....	-	5,722,731	5,722,731	6,602,015	6,214,964	-	387,051
Building, Plumbing, Gas Inspections							
Personnel.....	5,415	263,336	268,751	269,608	246,705	-	22,903
Electrical Inspection and Maintenance							
Personnel.....	-	260,172	260,172	262,172	260,880	-	1,292
Non - Personnel.....	-	527,545	527,545	527,545	522,848	-	4,697
Total.....	-	787,717	787,717	789,717	783,728	-	5,989
Harbormaster							
Personnel.....	-	168,590	168,590	168,590	159,756	-	8,834
Non - Personnel.....	-	35,900	35,900	36,900	33,520	-	3,380
Total.....	-	204,490	204,490	205,490	193,276	-	12,214
Parking Fines							
Personnel.....	-	25,677	25,677	25,868	24,779	-	1,089
Non - Personnel.....	-	8,500	8,500	8,500	8,376	-	124
Total.....	-	34,177	34,177	34,368	33,155	-	1,213
Total Public Safety.....	5,415	13,441,118	13,446,533	14,618,287	14,120,456	9,047	488,784
Education							
School.....	991,804	40,209,283	41,201,087	41,326,087	40,221,528	1,098,447	6,112
NSRS/Charter/Choice.....	-	1,261,402	1,261,402	1,257,402	1,224,075	-	33,327
Total Education.....	991,804	41,470,685	42,462,489	42,583,489	41,445,603	1,098,447	39,439
Public Works							
Public Services/Engineering							
Personnel.....	-	701,241	701,241	716,646	690,755	-	25,891
Non - Personnel.....	6,727	320,800	327,527	327,527	317,561	-	9,966
Total.....	6,727	1,022,041	1,028,768	1,044,173	1,008,316	-	35,857
Snow and Ice							
Personnel.....	-	50,000	50,000	50,000	125,814	-	(75,814)
Non - Personnel.....	-	300,000	300,000	300,000	1,055,394	-	(755,394)
Total.....	-	350,000	350,000	350,000	1,181,208	-	(831,208)
Solid Waste Collection.....	-	2,943,877	2,943,877	2,943,877	2,943,877	-	-
Parking Garage							
Personnel.....	-	428,298	428,298	430,353	361,289	-	69,064
Non - Personnel.....	3,283	103,000	106,283	106,283	105,859	-	424
Total.....	3,283	531,298	534,581	536,636	467,148	-	69,488

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2005

	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			
Open Space/Cemetery / Shade Tree							
Personnel.....	-	444,577	444,577	456,331	456,293	-	38
Non - Personnel.....	6,290	58,707	64,997	115,221	107,899	6,605	717
Total.....	6,290	503,284	509,574	571,552	564,192	6,605	755
Total Public Works.....	16,300	5,350,500	5,366,800	5,446,238	6,164,741	6,605	(725,108)
Health and Human Services							
Board of Health							
Personnel.....	-	351,339	351,339	354,929	324,892	-	30,037
Non - Personnel.....	1,987	16,650	18,637	18,637	16,852	570	1,215
Total.....	1,987	367,989	369,976	373,566	341,744	570	31,252
Council on Aging							
Personnel.....	-	311,689	311,689	312,568	312,359	-	209
Non - Personnel.....	-	20,850	20,850	20,850	19,596	-	1,254
Total.....	-	332,539	332,539	333,418	331,955	-	1,463
Veterans Services							
Personnel.....	-	64,760	64,760	64,760	60,231	-	4,529
Non - Personnel.....	-	81,937	81,937	81,937	76,427	-	5,510
Total.....	-	146,697	146,697	146,697	136,658	-	10,039
Total Health and Human Services.....	1,987	847,225	849,212	853,681	810,357	570	42,754
Library							
Personnel.....	-	676,096	676,096	676,096	666,713	-	9,383
Non - Personnel.....	-	150,548	150,548	301,408	225,653	-	75,755
Total.....	-	826,644	826,644	977,504	892,366	-	85,138
Parks and Recreation							
Personnel.....	-	774,817	774,817	779,813	728,209	-	51,604
Non - Personnel.....	7,850	201,112	208,962	208,962	202,906	4,311	1,745
Total.....	7,850	975,929	983,779	988,775	931,115	4,311	53,349
Golf Course							
Personnel.....	-	218,109	218,109	219,034	205,608	-	13,426
Non - Personnel.....	22,625	87,911	110,536	131,618	126,130	-	5,488
Total.....	22,625	306,020	328,645	350,652	331,738	-	18,914
Witch House							
Personnel.....	-	74,066	74,066	74,066	71,475	-	2,591
Non - Personnel.....	6,881	60,680	67,561	67,561	63,009	-	4,552
Total.....	6,881	134,746	141,627	141,627	134,484	-	7,143
Historical Commission							
Personnel.....	-	6,624	6,624	6,624	6,612	-	12
Non - Personnel.....	-	1,609	1,609	1,609	1,528	-	81
Total.....	-	8,233	8,233	8,233	8,140	-	93
Winter Island							
Personnel.....	-	105,873	105,873	105,873	103,679	-	2,194
Non - Personnel.....	1,111	39,020	40,131	45,131	42,000	-	3,131
Total.....	1,111	144,893	146,004	151,004	145,679	-	5,325
Total Culture and Recreation.....	38,467	2,396,465	2,434,932	2,617,795	2,443,522	4,311	169,962

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2005

	Budgeted Amounts				Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget			
Debt service:							
Principal.....	-	4,015,000	4,015,000	4,015,000	4,015,000	-	-
Interest.....	-	2,502,805	2,502,805	2,502,805	2,502,805	-	-
Short Term Interest.....	-	460,969	460,969	460,969	460,969	-	-
Total.....	-	6,978,774	6,978,774	6,978,774	6,978,774	-	-
State and county charges.....	-	3,879,609	3,879,609	3,879,609	4,028,333	-	(148,724)
Pension benefits							
Contributory Retirement.....	-	5,918,415	5,918,415	5,909,331	5,811,637	-	97,694
Non-Contributory Retirement.....	-	216,000	216,000	225,084	225,084	-	-
Total.....	-	6,134,415	6,134,415	6,134,415	6,036,721	-	97,694
Workmen's Compensation.....	-	340,000	340,000	340,000	319,331	-	20,669
Unemployment Compensation.....	-	200,000	200,000	200,000	185,717	-	14,283
Group Insurance.....	-	7,162,000	7,162,000	7,162,000	7,162,606	-	(606)
Medicare.....	-	650,000	650,000	650,000	622,584	-	27,416
Municipal Insurance.....	-	472,200	472,200	472,200	472,200	-	-
TOTAL EXPENDITURES.....	1,153,872	92,954,433	94,108,305	96,101,209	94,774,568	1,166,971	159,670
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(1,153,872)	(3,396,465)	(4,550,337)	(5,667,516)	(3,238,276)	(1,166,971)	1,262,269
OTHER FINANCING SOURCES (USES):							
Premium from issuance of bonds.....	-	-	-	-	232,856	-	232,856
Transfers in.....	-	2,523,324	2,523,324	2,608,067	2,608,067	-	-
Transfers out.....	-	(47,563)	(47,563)	(47,563)	(47,563)	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	-	2,475,761	2,475,761	2,560,504	2,793,360	-	232,856
NET CHANGE IN FUND BALANCE.....	(1,153,872)	(920,704)	(2,074,576)	(3,107,012)	(444,916)	(1,166,971)	1,495,125
BUDGETARY FUND BALANCE, Beginning of year	1,439,253	1,439,253	1,439,253	1,439,253	4,558,529	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ 285,381	\$ 518,549	\$ (635,323)	\$ (1,667,759)	\$ 4,113,613	\$ (1,166,971)	\$ 1,495,125

(concluded)

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 them 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 fiscal years 2003, 2004 and 2005 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 2005 approved budget authorized approximately \$94,000,000 in appropriations and other amounts to be raised. During fiscal year 2005, the Council also approved supplemental appropriations totaling approximately \$2,000,000.

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, 2005, is presented below:

Net change in fund balance - budgetary basis.....	\$	(444,916)
<u>Basis of accounting differences:</u>		
Net change in revenues in recording tax refunds payable.....		(178,316)
Additional expense to fund internal service deficit.....		(2,142,902)
Net difference in recognition of expenditures.....		<u>(236,801)</u>
Net change in fund balances - GAAP basis.....	\$	<u><u>(3,002,935)</u></u>

3. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2005, actual expenditures exceeded appropriations for state and county charges, snow and ice, and group insurance. These over-expenditures will be funded through available funds during fiscal year 2006.

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.

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

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

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

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

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

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

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

Human Service Funds – 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.

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

JUNE 30, 2005

	Special Revenue Funds					
	City Grants	School Grants	Community Development Grants	School Lunch	Highway Grants	Donations & Gifts
ASSETS						
Cash and cash equivalents.....	\$ 1,752,773	\$ 1,981,062	\$ 29,772	\$ -	\$ -	\$ 637,330
Investments.....	-	-	-	-	-	-
Receivables, net of uncollectibles:						
Departmental and other.....	-	-	49,432	-	-	-
Intergovernmental.....	224,621	184,118	117,304	85,589	1,336,588	-
Loans.....	-	-	-	-	-	-
Due from other funds.....	514,049	-	-	-	-	-
TOTAL ASSETS.....	\$ 2,491,443	\$ 2,165,180	\$ 196,508	\$ 85,589	\$ 1,336,588	\$ 637,330
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Warrants payable.....	\$ 57,786	\$ 146,170	\$ 82,543	\$ 15,364	\$ -	\$ -
Deferred revenues.....	-	-	-	-	981,912	-
Due to other funds.....	-	-	-	159,373	354,676	-
TOTAL LIABILITIES.....	57,786	146,170	82,543	174,737	1,336,588	-
FUND BALANCES:						
Reserved for:						
Perpetual permanent funds.....	-	-	-	-	-	-
Unreserved:						
Undesignated, reported in:						
Special revenue funds.....	2,433,657	2,019,010	113,965	(89,148)	-	637,330
Permanent funds.....	-	-	-	-	-	-
TOTAL FUND BALANCES.....	2,433,657	2,019,010	113,965	(89,148)	-	637,330
TOTAL LIABILITIES AND FUND BALANCES....	\$ 2,491,443	\$ 2,165,180	\$ 196,508	\$ 85,589	\$ 1,336,588	\$ 637,330

Special Revenue Funds				Permanent Funds				Total Nonmajor Governmental Funds
Receipts Reserved	City Revolving Accounts	School Revolving Accounts	Subtotal	Cemetery Funds	Human Service Funds	Other	Subtotal	
\$ 316,449	\$ 1,053,917	\$ 279,110	\$ 6,050,413	\$ 386,641	\$ 221,260	\$ 154,582	\$ 762,483	\$ 6,812,896
-	-	-	-	1,882,336	1,106,225	738,295	3,726,856	3,726,856
-	-	-	49,432	-	-	-	-	49,432
-	-	-	1,948,220	-	-	-	-	1,948,220
-	948,638	-	948,638	-	-	-	-	948,638
-	-	-	514,049	-	-	-	-	514,049
<u>\$ 316,449</u>	<u>\$ 2,002,555</u>	<u>\$ 279,110</u>	<u>\$ 9,510,752</u>	<u>\$ 2,268,977</u>	<u>\$ 1,327,485</u>	<u>\$ 892,877</u>	<u>\$ 4,489,339</u>	<u>\$ 14,000,091</u>
\$ -	\$ 253	\$ 22,381	\$ 324,497	\$ -	\$ -	\$ -	\$ -	\$ 324,497
-	948,638	-	1,930,550	-	-	-	-	1,930,550
-	-	-	514,049	-	-	-	-	514,049
-	948,891	22,381	2,769,096	-	-	-	-	2,769,096
-	-	-	-	907,765	221,174	462,811	1,591,750	1,591,750
316,449	1,053,664	256,729	6,741,656	-	-	-	-	6,741,656
-	-	-	-	1,361,212	1,106,311	430,066	2,897,589	2,897,589
<u>316,449</u>	<u>1,053,664</u>	<u>256,729</u>	<u>6,741,656</u>	<u>2,268,977</u>	<u>1,327,485</u>	<u>892,877</u>	<u>4,489,339</u>	<u>11,230,995</u>
<u>\$ 316,449</u>	<u>\$ 2,002,555</u>	<u>\$ 279,110</u>	<u>\$ 9,510,752</u>	<u>\$ 2,268,977</u>	<u>\$ 1,327,485</u>	<u>\$ 892,877</u>	<u>\$ 4,489,339</u>	<u>\$ 14,000,091</u>

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

FISCAL YEAR ENDED JUNE 30, 2005

	Special Revenue Funds					
	City Grants	School Grants	Community Development Grants	School Lunch	Highway Grants	Donations & Gifts
REVENUES:						
Charges for services.....	\$ 8,522	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental.....	3,997,085	6,699,946	1,965,824	1,362,756	906,825	-
Departmental and other.....	79,881	322,611	5,000	-	-	-
Contributions.....	331,625	-	-	-	-	426,001
Investment income.....	1,699	-	89,644	3,731	-	-
TOTAL REVENUES.....	4,418,812	7,022,557	2,060,468	1,366,487	906,825	426,001
EXPENDITURES:						
Current:						
General government.....	320,825	-	-	-	-	59,974
Public safety.....	237,406	-	-	-	-	4,439
Education.....	319,673	7,224,214	-	1,383,995	-	-
Public works.....	89,767	-	-	-	666,425	-
Community development.....	-	-	2,015,779	-	31,676	-
Human services.....	3,447,065	-	-	-	-	36,531
Culture and recreation.....	11,278	-	-	-	-	22,899
Debt service:						
Principal.....	-	-	90,000	-	-	-
Interest.....	-	-	32,094	-	-	-
TOTAL EXPENDITURES.....	4,426,014	7,224,214	2,137,873	1,383,995	698,101	123,843
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(7,202)	(201,657)	(77,405)	(17,508)	208,724	302,158
OTHER FINANCING SOURCES (USES):						
Transfers out.....	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	-	-	-	-	-	-
NET CHANGE IN FUND BALANCES.....	(7,202)	(201,657)	(77,405)	(17,508)	208,724	302,158
FUND BALANCES AT BEGINNING OF YEAR, as restated.....	2,440,859	2,220,667	191,370	(71,640)	(208,724)	335,172
FUND BALANCES AT END OF YEAR.....	\$ 2,433,657	\$ 2,019,010	\$ 113,965	\$ (89,148)	\$ -	\$ 637,330

Special Revenue Funds				Permanent Funds				Total Nonmajor Governmental Funds
Receipts Reserved	City Revolving Accounts	School Revolving Accounts	Subtotal	Cemetery Funds	Human Service Funds	Other	Subtotal	
\$ -	\$ -	\$ -	\$ 8,522	\$ -	\$ -	\$ -	\$ -	\$ 8,522
-	-	-	14,932,436	-	-	-	-	14,932,436
433,426	427,510	701,228	1,969,656	-	-	-	-	1,969,656
-	-	19,508	777,134	82,268	-	10,454	92,722	869,856
-	13,374	1,954	110,402	99,945	43,662	37,220	180,827	291,229
<u>433,426</u>	<u>440,884</u>	<u>722,690</u>	<u>17,798,150</u>	<u>182,213</u>	<u>43,662</u>	<u>47,674</u>	<u>273,549</u>	<u>18,071,699</u>
-	-	-	380,799	-	-	27,571	27,571	408,370
-	-	-	241,845	-	-	28,401	28,401	270,246
-	-	681,206	9,609,088	-	-	11,319	11,319	9,620,407
-	6,950	-	763,142	52,946	-	-	52,946	816,088
-	19,294	-	2,066,749	-	-	-	-	2,066,749
-	-	-	3,483,596	-	54,177	-	54,177	3,537,773
-	107,417	-	141,594	-	-	4,534	4,534	146,128
-	-	-	90,000	-	-	-	-	90,000
-	-	-	32,094	-	-	-	-	32,094
<u>-</u>	<u>133,661</u>	<u>681,206</u>	<u>16,808,907</u>	<u>52,946</u>	<u>54,177</u>	<u>71,825</u>	<u>178,948</u>	<u>16,987,855</u>
<u>433,426</u>	<u>307,223</u>	<u>41,484</u>	<u>989,243</u>	<u>129,267</u>	<u>(10,515)</u>	<u>(24,151)</u>	<u>94,601</u>	<u>1,083,844</u>
(392,897)	-	-	(392,897)	(5,000)	-	-	(5,000)	(397,897)
(392,897)	-	-	(392,897)	(5,000)	-	-	(5,000)	(397,897)
40,529	307,223	41,484	596,346	124,267	(10,515)	(24,151)	89,601	685,947
275,920	746,441	215,245	6,145,310	2,144,710	1,338,000	917,028	4,399,738	10,545,048
<u>\$ 316,449</u>	<u>\$ 1,053,664</u>	<u>\$ 256,729</u>	<u>\$ 6,741,656</u>	<u>\$ 2,268,977</u>	<u>\$ 1,327,485</u>	<u>\$ 892,877</u>	<u>\$ 4,489,339</u>	<u>\$ 11,230,995</u>

Private Purpose Trust Funds

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

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

PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF PRIVATE PURPOSE TRUST FUNDS NET ASSETS

JUNE 30, 2005

	Private Purpose Trust Funds		
	Trust Fund Commissioners	Scholarship Funds	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 38,302	\$ 68,566	\$ 106,868
Investments.....	1,290,597	-	1,290,597
TOTAL ASSETS.....	1,328,899	68,566	1,397,465
NET ASSETS			
Held in trust for other purposes.....	\$ 1,328,899	\$ 68,566	\$ 1,397,465

PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN PRIVATE PURPOSE TRUST FUNDS NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2005

	Private Purpose Trust Funds		
	Trust Fund Commissioners	Scholarship Funds	Total
ADDITIONS:			
Contributions:			
Private donations.....	\$ 37,709	\$ 31,297	\$ 69,006
Net investment income (loss):			
Interest.....	80,242	908	81,150
TOTAL ADDITIONS.....	117,951	32,205	150,156
DEDUCTIONS:			
Educational scholarships.....	9,032	8,000	17,032
Housing subsidies.....	24,779	-	24,779
TOTAL DEDUCTIONS.....	33,811	8,000	41,811
CHANGE IN NET ASSETS.....	84,140	24,205	108,345
NET ASSETS AT BEGINNING OF YEAR.....	1,244,759	44,361	1,289,120
NET ASSETS AT END OF YEAR.....	\$ 1,328,899	\$ 68,566	\$ 1,397,465

Agency Fund

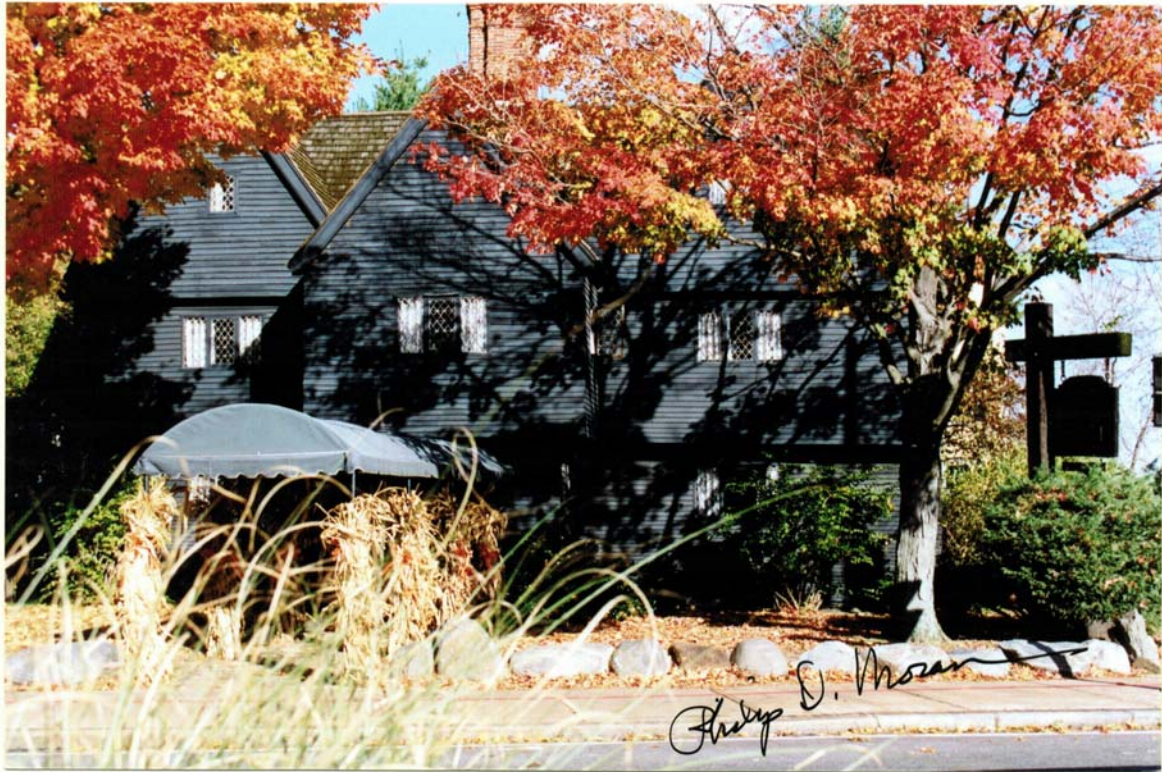
This fund is used primarily to account for payroll withholdings, police and fire details, and unclaimed property.

AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

JUNE 30, 2005

	Beginning of Year		Additions		Deletions		End of Year
ASSETS							
CURRENT:							
Cash and cash equivalents.....	\$ 369,187	\$	4,504,926	\$	(4,600,051)	\$	274,062
Receivables, net of allowance for uncollectibles:							
Departmental and other.....	6,669		88,559		(6,669)		88,559
TOTAL ASSETS.....	\$ 375,856	\$	4,593,485	\$	(4,606,720)	\$	362,621
LIABILITIES							
Warrants payable.....	\$ 45,420	\$	2,046,332	\$	(2,072,999)	\$	18,753
Payroll withholdings.....	70,343		1,176,903		(1,198,873)		48,373
Special detail.....	15,088		1,064,431		(1,047,676)		31,843
Other liabilities.....	245,005		305,819		(287,172)		263,652
TOTAL LIABILITIES.....	\$ 375,856	\$	4,593,485	\$	(4,606,720)	\$	362,621

Statistical Section



Witch House
Picture by Philip D. Moran

Statistical Section

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

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

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

Net Assets By Component

Last Four Fiscal Years

	Fiscal Year			
	2002	2003	2004	2005
Governmental activities				
Invested in capital assets, net of related debt..... \$	82,253,876	\$ 83,045,604	\$ 79,729,492	\$ 83,954,370
Restricted.....	5,755,817	5,237,908	8,759,761	9,734,998
Unrestricted.....	4,546,625	9,656,396	6,519,783	(3,667,364)
Total governmental activities net assets..... \$	<u>92,556,318</u>	<u>\$ 97,939,908</u>	<u>\$ 95,009,036</u>	<u>\$ 90,022,004</u>
Business-type activities				
Invested in capital assets, net of related debt.....	8,782,331	8,319,902	8,147,378	9,212,891
Unrestricted.....	7,754,552	6,649,222	7,538,395	4,492,692
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>
Primary government				
Invested in capital assets, net of related debt.....	91,036,207	91,365,506	87,876,870	93,167,261
Restricted.....	5,755,817	5,237,908	8,759,761	9,734,998
Unrestricted.....	12,301,177	16,305,618	14,058,178	825,328
Total primary government net assets..... \$	<u>109,093,201</u>	<u>\$ 112,909,032</u>	<u>\$ 110,694,809</u>	<u>\$ 103,727,587</u>

Changes in Net Assets

Last Four Fiscal Years

	Fiscal Year			
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Expenses				
Governmental activities:				
General government.....	\$ 6,529,105	\$ 6,323,902	\$ 7,095,121	\$ 7,103,324
Public safety.....	20,619,499	20,727,733	22,066,959	21,912,834
Education.....	57,912,611	57,821,548	60,090,740	65,870,306
Public works.....	5,397,486	6,464,257	6,517,047	7,081,997
Human services.....	1,416,802	1,388,761	1,410,712	4,856,306
Culture and recreation.....	3,694,420	4,022,880	4,186,622	3,689,992
State and county charges.....	3,770,566	3,911,644	4,212,549	4,028,333
Interest.....	3,046,692	3,366,107	3,136,763	2,689,312
Community development.....	5,856,034	4,954,608	5,767,362	2,066,749
Total government activities expenses.....	<u>108,243,215</u>	<u>108,981,440</u>	<u>114,483,875</u>	<u>119,299,153</u>
Business-type activities:				
Water services.....	10,967,114	10,196,489	9,619,356	3,186,840
Sewer services.....	(A)	(A)	(A)	6,616,318
Golf course.....	387,935	333,512	320,632	292,187
Parking.....	719,042	679,171	665,458	664,686
Total business type activities expenses.....	<u>12,074,091</u>	<u>11,209,172</u>	<u>10,605,446</u>	<u>10,760,031</u>
Total primary government expenses.....	<u>\$ 120,317,306</u>	<u>\$ 120,190,612</u>	<u>\$ 125,089,321</u>	<u>\$ 130,059,184</u>
Program Revenues				
Governmental activities:				
Education charges for services.....	\$ 1,216,334	\$ 1,097,764	\$ 1,141,196	\$ 1,023,839
Public Safety charges for services.....	1,323,642	1,804,781	1,865,270	1,923,845
Other charges for services.....	1,489,223	1,197,196	2,055,497	1,481,467
Operating grants and contributions.....	40,717,414	39,127,290	35,305,349	34,087,248
Capital grant and contributions.....	17,467,468	7,019,891	2,129,821	2,090,467
Total government activities program revenues.....	<u>62,214,081</u>	<u>50,246,922</u>	<u>42,497,133</u>	<u>40,606,866</u>
Business-type activities:				
Charges for services - Water.....	9,794,892	10,415,528	11,708,715	3,853,505
Charges for services - Sewer.....	(A)	(A)	(A)	5,512,922
Charges for services - Golf.....	615,878	549,091	543,467	502,770
Charges for services - Parking.....	1,270,928	1,364,076	1,536,390	1,453,088
Total business-type activities program revenues.....	<u>11,681,698</u>	<u>12,328,695</u>	<u>13,788,572</u>	<u>11,322,285</u>
Total primary government program revenues.....	<u>\$ 73,895,779</u>	<u>\$ 62,575,617</u>	<u>\$ 56,285,705</u>	<u>\$ 51,929,151</u>
Net (Expense)/Revenue				
Governmental activities.....	\$ (46,029,134)	\$ (58,734,518)	\$ (71,986,742)	\$ (78,692,287)
Business-type activities.....	<u>(392,393)</u>	<u>1,119,523</u>	<u>3,183,126</u>	<u>562,254</u>
Total primary government net expense.....	<u>\$ (46,421,527)</u>	<u>\$ (57,614,995)</u>	<u>\$ (68,803,616)</u>	<u>\$ (78,130,033)</u>
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
Motor vehicle excise taxes.....	3,626,065	3,793,044	3,478,999	3,489,584
Penalties and interest on taxes.....	330,035	391,429	322,003	288,874
Grants and contributions not restricted to specific programs.....	3,931,117	3,774,422	6,932,546	8,097,351
Unrestricted investment income.....	125,481	816,614	568,503	521,585
Miscellaneous.....	504,968	536,979	431,558	77,454
Transfers.....	2,274,567	2,687,282	2,466,477	2,542,444
Total governmental activities.....	<u>60,278,980</u>	<u>64,118,108</u>	<u>69,055,870</u>	<u>70,933,059</u>
Business-type activities:				
Transfers.....	<u>(2,274,567)</u>	<u>(2,687,282)</u>	<u>(2,466,477)</u>	<u>(2,542,444)</u>
Total primary government.....	<u>\$ 58,004,413</u>	<u>\$ 61,430,826</u>	<u>\$ 66,589,393</u>	<u>\$ 68,390,615</u>
Changes in Net Assets				
Governmental activities.....	\$ 14,249,846	\$ 5,383,590	\$ (2,930,872)	\$ (5,775,504)
Business-type activities.....	<u>(2,666,960)</u>	<u>(1,567,759)</u>	<u>716,649</u>	<u>(1,980,190)</u>
Total primary government.....	<u>\$ 11,582,886</u>	<u>\$ 3,815,831</u>	<u>\$ (2,214,223)</u>	<u>\$ (7,755,694)</u>

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

Fund Balances, Governmental Funds

Last Ten Fiscal Years

	Fiscal Year										
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	
General Fund											
Reserved.....	\$ -	\$ 557,509	\$ 250,549	\$ 978,075	\$ 966,088	\$ 1,432,723	\$ 1,442,182	\$ 1,382,756	\$ 1,153,872	\$ 68,524	
Unreserved.....	833,878	2,146,333	5,327,627	4,738,658	5,764,170	5,901,496	4,633,278	3,980,693	3,398,534	335,643	
Total general fund.....	<u>\$ 833,878</u>	<u>\$ 2,703,842</u>	<u>\$ 5,578,176</u>	<u>\$ 5,716,733</u>	<u>\$ 6,730,258</u>	<u>\$ 7,334,219</u>	<u>\$ 6,075,460</u>	<u>\$ 5,363,449</u>	<u>\$ 4,552,406</u>	<u>\$ 404,167</u>	
All Other Governmental Funds											
Reserved.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,430,279	\$ 1,481,549	\$ 1,844,725	\$ 1,591,750	
Unreserved, reported in:											
Special revenue funds.....	854,417	6,898,664	2,477,573	4,477,410	5,738,091	6,910,085	8,289,823	8,920,508	6,618,566	7,763,007	
Capital projects funds.....	(6,590,739)	1,621,835	(390,925)	(3,404,797)	(14,076,153)	(17,882,945)	(26,709,082)	(14,050,593)	(24,963,657)	(10,513,270)	
Permanent funds.....	-	-	-	-	-	-	3,137,655	2,801,999	2,555,014	2,897,589	
Total all other governmental funds...	<u>\$ (5,736,322)</u>	<u>\$ 8,520,499</u>	<u>\$ 2,086,648</u>	<u>\$ 1,072,613</u>	<u>\$ (8,338,062)</u>	<u>\$ (10,972,860)</u>	<u>\$ (13,851,325)</u>	<u>\$ (846,537)</u>	<u>\$ (13,945,352)</u>	<u>\$ 1,739,076</u>	

Notes:

Fiscal years 1996 through 2001 exclude Expendable and Nonexpendable Trust Funds which were reported under the pre-GASB 34 format.
In fiscal year 1999, the unreserved fund balance of 1998 was restated.

Source: Audited Financial Statements

Changes in Fund Balances, Governmental Funds

Last Ten Fiscal Years

	Fiscal Year									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Revenues:										
Real estate and personal property taxes,										
net of tax refunds.....	\$ 40,142,655	\$ 42,400,497	\$ 45,004,696	\$ 45,299,037	\$ 45,824,415	\$ 48,802,188	\$ 50,152,793	\$ 52,448,384	\$ 55,603,719	\$ 55,866,348
Motor vehicle and excise taxes.....	2,068,493	2,327,427	2,658,569	2,658,847	2,686,784	3,178,682	3,156,366	3,875,265	3,387,266	3,531,673
Intergovernmental.....	23,030,138	25,753,506	27,339,805	29,619,516	32,053,323	37,284,876	39,949,863	37,949,147	37,305,545	40,601,143
Departmental and other.....	5,551,286	5,104,053	5,659,080	7,383,713	8,793,381	8,473,063	8,122,563	8,628,161	9,324,193	7,539,138
Investment income.....	224,435	294,782	540,904	392,136	736,266	1,024,892	127,462	816,821	568,503	828,933
Commonwealth school construction grants.....	-	-	-	-	-	-	-	-	-	12,739,570
On-behalf pension payments by Commonwealth..... (B)	-	-	-	-	-	4,505,009	4,301,287	4,275,669	5,345,441	5,890,261
Total Revenue.....	71,017,007	75,880,265	81,203,054	85,353,249	90,094,169	103,268,710	105,810,334	107,993,447	111,534,667	126,997,066
Expenditures:										
General government.....	6,268,081	4,784,959	4,709,129	4,281,803	4,287,021	5,801,716	4,866,231	4,463,397	4,627,702	4,863,297
Public safety.....	11,960,186	11,794,339	12,471,452	14,328,164	14,074,132	14,589,271	15,738,798	15,368,476	14,999,915	14,390,702
Education.....	29,272,594	31,435,082	34,208,249	37,518,451	40,101,425	45,852,552	47,250,529	48,449,552	47,729,470	51,382,500
Public works.....	4,629,263	5,150,084	4,804,094	4,490,661	5,044,735	6,004,568	4,652,745	5,232,421	5,209,599	6,515,767
Human services.....	808,843	862,893	886,308	2,053,609	920,083	927,024	960,817	901,407	855,553 (A)	4,348,098
Culture and recreation.....	2,337,157	2,465,461	2,570,079	2,824,761	2,963,811	3,338,502	2,728,470	2,981,769	2,756,066	2,278,899
Pension.....	3,211,000	3,221,976	3,365,633	3,474,477	3,813,000	4,610,788	4,204,226	4,340,575	6,565,806	6,036,721
Massachusetts teachers' retirement..... (B)	-	-	-	-	-	4,505,009	4,301,287	4,275,669	5,345,441	5,890,261
Employee benefits.....	4,814,136	5,043,845	4,864,929	5,374,227	5,499,340	5,550,602	9,853,473	10,529,297	10,580,395	10,433,140
State and district assessments.....	2,280,985	1,842,397	1,887,916	1,970,865	3,495,301	2,183,362	3,770,566	3,911,644	4,212,549	4,028,333
Community development.....	2,597,378	2,354,083	2,813,361	1,700,155	3,118,010	2,462,534	1,936,213	2,348,162	2,085,553	2,066,749
Capital outlay.....	4,324,332	785,085	1,909,687	3,198,871	10,684,440	17,106,792	12,975,601	18,550,903	15,793,932	2,230,238
Debt service.....										
Principal.....	3,585,000	2,725,000	3,050,000	2,980,702	2,835,050	3,220,000	2,605,000	2,795,000	3,890,000	4,105,000
Interest.....	1,044,222	2,395,126	2,111,236	2,010,471	2,482,071	2,482,795	3,111,786	2,854,502	3,259,021	2,919,668
Court judgments.....	-	-	-	400,000	-	-	-	-	-	-
Total Expenditures.....	77,133,177	74,860,330	79,652,073	86,607,217	99,318,419	118,635,515	118,955,742	127,002,774	127,911,002	121,489,373
Excess of revenues over (under) expenditures.....	(6,116,170)	1,019,935	1,550,981	(1,253,968)	(9,224,250)	(15,366,805)	(13,145,408)	(19,009,327)	(16,376,335)	5,507,693
Other Financing Sources (Uses)										
Issuance of debt.....	-	8,800,000	-	400,000	-	13,300,000	-	28,670,000	-	2,465,000
Premium from issuance of bonds.....	-	-	-	-	-	-	-	-	-	232,856
Capital lease financing.....	-	-	-	-	-	-	-	-	-	807,283
Sale of capital assets.....	-	-	-	-	-	-	-	300,000	-	-
Transfers in.....	2,716,385	1,828,026	2,207,493	2,131,143	2,187,421	1,813,102	9,045,003	9,051,161	10,693,915	3,597,240
Transfers out.....	(2,039,571)	(1,148,211)	(1,690,956)	(1,733,369)	(1,360,322)	(1,435,512)	(6,770,436)	(6,719,057)	(8,227,438)	(1,054,796)
Total other financing sources (uses).....	676,814	9,479,815	516,537	797,774	827,099	13,677,590	2,274,567	31,302,104	2,466,477	6,047,583
Net change in fund balance..... \$	(5,439,356) \$	10,499,750 \$	2,067,518 \$	(456,194) \$	(8,397,151) \$	(1,689,215) \$	(10,870,841) \$	12,292,777 \$	(13,909,858) \$	11,555,276
Debt service as a percentage of noncapital expenditures.....	6.36%	6.91%	6.64%	5.98%	6.00%	5.62%	5.39%	5.21%	6.38%	5.89%

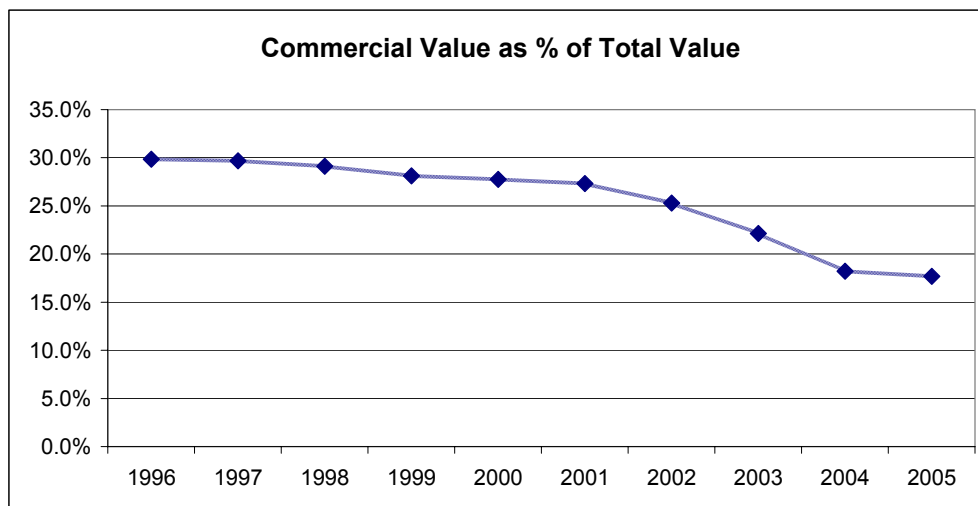
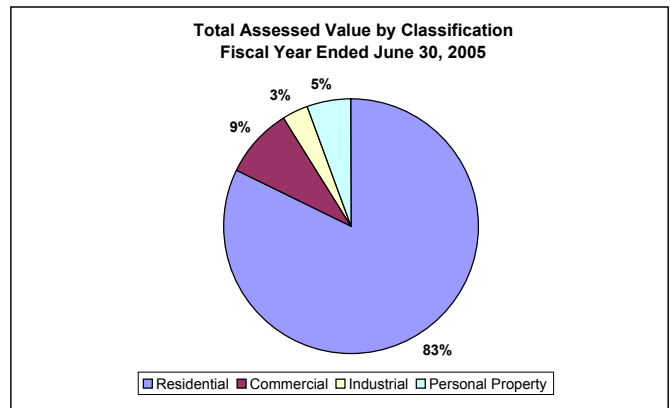
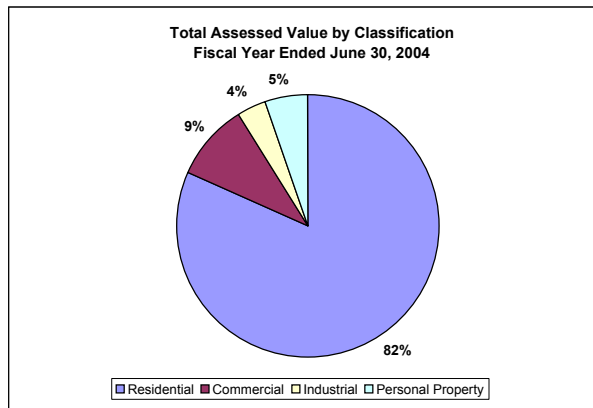
(A) In FY05 certain grants were reclassified to Human Services to better reflect the purpose.

(B) 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 Town Value
1996	\$1,374,242,300	\$14.65	\$232,950,000	\$116,493,300	\$235,681,200	\$585,124,500	\$34.23	\$1,959,366,800
1997	\$1,393,420,200	\$15.23	\$232,530,700	\$118,096,600	\$237,232,900	\$587,860,200	\$35.03	\$1,981,280,400
1998	(1) \$1,462,850,200	\$15.22	\$247,668,000	\$114,333,800	\$238,873,800	\$600,875,600	\$34.67	\$2,063,725,800
1999	\$1,552,242,000	\$15.17	\$254,271,400	\$112,399,300	\$240,804,300	\$607,475,000	\$33.96	\$2,159,717,000
2000	\$1,705,349,600	\$14.23	\$266,300,300	\$141,171,100	\$247,511,700	\$654,983,100	\$31.65	\$2,360,332,700
2001	(1) \$1,963,462,114	\$13.42	\$315,485,948	\$168,301,665	\$254,604,294	\$738,391,907	\$29.63	\$2,701,854,021
2002	\$2,135,490,544	\$13.53	\$324,729,500	\$136,077,225	\$261,760,050	\$722,566,775	\$28.62	\$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	\$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	\$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	\$4,296,541,287



(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 Town. 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	2005			1996		
		Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value	Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value
US Gen. New England Inc.	Utility - Personal Property	\$156,132,850	1	3.6%			
US Gen. New England Inc.	Utility - Industrial Property	\$50,000,000	2	1.2%			
Salem Station, LLC	Apartments	\$38,795,500	3	0.9%			
Princeton Crossing Apartments	Apartments	\$30,065,400	4	0.7%	\$11,888,200	4	0.6%
Shetland Properties	Commercial Property	\$26,600,900	5	0.6%	\$11,748,500	5	0.6%
Massachusetts Electric Co.	Utility	\$20,820,941	6	0.5%	\$15,798,400	2	0.8%
Highlander Plaza Realty Trust	Commercial Property	\$20,785,900	7	0.5%	\$11,567,900	6	0.6%
New England Power	Utility	\$16,493,800	8	0.4%	\$254,268,600	1	13.0%
Second Pickwick Trust	Commercial Property	\$14,207,000	9	0.3%			
Keyspan Energy Delivery	Utility	\$10,077,908	10	0.2%			
NYNEX	Utility				\$13,795,100	3	0.7%
Boston Gas/Mass LNG	Utility				\$9,317,800	7	0.5%
Hawthorne Square Mall	Shopping Center				\$8,104,000	8	0.4%
Osram Sylvania	Electronics Manufacturer				\$7,238,400	9	0.4%
Applied Extrusion Tech	Electronics				\$6,281,300	10	0.3%
Totals		<u>\$383,980,199</u>		<u>8.9%</u>	<u>\$350,008,200</u>		<u>18%</u>

Source: Board of Assessors

Property Tax Levies and Collections

Last Ten Years

Fiscal Year		Total Tax Levy	Less Abatements & Exemptions	Net Tax Levy	First Year Current Tax Collections	Percent of Net Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Net Tax Levy
1996		\$40,161,461	\$802,084	\$39,359,377	\$38,447,181	97.7%	\$1,591,975	\$40,039,156	101.73%
1997		\$41,814,532	\$728,298	\$41,086,234	\$40,660,473	99.0%	\$1,154,059	\$41,814,532	101.77%
1998	(1)	\$43,096,937	\$735,267	\$42,361,670	\$41,210,163	97.3%	\$942,495	\$42,152,658	99.51%
1999		\$44,177,362	\$379,865	\$43,797,497	\$43,723,214	99.8%	\$454,148	\$44,177,362	100.87%
2000		\$44,997,340	\$549,334	\$44,448,006	\$44,641,147	100.4%	\$675,074	\$45,316,221	101.95%
2001	(1)	\$48,228,214	\$654,519	\$47,573,695	\$47,565,588	100.0%	\$662,626	\$48,228,214	101.38%
2002		\$49,789,935	\$484,373	\$49,305,562	\$49,199,288	99.8%	\$590,647	\$49,789,935	100.98%
2003		\$52,210,909	\$598,516	\$51,612,393	\$51,303,297	99.4%	\$907,612	\$52,210,909	101.16%
2004	(1)	\$54,374,223	\$562,850	\$53,811,373	\$53,259,047	99.0%	\$542,025	\$53,801,072	99.98%
2005		\$56,839,329	\$418,415	\$56,420,914	\$55,554,023	98.5%	\$935,714	\$56,489,737	100.12%

(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
1996	38,008	836,363,653	1,959,366,800	\$36,195,000	\$0	\$952	4.33%	1.85%
1997	38,172	857,114,758	1,981,280,400	\$41,950,000	\$0	\$1,099	4.89%	2.12%
1998	38,351	878,708,191	2,063,725,800	\$36,345,000	\$0	\$948	4.14%	1.76%
1999	38,341	896,407,212	2,159,717,000	\$33,460,698	\$494,359	\$886	3.79%	1.57%
2000	40,564	967,735,348	2,360,332,700	\$30,716,400	\$2,517,607	\$819	3.43%	1.41%
2001	41,130	1,000,863,178	2,701,854,021	\$40,700,000	\$1,929,115	\$1,036	4.26%	1.58%
2002	42,179	1,046,917,485	2,858,057,319	\$37,625,000	\$1,103,986	\$918	3.70%	1.36%
2003	42,067	1,065,020,304	3,307,181,452	\$63,730,000	\$441,217	\$1,525	6.03%	1.94%
2004	41,912	1,082,318,054	3,971,301,437	\$59,840,000	\$307,360	\$1,435	5.56%	1.51%
2005	41,976	1,105,650,179	4,296,541,287	\$58,770,000	\$723,214	\$1,417	5.38%	1.38%

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
1996	\$0	\$0	\$36,195,000	\$952	4.33%	1.85%
1997	\$0	\$0	\$41,950,000	\$1,099	4.89%	2.12%
1998	\$2,225,000	\$0	\$38,570,000	\$1,006	4.39%	1.87%
1999	\$1,880,000	\$0	\$35,835,057	\$935	4.00%	1.66%
2000	\$1,600,000	\$0	\$34,834,007	\$859	3.60%	1.48%
2001	\$1,345,000	\$0	\$43,974,115	\$1,069	4.39%	1.63%
2002	\$650,000	\$0	\$39,378,986	\$934	3.76%	1.38%
2003	\$515,000	\$0	\$64,686,217	\$1,538	6.07%	1.96%
2004	\$380,000	\$0	\$60,527,360	\$1,444	5.59%	1.52%
2005	\$1,450,000	\$0	\$60,943,214	\$1,452	5.51%	1.42%

Source: Audited Financial Statements, U. S. Census

Direct and Overlapping Governmental Activities Debt

As of June 30, 2005

	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
North Shore Regional Vocational School District.....	\$ 2,650,000	44.93%	\$ <u>1,190,755</u>
Town direct debt.....			<u>59,390,000</u>
Total direct and overlapping debt.....			\$ <u><u>60,580,755</u></u>

Source: Treasurer and North Shore Regional Vocational School District

Computation of Legal Debt Margin

Last Ten Fiscal Years

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Equalized Valuation.....	\$2,155,183,700	\$2,083,065,400	\$2,083,065,400	\$2,174,217,600	\$2,174,217,600	\$2,472,012,500	\$2,472,012,500	\$3,148,016,400	\$3,148,016,400	\$4,184,128,700
Debt Limit -5% of Equalized Valuation.....	\$107,759,185	\$104,153,270	\$104,153,270	\$108,710,880	\$108,710,880	\$123,600,625	\$123,600,625	\$157,400,820	\$157,400,820	\$209,206,435
Less:										
Outstanding debt applicable to limit.....	\$5,895,000	\$5,195,000	\$4,940,000	\$3,785,000	\$3,475,000	\$5,080,000	\$5,625,000	\$4,646,000	\$4,167,000	\$6,695,447
Authorized and unissued debt.....	\$5,500,000	\$500,000	\$100,000	\$72,050,000	\$63,950,000	\$82,537,000	\$83,033,130	\$69,000,988	\$70,336,913	\$39,296,218
Legal debt margin.....	<u>\$96,364,185</u>	<u>\$98,458,270</u>	<u>\$99,113,270</u>	<u>\$32,875,880</u>	<u>\$41,285,880</u>	<u>\$35,983,625</u>	<u>\$34,942,495</u>	<u>\$83,753,832</u>	<u>\$82,896,907</u>	<u>\$163,214,770</u>
Total debt applicable to the limit as a percentage of debt limit.....	10.57%	5.47%	4.84%	69.76%	62.02%	70.89%	71.73%	46.79%	47.33%	21.98%

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
1996	38,008	\$836,363,653	\$22,005	33.5	4,903	4.3%
1997	38,172	\$857,114,758	\$22,454	33.5	5,028	4.0%
1998	38,351	\$878,708,191	\$22,912	33.5	5,128	3.5%
1999	38,341	\$896,407,212	\$23,380	33.5	5,059	3.3%
2000	40,564	\$967,735,348	\$23,857	36.4	5,007	2.5%
2001	41,130	\$1,000,863,178	\$24,334	36.4	5,107	3.9%
2002	42,179	\$1,046,917,485	\$24,821	36.4	5,064	5.6%
2003	42,067	\$1,065,020,304	\$25,317	36.4	5,016	6.2%
2004	41,912	\$1,082,318,054	\$25,824	36.4	4,727	5.3%
2005	41,976	\$1,105,650,179	\$26,340	36.4	4,676	4.9%

Note: Per Capita Personal Income and Median Age based on 1990 and 2000 U.S Censuses

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

Principal Employers (excluding City)

Current Year and Nine Years Ago

Employer	Nature of Business	2005			1996		
		Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
North Shore Medical Center/Salem Hospital	Healthcare	3,500	1	15.3%	2,500	1	11.7%
Salem State College	Higher Education	1,215	2	5.3%	750	2	3.5%
Sears Boston Credit Central	Public Utility	371	3	1.6%	600	3	2.8%
Salem Five Cent Savings Bank	Banking	300	4	1.3%			
Salem Court System	Judicial	202	5	0.9%			
Perkin Elmer Opto Electronics	Analytical Systems Supplies	200	6	0.9%			
PG & E	Public Utility	184	7	0.8%			
District Attorney's Office	Legal	168	8	0.7%			
Peabody Essex Museum	Cultural/Tourism	165	9	0.7%			
Holyoke	Insurance	156	10	0.7%			
New England Power Co.	Public Utility				476	4	2.2%
North Shore Children's Hospital	Children's Health Care				400	5	1.9%
EG & G Inc.	Diabetic Supplies				281	6	1.3%
Atwood & Morrill Co., Inc.	Valve Manufacturing				189	7	0.9%
Crosby's Markey Place	Food Market				176	8	0.8%
Van Waters & Rogers	Chemical Distribution				162	9	0.8%
Harbor Sweets	Candy & Confection Wholesale				101	10	0.5%
		<u>6,461</u>		<u>28.3%</u>	<u>5,635</u>		<u>26.5%</u>

Source: The City Planning Department

Operating Indicators by Function/Program

Last Ten Fiscal Years

Function/Program	Fiscal Year									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
General government										
Marriage recordings.....	313	290	274	317	292	328	362	327	330	327
Birth recordings.....	1,760	1,793	1,708	1,726	1,777	1,680	1,708	1,804	1,839	1,761
Death recordings.....	830	843	765	765	764	865	848	823	935	847
Police										
Physical arrests.....	1,031	1,097	1,157	1,131	975	1,039	1,057	984	965	685
Motor vehicle violations.....	3,635	4,772	3,472	2,791	3,066	3,967	4,872	5,489	5,238	4,334
Police personnel and officers.....	96	97	95	94	94	103	105	94	85	85
Fire										
Inspections.....	2,151	2,486	2,805	3,417	3,226	3,004	2,950	1,972	3,231	2,789
Emergency responses.....	4,046	3,786	3,517	3,433	3,717	3,917	3,993	3,911	4,281	4,572
Fire personnel and officers.....	92	94	88	89	90	92	96	85	78	78
Education										
Number of students.....	4,903	5,028	5,128	5,059	5,007	5,107	5,064	5,016	4,727	4,676
Number of graduates.....	186	197	213	187	213	220	237	218	257	246
Number of teachers.....	325	340	352	369	370	369	397	406	415	409
Water										
Service connections.....	N/A	9,600	9,600	9,627	9,720	9,812	9,842	9,898	10,516	10,568
Consumption in gallons.....	N/A	1,779	1,764	1,853	1,985	2,107	2,064	2,090	2,111	2,136
Daily consumption (MG).....	N/A	4.87	4.83	5.10	5.44	5.77	5.66	5.73	5.78	6.43
Sewer										
Service connections.....	N/A	9,600	9,600	9,627	9,720	9,812	9,842	9,898	10,516	10,568
Health and human services										
Number of persons using COA transportation...	N/A	N/A	40,535	54,620	44,326	45,523	47,220	44,804	44,500	45,976
Libraries										
Volumes in circulation.....	113,775	117,758	119,300	127,923	126,526	130,510	128,626	124,435	125,516	128,569
Total volumes borrowed.....	353,280	363,817	370,542	379,511	379,534	395,311	453,548	470,192	464,453	490,116

N/A - information not available

Source: Various City Departments; Massachusetts Department of Education

Capital Asset Statistics by Function/Program

Last Ten Fiscal Years

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
General government										
Number of buildings.....	2	2	2	2	2	2	2	2	2	2
Police										
Number of stations.....	1	1	1	1	1	1	1	1	1	1
Fire										
Number of stations.....	4	4	4	4	4	4	4	4	4	4
Education										
Number of elementary schools.....	7	7	7	7	7	7	7	7	7	7
Number of middle schools.....	1	1	1	1	1	1	1	1	1	1
Number of high schools.....	1	1	1	1	1	1	1	1	1	1
Public Works										
Water mains (miles).....	103	103	103	103	103	103	103	108	108	108
Health and human services										
Number of personnel.....	20	20	18	20	19	18	18	17	17	17
Culture and recreation										
Parks and playgrounds.....	33	33	34	35	35	35	35	35	35	35
Park and playground (acreage).....	218	218	218	219	230	230	230	230	230	230
Conservation land (acreage).....	114	114	114	114	114	114	114	114	128	128
Railroad right of way (acreage).....	94	89	89	89	89	89	89	89	89	89
Public beaches.....	7	7	7	7	7	7	7	7	7	7
Ball fields.....	13	13	13	13	13	13	13	13	13	13
Tennis courts.....	10	10	10	10	10	10	10	10	10	10

Source: Various City Departments, Manual of the City Government

Free Cash & Stabilization Fund Balances

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Free Cash</u>	<u>Stabilization Fund</u>
FY2005.....	\$ 2,732,090	\$ 1,021,351
FY2004.....	\$ 1,867,737	\$ 1,297,417
FY2003.....	\$ 3,212,194	\$ 2,278,823
FY2002.....	\$ 4,010,382	\$ 2,248,337
FY2001.....	\$ 4,965,894	\$ 1,713,814
FY2000.....	\$ 4,425,158	\$ 1,149,864
FY1999.....	\$ 4,313,929	\$ 1,087,575
FY1998.....	\$ 2,756,091	\$ 639,004
FY1997.....	\$ 1,423,512	\$ N/A
FY1996.....	\$ 1,260,229	\$ N/A

Source: City Records



Winter Island Lighthouse