

# CITY OF SALEM

## MASSACHUSETTS



## COMPREHENSIVE ANNUAL FINANCIAL REPORT

**For the Fiscal Year Ended June 30, 2006**

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

Prepared by the City of Salem Finance Department

## On the cover:

*The Pickering Wharf* is a full service facility located in Salem, Massachusetts. The docks surround Pickering Wharf, a mixed-use development consisting of retail shops, restaurants, office space, and residential condominiums. It offers summer and protected winter dockage to power and sail boats up to 120 feet. Both 30 and 50 amp electrical service is available, along with telephone and cable television hook-up. It also has clean showers, heads, and laundry facilities. *Cover Photo courtesy of Jeff Brown.*



Photo courtesy of Jeff Brown

## Salem Common

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

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

# CITY OF SALEM, MASSACHUSETTS

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Prepared by Finance Department

CITY OF SALEM, MASSACHUSETTS  
COMPREHENSIVE ANNUAL FINANCIAL REPORT

JUNE 30, 2006

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# ***Introductory Section***



*Photo courtesy of Jeff Brown*

## **Salem Willows Park**

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

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

# ***Introductory Section***

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**CITY OF SALEM, MASSACHUSETTS  
OFFICE OF FINANCE**

RICHARD VISCAY  
DIRECTOR OF FINANCE

**Letter of Transmittal**

September 29, 2006

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, 2006 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, 2006, 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, 2006, 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, 2006 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

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

## **Profile of the City**

The City of Salem, which was incorporated as a town in 1630 and became a city on March 23, 1836, is situated on the Massachusetts coast, 16 miles northeast on 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 2006 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 Workforce Development Agency, the City had a labor force of 23,504, of whom 22,531 were employed and 973, or 4.1% were unemployed. The Commonwealth, for the same period, had an unadjusted unemployment rate of 5.1%.

On the operating side, the City had 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. In fiscal year 2006, the City Council accepted the provisions of Massachusetts General Law (M.G.L.) chapter 32B, section 18, a Massachusetts statute requiring all Medicare-eligible retirees who are currently on self-insured plans to move from self-insured coverage to a fully insured Medicare supplement plan, is estimated to save the City approximately \$700,000 this fiscal year and next. This is a major cost saving initiative that will insure that all retirees over the age of 65 are treated consistently, while also providing greater control of costs associated with the City's Healthcare Insurance Trust account, the fastest rising municipal budget item for each of the last five years.

To help curb the fiscal challenges, the City also expanded the hours at the parking garage, instituted Saturday meter collections, and also installed seasonal meters at Salem Willows recreational park. The additional revenue from these new collections is estimated to generate \$100,000 per year.

At the end of fiscal year 2006, the City purchased a Ferry Boat in which they received a state grant for 75% of the purchase cost. The City is leasing the Ferry Boat to Water Transportation Services, Inc., which operates the ferry. The City anticipates revenue from the ferry to grow from \$60,000 to \$100,000 over the next three years.

The City implemented a trash fee for fiscal year 2007 which went into effect in September 2006. The revenue generated from the trash fees is anticipated to be \$700 thousand for the ten months of collections during fiscal year 2007 and \$840 thousand a year for the twelve months of collections in future fiscal years. These amounts are based on the number of residential and commercial units that are currently being billed for trash. The fees collected are used to offset the cost of collecting solid waste. The City plans to adopt an Enterprise Fund for solid waste collections by fiscal year 2008.

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.

The City has set a target level for the Stabilization fund of 5% of the City's current operating budget. The target funding date is projected to occur by fiscal year 2011. The stabilization fund shall be funded by appropriations from free cash, operating budget appropriations when available, and other one time non-recurring revenues that become available for appropriation per M.G.L.

Free cash is the remaining, unrestricted funds from operations of the previous fiscal year including unexpended free cash from the previous year, actual receipts in excess of revenue estimates shown on

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

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

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

### **Awards and Acknowledgements**

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement of Excellence in Financial Reporting to the City of Salem for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2005. This was the first year that the City submitted a CAFR to the GFOA. In order to receive this prestigious award, a government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

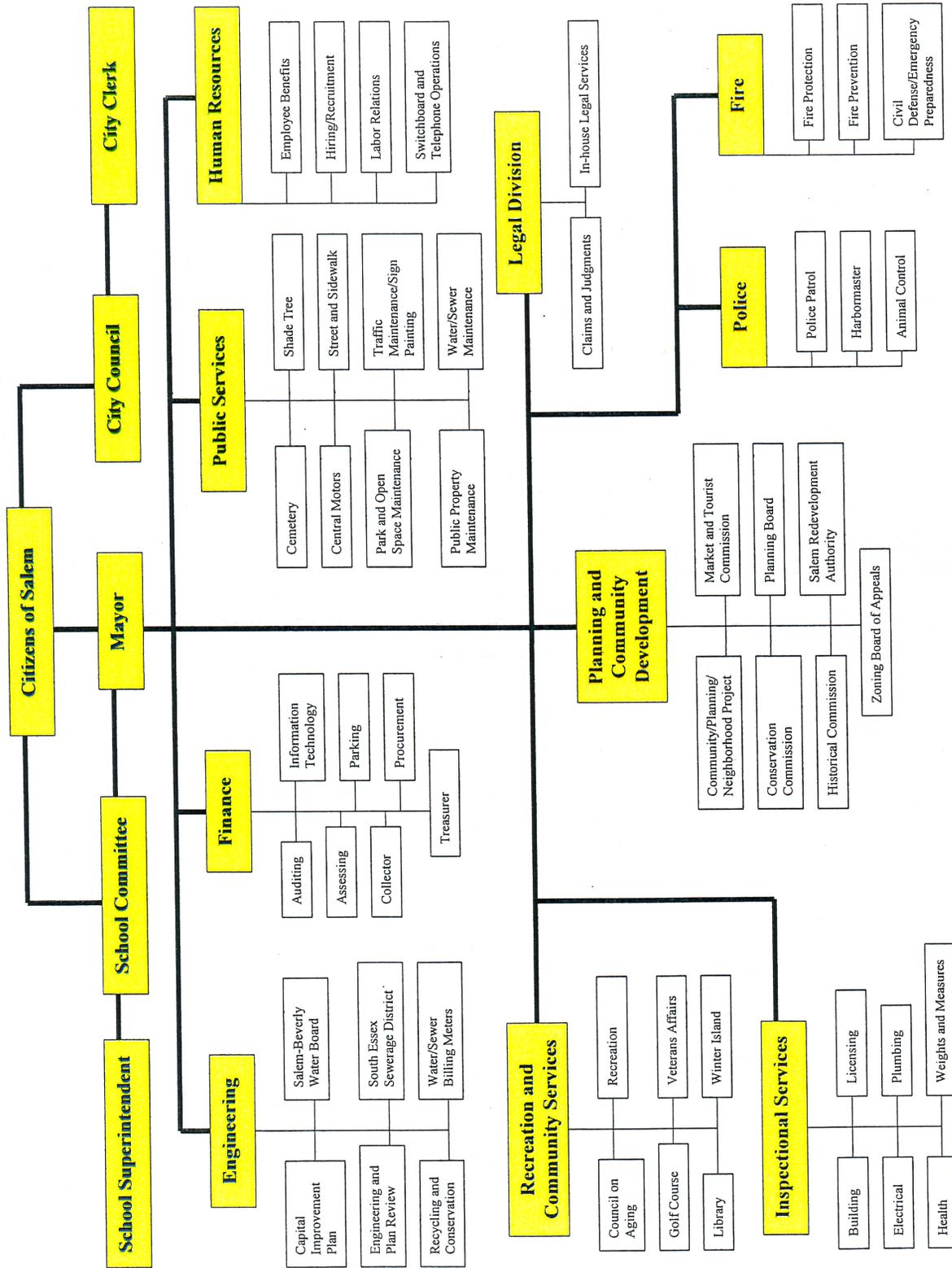
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The 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 unflinching support for maintaining the highest standards of professionalism in the management of the City of Salem's finances.

Respectfully submitted,



Richard Viscay  
Finance Director



## Principal Executive Officers

<b>TITLE</b>	<b>NAME</b>	<b>FIRST TOOK OFFICE</b>	<b>TERM EXPIRES</b>
Mayor	Kimberley L. Driscoll	1/2/2006	12/31/2009
President, City Council	Jean Pelletier	1/2/2006	12/31/2006
Finance Director	Richard Viscay	3/6/2006	1/31/2009
Treasurer	Anne L. Busteed	5/22/2000	1/31/2007
City Clerk	Cheryl LaPointe	7/15/2004	11/9/2006
City Solicitor	Elizabeth Rennard	1/10/2006	Indefinite

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Salem  
Massachusetts

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2005

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



President

Executive Director

# ***Financial Section***



*Photo courtesy of Jeff Brown*

## **Downtown Salem**

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

# ***Financial Section***

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## Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salem, Massachusetts, as of and for the fiscal year ended June 30, 2006 (except for the Salem Contributory Retirement System which is as of and for the year ended December 31, 2005), which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Salem, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salem, Massachusetts, as of June 30, 2006 (except for the Salem Contributory Retirement System which is as of December 31, 2005), 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.

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.

As described in Note 4, the City has reported all major general infrastructure assets acquired prior to July 1, 2001, as required by GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended and interpreted, as of June 30, 2006.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2006 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 "Bwers + Sullivan".

September 29, 2006

# ***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, 2006. We encourage readers to consider the information presented in this report in conjunction with additional information that we have furnished in our letter of transmittal.

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

### ***Overview of the Financial Statements***

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

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

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

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

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

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to 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 \$117.5 million at the close of Fiscal 2006 a decrease of \$1.3 million from the prior year. The City reported the major general infrastructure capital assets for the first time in FY2006, as required by GASB Statement No.34, and the FY2006 depreciation was \$1.3 million. When comparing the current results to FY2005's net asset decrease of \$7.1 million the City's long-term financial condition and outlook is improving. Major steps were taken by the new administration in FY2006 to balance the budget and stop the annual decline of net assets.

Net assets of \$109 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. This balance is significantly higher than prior years because the City included the historical cost of pre-2002 general infrastructure assets for the first time in fiscal year 2006 as allowed by GASB Statement No.34. This increased the beginning net assets of governmental activities by \$28.8 million.

An additional portion of the governmental net assets, \$8.6 million (7%), 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 \$372 thousand, which reflects the City's lack of resources available to be used to meet the City's ongoing obligations to citizens and creditors.

The condensed statement of governmental activities presented below include the FY2005 restatement for infrastructure. The components of the City's governmental activities are presented below.

	Governmental Activities	
	<u>Fiscal 2006</u>	<u>Fiscal 2005</u>
<b>Assets:</b>		
Current assets.....	\$ 31,394,323	\$ 35,292,646
Noncurrent assets (excluding capital).....	39,293,034	45,917,070
Capital assets.....	<u>124,167,537</u>	<u>121,654,778</u>
<b>Total assets.....</b>	<b><u>194,854,894</u></b>	<b><u>202,864,494</u></b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	10,087,831	8,572,285
Noncurrent liabilities (excluding debt).....	5,161,709	5,467,647
Current debt.....	12,103,864	15,541,418
Noncurrent debt.....	<u>50,040,000</u>	<u>54,475,000</u>
<b>Total liabilities.....</b>	<b><u>77,393,404</u></b>	<b><u>84,056,350</u></b>
<b>Net Assets:</b>		
Capital assets net of related debt.....	109,183,737	112,740,510
Restricted.....	8,649,700	9,734,998
Unrestricted.....	<u>(371,947)</u>	<u>(3,667,364)</u>
<b>Total net assets.....</b>	<b><u>\$ 117,461,490</u></b>	<b><u>\$ 118,808,144</u></b>

	<u>Fiscal 2006</u>	<u>Fiscal 2005</u>
<b>Program revenues:</b>		
Charges for services.....	\$ 4,661,268	\$ 4,429,151
Operating grants and contributions.....	37,934,300	34,087,248
Capital grants and contributions.....	3,312,346	2,090,467
<b>General Revenues:</b>		
Real estate and personal property taxes.....	58,379,505	55,915,767
Motor vehicle and other excise taxes.....	3,452,569	3,489,584
Nonrestricted grants.....	7,661,752	8,097,351
Unrestricted investment income.....	183,980	521,585
Other revenues.....	2,553,058	2,350,052
<b>Total revenues.....</b>	<b><u>118,138,778</u></b>	<b><u>110,981,205</u></b>
<b>Expenses:</b>		
General government.....	9,867,573	9,373,119
Public safety.....	23,481,525	22,058,002
Education.....	67,258,196	67,483,676
Public works.....	7,991,774	8,421,997
Community development.....	1,891,386	2,066,749
Health and human services.....	5,016,513	4,856,306
Culture and recreation.....	3,718,183	3,689,992
Interest.....	2,889,116	2,689,312
<b>Total expenses.....</b>	<b><u>122,114,266</u></b>	<b><u>120,639,153</u></b>
<b>Excess (Deficiency) before transfers.....</b>	<b>(3,975,488)</b>	<b>(9,657,948)</b>
<b>Transfers.....</b>	<b><u>2,628,834</u></b>	<b><u>2,542,444</u></b>
<b>Change in net assets.....</b>	<b><u>\$ (1,346,654)</u></b>	<b><u>\$ (7,115,504)</u></b>

The governmental expenses totaled \$122.1 million of which \$45.9 million (38%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$72.2 million, primarily coming from property taxes, motor vehicle and other excise, and non-restricted state aid.

The governmental net assets decreased by \$1.3 million during the current fiscal year which directly relates to \$1.3 million in depreciation expense on the retroactive general infrastructure capital assets reported in FY2006. Otherwise the total net assets did not change which mirrored the fund based results. Restricted net assets are down from fiscal year 2005 by approximately 11% primarily due to the timing of expenditures of City and School Grant funds. The City's unrestricted net assets are up by approximately \$3.3 million. A key factor in this increase is the recognition of a capital grant from the state for 75% of the cost of the Salem Ferry, which was purchased by the City in fiscal year 2006.

**Business-type Activities**

For the City’s business-type activities, assets exceeded liabilities by \$13.7 million at the close of fiscal year 2006.

	Business-type Activities	
	<u>Fiscal 2006</u>	<u>Fiscal 2005</u>
<b>Assets:</b>		
Current assets.....	\$ 6,414,075	\$ 7,154,697
Capital assets.....	<u>12,482,454</u>	<u>11,706,546</u>
<b>Total assets.....</b>	<b><u>18,896,529</u></b>	<b><u>18,861,243</u></b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	396,910	330,078
Noncurrent liabilities (excluding debt).....	73,000	122,000
Current debt.....	3,446,136	3,358,582
Noncurrent debt.....	<u>1,240,000</u>	<u>1,345,000</u>
<b>Total liabilities.....</b>	<b><u>5,156,046</u></b>	<b><u>5,155,660</u></b>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt.....	9,018,231	9,212,891
Unrestricted.....	<u>4,722,252</u>	<u>4,492,692</u>
<b>Total net assets.....</b>	<b><u>\$ 13,740,483</u></b>	<b><u>\$ 13,705,583</u></b>

Business-type net assets of \$9 million (66%) represent investments in capital assets net of related debt. The remaining \$4.7 million (34%) is available to be used for the ongoing operation of the City’s water, sewer, parking and the municipal golf course activities. There was an increase of \$35 thousand in net assets reported in connection with the water, sewer, parking, and the municipal golf course.

The water enterprise fund’s net assets of \$3.6 million (68%) represent the investment in capital assets while \$1.7 million (32%) is unrestricted. The water department experienced a net increase of \$368 thousand in net assets from the prior year. The water fund pays an annual assessment to the Salem Beverly Water Supply Board, which totaled \$2 million, or 66% of the funds expenses for fiscal year 2006. The minor change in net assets is the result of the City’s policy to recover 100% of the cost of operations through rates while still maintaining adequate reserves.

The sewer enterprise fund’s net assets of \$514 thousand (15%) represent the investment in capital assets net of related debt, and \$2.8 million (85%) is unrestricted. The unrestricted balance includes the City’s equity interest in the South Essex Sewerage District. The sewer department operations experienced a net decrease of \$205 thousand during the current fiscal year. Approximately 83% of the expenses in the sewer fund consist of the annual assessments paid to the South Essex Sewerage District. The minor change in net assets is the result of the City’s policy to recover 100% of the cost of operations through rates while still maintaining adequate reserves.

The golf course enterprise fund’s net assets of \$288 thousand (59%) represent the investment in capital assets while \$202 thousand (41%) is unrestricted. The golf course operations experienced an increase of \$52 thousand on revenues of \$525 thousand.

The parking enterprise fund's net assets of \$4.6 million (100%) represent the investment in capital assets net of related debt while \$17 thousand (less than 1%) is unrestricted. The parking operations experienced a net decrease of \$180 thousand during fiscal year 2006 due to depreciation expense of \$227 thousand. The City reports this fee-for-service activity an enterprise fund however any cash based surplus generated is transferred back to the general fund to support City programs. In FY2006 \$929 thousand was transferred back to the general fund. Consequently, the funds remaining in the enterprise fund at year end represent non-current assets and liabilities and the assets and liabilities related to the enterprise funds capital construction projects.

	Business-type Activities	
	<u>Fiscal 2006</u>	<u>Fiscal 2005</u>
<b>Program revenues:</b>		
Charges for services.....	\$ 12,628,680	\$ 11,322,285
<b>Expenses:</b>		
Cost of service and administration.....	2,556,558	2,762,436
District assessment.....	6,750,205	7,546,146
Depreciation.....	439,720	375,821
Interest.....	218,463	75,628
<b>Total expenses.....</b>	<b>9,964,946</b>	<b>10,760,031</b>
<b>Excess (Deficiency) before transfers.....</b>	<b>2,663,734</b>	<b>562,254</b>
<b>Transfers.....</b>	<b>(2,628,834)</b>	<b>(2,542,444)</b>
<b>Change in net assets.....</b>	<b>\$ 34,900</b>	<b>\$ (1,980,190)</b>

### **Financial Analysis of the Government's Funds**

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

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing 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 \$9.6 million of which \$1.4 million is reported in the general fund, \$278 thousand is reported in the stabilization major fund, and \$9.2 million is reported in the nonmajor governmental funds and a deficit of \$1.2 million is reported in the school capital projects major fund. Cumulatively there was an increase of \$7.5 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 \$1.2 million, while total fund balance was \$1.4 million. 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. Unreserved fund balance and total fund balance represent 1.1% and 1.3% of the total general fund expenditures, respectively.

There was a fund balance increase in the City's general fund of approximately \$956 thousand during fiscal year 2006. The fund balance change of the general fund has its foundation in how well the revenues and expenditures were managed against the budget. The revenue and expenditure budget, established by the prior administration, relied heavily on optimistic revenue projections. Excluding tax lien revenues of \$1.1 million that are not budgeted, the City experienced a deficiency of actual revenues compared to budget of (\$450 thousand). The net revenue surplus of \$645 thousand is directly related to the increase in fund balance. The remaining increase came from a push to reduce expenditures which resulted in a budget surplus for expenditures of \$231 thousand.

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 \$744 thousand in fiscal 2006, due to the budgeted use of \$1 million to fund the operations of the general fund netted with a \$247 thousand budgeted transfer in from the general fund to fund the stabilization fund and approximately \$10 thousand in investment earnings.

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 of \$4 million 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 2006, the City received an additional \$12.5 million to offset current school construction expenditures and to pay down a portion of its short-term debt on school construction projects.

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

The \$15,828 increase between the original budget (expenditures and transfers out) and the final amended budget was the net result of a \$500,000 reduction in the school department's budget, \$172,079 from other special revenue and trust accounts to fund general fund line items, an additional \$29,254 in additional appropriations from taxation to fund public properties, and \$314,495 in appropriations from "available funds" to fund current operations and a transfer to the stabilization fund.

The total general fund revenues exceeded the final budget by \$645,508. This was primarily the result of collecting over \$1 million on properties that were put into tax title. Total expenditures and encumbrances were lower than the amounts appropriated by \$230,823. In most line items, the City operated a very tight budget and expenditures and encumbrances were very close to the amounts appropriated. As allowed by state law, the City overspent the appropriated snow & ice removal by \$256,592. This deficit is required to be funded in the subsequent year's tax levy.

### ***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, 2006, amounts to \$137 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, system improvements, machinery and equipment, and infrastructure related to governmental and business-type activities. The City's total investment in capital assets for the current year was \$7.6 million for governmental activities and \$2.1 million for business-type activities.

Major capital asset events during the current fiscal year included the City's implementation of the final phase of GASB Statement #34, which allowed for the postponement of reporting retroactive general infrastructure assets. The reporting of the pre-GASB #34 general infrastructure increased the beginning balance of net assets in the governmental funds by approximately \$28.8 million.

Additionally, the City has completed several school construction projects, which have been transferred from construction in progress and are now being depreciated. The City is still in the process of a major renovation to Salem High School which continues to be reported as construction in progress pending the completion of the project.

The City also purchased the Salem Ferry for \$2.9 million, the Salem Ferry is a 92 foot catamaran used to provide seasonal high-speed passenger ferry service between Salem and Boston. The Ferry's maiden voyage took place on June 22, 2006. The purchase of the ferry has been partially funded through a 75% capital grant from the state.

The \$2 million in additions to water and sewer fund capital assets are attributable to infrastructure improvements.

**Debt Administration.** Outstanding long-term debt of the general government, as of June 30, 2006, totaled \$54,385,000, of which \$52,086,000 is related to school projects, leaving a balance of \$2,299,000 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, 2006 the City has recorded a receivable from the MSBA of \$43.7 million, which is equal to 90% of approved construction and interest costs incurred by the City to date, less amounts that have been reimbursed to the City by the MSBA.

The City has \$8 million and \$3.1 million outstanding at year-end in short-term notes due on 1/1/07 and 7/21/06, with interest rates of 4.3% and 6%, respectively. The City's short-term notes represent temporary financing for school construction, police equipment, the Salem Ferry, and water system improvements.

At year end the golf course and parking enterprise funds have \$320,000 and \$1,025,000, 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***

**STATEMENT OF NET ASSETS**

JUNE 30, 2006

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents.....	\$ 13,176,564	\$ 3,078,160	\$ 16,254,724
Investments.....	4,072,397	-	4,072,397
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	703,725	-	703,725
Tax liens.....	880,994	-	880,994
Motor vehicle and other excise taxes.....	628,649	-	628,649
User fees.....	-	2,281,844	2,281,844
Departmental and other.....	114,118	-	114,118
Intergovernmental.....	11,449,315	-	11,449,315
Loans.....	203,561	-	203,561
Investment in joint venture.....	-	1,054,071	1,054,071
Working capital deposit.....	165,000	-	165,000
Total current assets.....	<u>31,394,323</u>	<u>6,414,075</u>	<u>37,808,398</u>
<b>NONCURRENT:</b>			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	38,494,109	-	38,494,109
Loans.....	798,925	-	798,925
Capital assets, non depreciable.....	7,999,832	1,312,954	9,312,786
Capital assets, net of accumulated depreciation.....	116,167,705	11,169,500	127,337,205
Total noncurrent assets.....	<u>163,460,571</u>	<u>12,482,454</u>	<u>175,943,025</u>
<b>TOTAL ASSETS.....</b>	<u><b>194,854,894</b></u>	<u><b>18,896,529</b></u>	<u><b>213,751,423</b></u>
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Warrants payable.....	3,900,801	264,175	4,164,976
Accrued liabilities.....	336,472	3,495	339,967
Accrued payroll.....	745,438	-	745,438
Health claims payable.....	1,312,237	-	1,312,237
Tax refunds payable.....	100,188	-	100,188
Accrued interest.....	1,149,661	95,240	1,244,901
Capital lease obligations.....	661,898	-	661,898
Compensated absences.....	1,758,000	34,000	1,792,000
Workers' compensation.....	123,136	-	123,136
Bonds and notes payable.....	12,103,864	3,446,136	15,550,000
Total current liabilities.....	<u>22,191,695</u>	<u>3,843,046</u>	<u>26,034,741</u>
<b>NONCURRENT:</b>			
Capital lease obligations.....	510,753	-	510,753
Compensated absences.....	4,344,000	73,000	4,417,000
Workers' compensation.....	306,956	-	306,956
Bonds and notes payable.....	50,040,000	1,240,000	51,280,000
Total noncurrent liabilities.....	<u>55,201,709</u>	<u>1,313,000</u>	<u>56,514,709</u>
<b>TOTAL LIABILITIES.....</b>	<u><b>77,393,404</b></u>	<u><b>5,156,046</b></u>	<u><b>82,549,450</b></u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt.....	109,183,737	9,018,231	118,201,968
Restricted for:			
Loans.....	1,002,486	-	1,002,486
Permanent funds:			
Expendable.....	2,626,984	-	2,626,984
Nonexpendable.....	1,998,872	-	1,998,872
Grants and gifts.....	3,021,358	-	3,021,358
Unrestricted.....	<u>(371,947)</u>	<u>4,722,252</u>	<u>4,350,305</u>
<b>TOTAL NET ASSETS.....</b>	<u><b>\$ 117,461,490</b></u>	<u><b>\$ 13,740,483</b></u>	<u><b>\$ 131,201,973</b></u>

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Primary Government:</b>					
<i>Governmental Activities:</i>					
General government.....	\$ 9,867,573	\$ 948,101	\$ 875,377	\$ 2,295,688	\$ (5,748,407)
Public safety.....	23,481,525	2,003,791	989,410	-	(20,488,324)
Education.....	67,258,196	831,579	28,291,883	211,835	(37,922,899)
Public works.....	7,991,774	235,912	68,445	804,823	(6,882,594)
Community development.....	1,891,386	16,275	2,348,707	-	473,596
Health and human services.....	5,016,513	79,250	3,483,215	-	(1,454,048)
Culture and recreation.....	3,718,183	546,360	75,685	-	(3,096,138)
Interest.....	2,889,116	-	1,801,578	-	(1,087,538)
Total Governmental Activities...	<u>122,114,266</u>	<u>4,661,268</u>	<u>37,934,300</u>	<u>3,312,346</u>	<b>(76,206,352)</b>
<i>Business-Type Activities:</i>					
Water.....	3,197,864	4,319,560	-	-	1,121,696
Sewer.....	5,686,595	6,233,883	-	-	547,288
Golf Course.....	279,981	525,404	-	-	245,423
Parking.....	800,506	1,549,833	-	-	749,327
Total Business-Type Activities..	<u>9,964,946</u>	<u>12,628,680</u>	<u>-</u>	<u>-</u>	<u>2,663,734</u>
Total Primary Government.....	<u>\$ 132,079,212</u>	<u>\$ 17,289,948</u>	<u>\$ 37,934,300</u>	<u>\$ 3,312,346</u>	<b>\$ (73,542,618)</b>

See notes to basic financial statements.

(Continued)

**STATEMENT OF ACTIVITIES (Continued)**

FISCAL YEAR ENDED JUNE 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Changes in net assets:</b>			
Net (expense) revenue from previous page.....	\$ <b>(76,206,352)</b>	\$ <b>2,663,734</b>	\$ <b>(73,542,618)</b>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	58,379,505	-	58,379,505
Tax liens.....	635,624	-	635,624
Motor vehicle and other excise taxes.....	3,452,569	-	3,452,569
Hotel/motel tax.....	263,962	-	263,962
Penalties and interest on taxes.....	350,651	-	350,651
Payments in lieu of taxes.....	1,088,754	-	1,088,754
Grants and contributions not restricted to specific programs.....	7,661,752	-	7,661,752
Unrestricted investment income.....	183,980	-	183,980
Miscellaneous.....	214,067	-	214,067
<i>Transfers, net</i> .....	2,628,834	(2,628,834)	-
Total general revenues and transfers.....	74,859,698	(2,628,834)	72,230,864
Change in net assets.....	(1,346,654)	34,900	(1,311,754)
<i>Net Assets:</i>			
Beginning of year, as restated for infrastructure....	118,808,144	13,705,583	132,513,727
End of year.....	\$ <u>117,461,490</u>	\$ <u>13,740,483</u>	\$ <u>131,201,973</u>

(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2006

<b>ASSETS</b>	General	Stabilization	School Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 2,973,783	\$ 277,759	\$ 3,060,445	\$ 6,531,480	\$ 12,843,467
Investments.....	-	-	-	4,072,397	4,072,397
Receivables, net of uncollectibles:					
Real estate and personal property taxes.....	703,725	-	-	-	703,725
Tax liens.....	880,994	-	-	-	880,994
Motor vehicle and other excise taxes.....	628,649	-	-	-	628,649
Departmental and other.....	-	-	-	28,300	28,300
Intergovernmental.....	44,307,275	-	1,563,962	4,072,187	49,943,424
Loans.....	-	-	-	1,002,486	1,002,486
Due from other funds.....	-	-	-	334,693	334,693
<b>TOTAL ASSETS.....</b>	<b>\$ 49,494,426</b>	<b>\$ 277,759</b>	<b>\$ 4,624,407</b>	<b>\$ 16,041,543</b>	<b>\$ 70,438,135</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES:</b>					
Warrants payable.....	\$ 1,327,850	\$ -	\$ 1,836,480	\$ 736,471	\$ 3,900,801
Accrued liabilities.....	336,472	-	-	-	336,472
Accrued payroll.....	745,438	-	-	-	745,438
Tax refunds payable.....	100,188	-	-	-	100,188
Accrued interest on short-term debt.....	165,100	-	-	-	165,100
Deferred revenues.....	45,459,083	-	-	2,036,652	47,495,735
Due to other funds.....	-	-	-	334,693	334,693
Notes payable.....	-	-	4,000,000	3,758,864	7,758,864
<b>TOTAL LIABILITIES.....</b>	<b>48,134,131</b>	<b>-</b>	<b>5,836,480</b>	<b>6,866,680</b>	<b>60,837,291</b>
<b>FUND BALANCES:</b>					
Reserved for:					
Encumbrances and continuing appropriations.....	197,581	-	-	-	197,581
Perpetual permanent funds.....	-	-	-	1,606,904	1,606,904
Unreserved:					
Undesignated, reported in:					
General fund.....	1,162,714	-	-	-	1,162,714
Special revenue funds.....	-	277,759	-	5,196,369	5,474,128
Capital projects funds.....	-	-	(1,212,073)	(647,362)	(1,859,435)
Permanent funds.....	-	-	-	3,018,952	3,018,952
<b>TOTAL FUND BALANCES.....</b>	<b>1,360,295</b>	<b>277,759</b>	<b>(1,212,073)</b>	<b>9,174,863</b>	<b>9,600,844</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 49,494,426</b>	<b>\$ 277,759</b>	<b>\$ 4,624,407</b>	<b>\$ 16,041,543</b>	<b>\$ 70,438,135</b>

See notes to basic financial statements.

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

JUNE 30, 2006

Total governmental fund balances.....		\$ 9,600,844
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		124,167,537
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		47,495,735
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.....		(728,322)
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(984,561)
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.....	(54,385,000)	
Workers' compensation.....	(430,092)	
Capital leases.....	(1,172,651)	
Compensated absences.....	(6,102,000)	
Net effect of reporting long-term liabilities.....		<u>(62,089,743)</u>
Net assets of governmental activities.....		\$ <u>117,461,490</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2006

	General	Stabilization	School Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>					
Real estate and personal property taxes, net of tax refunds.....	\$ 58,601,934	\$ -	\$ -	\$ -	\$ 58,601,934
Tax liens.....	1,095,631	-	-	-	1,095,631
Motor vehicle and other excise taxes.....	3,577,544	-	-	-	3,577,544
Hotel/motel tax.....	263,962	-	-	-	263,962
Charges for services.....	1,198,183	-	-	403,897	1,602,080
Penalties and interest on taxes.....	350,651	-	-	-	350,651
Payments in lieu of taxes.....	1,088,754	-	-	-	1,088,754
Licenses and permits.....	497,479	-	-	-	497,479
Fines and forfeitures.....	1,084,428	-	-	-	1,084,428
Intergovernmental.....	32,710,385	-	12,568,964	18,042,627	63,321,976
Departmental and other.....	214,067	-	-	1,772,277	1,986,344
Contributions.....	-	-	-	527,117	527,117
Investment income.....	573,227	9,745	-	344,330	927,302
<b>TOTAL REVENUES.....</b>	<b>101,256,245</b>	<b>9,745</b>	<b>12,568,964</b>	<b>21,090,248</b>	<b>134,925,202</b>
<b>EXPENDITURES:</b>					
Current:					
General government.....	4,233,161	-	-	3,791,760	8,024,921
Public safety.....	14,018,353	-	-	1,188,025	15,206,378
Education.....	43,034,876	-	3,267,767	10,818,483	57,121,126
Public works.....	5,294,030	-	-	1,045,933	6,339,963
Community development.....	-	-	-	1,891,386	1,891,386
Health and human services.....	826,366	-	-	3,649,047	4,475,413
Culture and recreation.....	2,145,885	-	-	193,715	2,339,600
Pension benefits.....	13,388,893	-	-	-	13,388,893
Employee benefits.....	9,763,944	-	-	200,358	9,964,302
State and county charges.....	5,047,971	-	-	-	5,047,971
Debt service:					
Principal.....	4,205,000	-	-	180,000	4,385,000
Interest.....	2,938,527	-	-	19,574	2,958,101
<b>TOTAL EXPENDITURES.....</b>	<b>104,897,006</b>	<b>-</b>	<b>3,267,767</b>	<b>22,978,281</b>	<b>131,143,054</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(3,640,761)</b>	<b>9,745</b>	<b>9,301,197</b>	<b>(1,888,033)</b>	<b>3,782,148</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Capital lease financing.....	131,808	-	-	914,811	1,046,619
Transfers in.....	5,073,854	246,663	-	-	5,320,517
Transfers out.....	(608,773)	(1,000,000)	-	(1,082,910)	(2,691,683)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>4,596,889</b>	<b>(753,337)</b>	<b>-</b>	<b>(168,099)</b>	<b>3,675,453</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>956,128</b>	<b>(743,592)</b>	<b>9,301,197</b>	<b>(2,056,132)</b>	<b>7,457,601</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>404,167</b>	<b>1,021,351</b>	<b>(10,513,270)</b>	<b>11,230,995</b>	<b>2,143,243</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 1,360,295</b>	<b>\$ 277,759</b>	<b>\$ (1,212,073)</b>	<b>\$ 9,174,863</b>	<b>\$ 9,600,844</b>

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds.....		\$ 7,457,601
<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.....	7,581,652	
Depreciation expense.....	<u>(5,068,893)</u>	
Net effect of reporting capital assets.....		2,512,759
<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>		
		(16,811,373)
<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.....	597,182	
Capital lease issuance.....	(1,046,619)	
Debt service principal payments.....	<u>4,385,000</u>	
Net effect of reporting long-term debt.....		3,935,563
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Net change in compensated absences accrual.....	1,043,000	
Net change in workers' compensation.....	275,133	
Net change in accrued interest on long-term debt.....	<u>68,985</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		1,387,118
<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>171,678</u>
Change in net assets of governmental activities.....		<u>\$ (1,346,654)</u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF NET ASSETS

JUNE 30, 2006

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Parking	Total	
<b>ASSETS</b>						
<b>CURRENT:</b>						
Cash and cash equivalents.....	\$ 2,426,257	\$ 369,918	\$ 220,217	\$ 61,768	\$ 3,078,160	\$ 333,097
Receivables, net of allowance for uncollectibles						
User fees.....	852,417	1,429,427	-	-	2,281,844	-
Departmental and other.....	-	-	-	-	-	85,818
Working capital deposit.....	-	-	-	-	-	165,000
Investment in joint venture.....	-	1,054,071	-	-	1,054,071	-
Total current assets.....	<u>3,278,674</u>	<u>2,853,416</u>	<u>220,217</u>	<u>61,768</u>	<u>6,414,075</u>	<u>583,915</u>
<b>NONCURRENT:</b>						
Capital assets, non depreciable.....	10,589	99,552	118,067	1,084,746	1,312,954	-
Capital assets, net of accumulated depreciation	5,758,678	414,623	490,220	4,505,979	11,169,500	-
Total noncurrent assets.....	<u>5,769,267</u>	<u>514,175</u>	<u>608,287</u>	<u>5,590,725</u>	<u>12,482,454</u>	<u>-</u>
<b>TOTAL ASSETS.....</b>	<u><b>9,047,941</b></u>	<u><b>3,367,591</b></u>	<u><b>828,504</b></u>	<u><b>5,652,493</b></u>	<u><b>18,896,529</b></u>	<u><b>583,915</b></u>
<b>LIABILITIES</b>						
<b>CURRENT:</b>						
Warrants payable.....	239,071	5,104	-	20,000	264,175	-
Accrued liabilities.....	3,293	202	-	-	3,495	-
Health claims payable.....	-	-	-	-	-	1,312,237
Accrued interest.....	71,100	-	4,521	19,619	95,240	-
Compensated absences.....	4,000	4,000	10,000	16,000	34,000	-
Bonds and notes payable.....	3,341,136	-	30,000	75,000	3,446,136	-
Total current liabilities.....	<u>3,658,600</u>	<u>9,306</u>	<u>44,521</u>	<u>130,619</u>	<u>3,843,046</u>	<u>1,312,237</u>
<b>NONCURRENT:</b>						
Compensated absences.....	23,000	23,000	4,000	23,000	73,000	-
Bonds and notes payable.....	-	-	290,000	950,000	1,240,000	-
Total noncurrent liabilities.....	<u>23,000</u>	<u>23,000</u>	<u>294,000</u>	<u>973,000</u>	<u>1,313,000</u>	<u>-</u>
<b>TOTAL LIABILITIES.....</b>	<u><b>3,681,600</b></u>	<u><b>32,306</b></u>	<u><b>338,521</b></u>	<u><b>1,103,619</b></u>	<u><b>5,156,046</b></u>	<u><b>1,312,237</b></u>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt.....	3,650,044	514,175	288,287	4,565,725	9,018,231	-
Unrestricted.....	1,716,297	2,821,110	201,696	(16,851)	4,722,252	(728,322)
<b>TOTAL NET ASSETS.....</b>	<u><b>\$ 5,366,341</b></u>	<u><b>\$ 3,335,285</b></u>	<u><b>\$ 489,983</b></u>	<u><b>\$ 4,548,874</b></u>	<u><b>\$ 13,740,483</b></u>	<u><b>\$ (728,322)</b></u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2006

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Parking	Total	
<b>OPERATING REVENUES:</b>						
Employee contributions .....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,067,266
Employer contributions .....	-	-	-	-	-	8,520,368
Charges for services .....	4,319,560	6,233,883	525,404	1,549,833	12,628,680	-
Other.....	-	-	-	-	-	286,689
<b>TOTAL OPERATING REVENUES .....</b>	<b>4,319,560</b>	<b>6,233,883</b>	<b>525,404</b>	<b>1,549,833</b>	<b>12,628,680</b>	<b>12,874,323</b>
<b>OPERATING EXPENSES:</b>						
Cost of services and administration .....	860,370	941,636	221,730	532,822	2,556,558	-
District Assessment.....	2,023,668	4,726,537	-	-	6,750,205	-
Depreciation.....	151,466	18,422	42,886	226,946	439,720	-
Employee benefits .....	-	-	-	-	-	12,727,594
<b>TOTAL OPERATING EXPENSES .....</b>	<b>3,035,504</b>	<b>5,686,595</b>	<b>264,616</b>	<b>759,768</b>	<b>9,746,483</b>	<b>12,727,594</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>1,284,056</b>	<b>547,288</b>	<b>260,788</b>	<b>790,065</b>	<b>2,882,197</b>	<b>146,729</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>						
Investment income.....	-	-	-	-	-	24,949
Interest expense.....	(162,360)	-	(15,365)	(40,738)	(218,463)	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b>(162,360)</b>	<b>-</b>	<b>(15,365)</b>	<b>(40,738)</b>	<b>(218,463)</b>	<b>24,949</b>
<b>INCOME (LOSS) BEFORE TRANSFERS.....</b>	<b>1,121,696</b>	<b>547,288</b>	<b>245,423</b>	<b>749,327</b>	<b>2,663,734</b>	<b>171,678</b>
<b>TRANSFERS:</b>						
Transfers in.....	-	-	362,110	-	362,110	-
Transfers out.....	(753,162)	(753,162)	(555,147)	(929,473)	(2,990,944)	-
<b>TOTAL TRANSFERS.....</b>	<b>(753,162)</b>	<b>(753,162)</b>	<b>(193,037)</b>	<b>(929,473)</b>	<b>(2,628,834)</b>	<b>-</b>
<b>CHANGE IN NET ASSETS.....</b>	<b>368,534</b>	<b>(205,874)</b>	<b>52,386</b>	<b>(180,146)</b>	<b>34,900</b>	<b>171,678</b>
<b>NET ASSETS AT BEGINNING OF YEAR, .....</b>	<b>4,997,807</b>	<b>3,541,159</b>	<b>437,597</b>	<b>4,729,020</b>	<b>13,705,583</b>	<b>(900,000)</b>
<b>NET ASSETS AT END OF YEAR.....</b>	<b>\$ 5,366,341</b>	<b>\$ 3,335,285</b>	<b>\$ 489,983</b>	<b>\$ 4,548,874</b>	<b>\$ 13,740,483</b>	<b>\$ (728,322)</b>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**

FISCAL YEAR ENDED JUNE 30, 2006

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Parking	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Receipts from customers and users.....	\$ 4,544,003	\$ 6,490,046	\$ 525,404	\$ 1,549,833	\$ 13,109,286	\$ -
Receipts from interfund services provided.....	-	-	-	-	-	12,839,532
Payments to vendors.....	(2,481,853)	(5,613,266)	(35,409)	(135,579)	(8,266,107)	-
Payments to employees.....	(372,739)	(368,422)	(204,321)	(369,243)	(1,314,725)	-
Payments for interfund services used.....	-	-	-	-	-	(12,387,894)
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>1,689,411</b>	<b>508,358</b>	<b>285,674</b>	<b>1,045,011</b>	<b>3,528,454</b>	<b>451,638</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
Transfers in.....	-	-	362,110	-	362,110	-
Transfers out.....	(753,162)	(753,162)	(555,147)	(929,473)	(2,990,944)	-
Advances to other funds.....	-	-	-	-	-	(143,490)
<b>NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....</b>	<b>(753,162)</b>	<b>(753,162)</b>	<b>(193,037)</b>	<b>(929,473)</b>	<b>(2,628,834)</b>	<b>(143,490)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Proceeds from the issuance of bonds and notes.....	3,341,136	-	-	-	3,341,136	-
Acquisition and construction of capital assets.....	(1,159,628)	-	(56,000)	-	(1,215,628)	-
Principal payments on bonds and notes.....	(3,253,582)	-	(30,000)	(75,000)	(3,358,582)	-
Principal payments on capital lease obligations.....	-	-	(20,205)	-	(20,205)	-
Interest expense.....	(113,560)	-	(16,175)	(42,238)	(171,973)	-
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(1,185,634)</b>	<b>-</b>	<b>(122,380)</b>	<b>(117,238)</b>	<b>(1,425,252)</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Investment income.....	-	-	-	-	-	24,949
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS.....</b>	<b>(249,385)</b>	<b>(244,804)</b>	<b>(29,743)</b>	<b>(1,700)</b>	<b>(525,632)</b>	<b>333,097</b>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	2,675,642	614,722	249,960	63,468	3,603,792	-
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR.....</b>	<b>\$ 2,426,257</b>	<b>\$ 369,918</b>	<b>\$ 220,217</b>	<b>\$ 61,768</b>	<b>\$ 3,078,160</b>	<b>\$ 333,097</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</b>						
Operating income (loss).....	\$ 1,284,056	\$ 547,288	\$ 260,788	\$ 790,065	\$ 2,882,197	\$ 146,729
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation.....	151,466	18,422	42,886	226,946	439,720	-
Changes in assets and liabilities:						
User fees.....	224,443	256,163	-	-	480,606	-
Investment in joint venture.....	-	(265,616)	-	-	(265,616)	-
Departmental and other.....	-	-	-	-	-	(34,791)
Warrants payable.....	83,543	(716)	-	20,000	102,827	(72,537)
Accrued liabilities.....	(25,097)	(18,183)	-	-	(43,280)	-
Health claims payable.....	-	-	-	-	-	412,237
Accrued compensated absences.....	(29,000)	(29,000)	(18,000)	8,000	(68,000)	-
Total adjustments.....	405,355	(38,930)	24,886	254,946	646,257	304,909
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>\$ 1,689,411</b>	<b>\$ 508,358</b>	<b>\$ 285,674</b>	<b>\$ 1,045,011</b>	<b>\$ 3,528,454</b>	<b>\$ 451,638</b>

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2006

	Pension Trust Fund (as of December 31, 2005)	Private Purpose Trust Funds	Agency Fund
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents.....	\$ 6,775,063	\$ 99,893	\$ 476,628
Investments:			
U.S. Treasury Notes.....	1,214,107	-	-
Corporate bonds.....	7,886,503	1,331,659	-
Equity securities.....	11,334,087	-	-
Equity mutual funds.....	44,116,819	-	-
Real estate and alternative investment mutual funds...	9,531,719	-	-
Federal Home Loan Mortgages.....	677,179	-	-
Federal National Mortgage Association.....	669,168	-	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	130,307	-	6,041
Intergovernmental.....	440,617	-	-
<b>TOTAL ASSETS.....</b>	<b>82,775,569</b>	<b>1,431,552</b>	<b>482,669</b>
<b>LIABILITIES</b>			
Warrants payable.....	594,598	-	28,099
Liabilities due depositors.....	-	-	454,570
<b>TOTAL LIABILITIES.....</b>	<b>594,598</b>	<b>-</b>	<b>482,669</b>
<b>NET ASSETS</b>			
Held in trust for pension benefits and other purposes.....	\$ 82,180,971	\$ 1,431,552	\$ -

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2006

	Pension Trust Fund (as of December 31, 2005)	Private Purpose Trust Funds
<b>ADDITIONS:</b>		
Contributions:		
Employer.....	\$ 8,022,361	\$ -
Plan member.....	2,725,917	-
Private donations.....	-	12,093
Total contributions.....	10,748,278	12,093
Net investment income (loss):		
Net change in fair value of investments.....	3,316,173	-
Interest.....	849,432	77,350
Total investment income (loss).....	4,165,605	77,350
Less: investment expense.....	(470,968)	-
Net investment income (loss).....	3,694,637	77,350
Intergovernmental.....	494,525	-
Transfers from other systems.....	270,872	-
TOTAL ADDITIONS.....	15,208,312	89,443
<b>DEDUCTIONS:</b>		
Administration.....	407,231	-
Retirement benefits and refunds.....	11,345,199	-
Educational scholarships.....	-	27,523
Housing subsidies.....	-	27,833
TOTAL DEDUCTIONS.....	11,752,430	55,356
CHANGE IN NET ASSETS.....	3,455,882	34,087
NET ASSETS AT BEGINNING OF YEAR.....	78,725,089	1,397,465
NET ASSETS AT END OF YEAR.....	\$ 82,180,971	\$ 1,431,552

See notes to basic financial statements.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

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

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

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

The 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, 2006, the City's equity interest in the operations of the District totaled \$1,054,071, which is recorded in the Sewer Enterprise Fund. Complete financial statements for the District can be obtained by contacting them at 50 Fort Avenue, Salem, MA 01970.

The City is a member of the Salem-Beverly Water Supply Board (Water Board), a joint venture with the City of Beverly for the operation of a water distribution system. The City does not have an equity interest in the Salem-Beverly Water Supply Board. The annual assessment from the Water Board for the fiscal year ended June 30, 2006 totaled approximately \$2.0 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 that exclusively benefit individuals, private organizations, or other governments. Some of these trusts have donor restrictions and trustee policies

that do not allow the endowment portion and any unrealized appreciation to be spent. The donor restrictions and trustee policies only allow the trustees to authorize spending of the realized investment earnings. The City's educational scholarships and housing subsidy trust funds are accounted for in this fund.

The *agency fund* is used to account for assets held in a purely custodial capacity. The City's agency funds consist primarily of payroll withholdings, 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. The fair values were determined by the closing price for those securities traded on national stock exchanges and at the average bid-and-asked quotation for those securities traded in the over-the-counter market. Mortgages are valued on the basis of future plan principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based upon independent appraisals. Investments that do not have an established market are reported at estimated fair values.

#### E. Accounts Receivable

##### *Government-Wide and Fund Financial Statements*

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

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

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

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

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

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

### ***Motor Vehicle and Other Excise Taxes***

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

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

### ***User Fees***

Water and Sewer user fees are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Unbilled user fees are estimated at year-end and are recorded as revenue in the current period. The City abides by a strict policy for unpaid 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 grant proceeds and fire detail fees and investment funds of the retirement system received after year end that are recorded as receivables in the fiscal year accrued. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

### ***Intergovernmental***

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

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

### ***Loans***

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

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

F. Inventories

*Government-Wide and Fund Financial Statements*

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

G. Capital Assets

*Government-Wide and Proprietary Fund Financial Statements*

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

All purchases and construction costs in excess of \$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 and construction in progress) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

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

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

*Governmental Fund Financial Statements*

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

H. Interfund Receivables and Payables

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

*Government-Wide Financial Statements*

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

*Fund Financial Statements*

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

I. Interfund Transfers

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

*Government-Wide Financial Statements*

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

*Fund Financial Statements*

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

J. Deferred Revenue

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

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

Net assets 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 the amount of realized and unrealized investment earnings of donor restricted trusts. The donor restrictions and trustee policies only allow the trustees to approve spending of the realized investment earnings that support governmental programs.

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

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

#### *Fund Financial Statements (Fund Balances)*

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

Fund balances have been “reserved for” the following:

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

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

#### L. Long-term debt

##### *Government-Wide and Proprietary Fund Financial Statements*

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

##### *Governmental Fund Financial Statements*

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

#### M. Investment Income

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

#### N. Compensated Absences

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

##### *Government-Wide and Proprietary Fund Financial Statements*

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

*Governmental Fund Financial Statements*

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

O. 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, 2006, this expenditure totaled approximately \$2,183,000. There were approximately 595 participants eligible to receive benefits at June 30, 2006.

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, 2006 this expense/expenditure amounted to approximately \$6,376,000. The number of participants covered is not provided by the Commonwealth.

P. Fund Deficits and Appropriation Deficits

Individual fund deficits exist at June 30, 2006 in the School Capital Projects Fund and the School Lunch, Police Station and Salem Ferry nonmajor governmental funds. These deficits will be funded by grants, departmental revenues, long-term borrowing 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 fiscal year 2006.

Actual expenditures exceeded appropriations for snow and ice removal. These over-expenditures will be funded through available funds during fiscal year 2007.

Q. Use of Estimates*Government-Wide and Fund Financial Statements*

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

## R. Total Column

### *Government-Wide Financial Statements*

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

### *Fund Financial Statements*

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

## **NOTE 2 – CASH AND INVESTMENTS**

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

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 invested in the stock of any one bank or insurance company.

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

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 \$14,069,668 and the bank balance totaled \$15,868,575. Of the bank balance, \$416,692 was covered by Federal Depository Insurance, \$69,826 was covered by the Depositors Insurance Fund, and \$15,382,057 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 \$2,586,762 and the bank balance totaled \$2,643,300. The entire bank balance was covered by Federal Depository Insurance.

Investments

As of June 30, 2006, 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.....	\$ 95,625	\$ -	\$ 95,625	\$ -
Corporate Bonds.....	1,381,747	101,201	977,256	303,290
Repurchase Agreements.....	2,729,395	2,729,395	-	-
Total Debt Securities.....	4,206,767	2,830,596	1,072,881	303,290
<u>Other Investments:</u>				
Equity Securities.....	3,303,207			
Equity Mutual Funds.....	377,889			
Real Estate Investment Trusts.....	245,588			
MMDT.....	32,182			
Total Investments.....	\$ 8,165,633			

As of December 31, 2005, the System had the following investments:

Investment Type	Fair Value	Maturity			
		Under 1 Year	1-5 Years	6-10 Years	Over 10 Years
<u>Debt Securities:</u>					
U.S. Treasury Notes.....	\$ 1,214,107	\$ 532,949	\$ -	\$ 681,158	\$ -
Corporate Bonds.....	7,886,503	493,373	2,080,128	293,186	5,019,816
Federal Home Loan Mortgages.....	677,179	-	305,685	-	371,494
Federal National Mortgage Association.....	669,168	-	-	-	669,168
Repurchase Agreements.....	4,188,301	4,188,301	-	-	-
Total Debt Securities.....	14,635,258	5,214,623	2,385,813	974,344	6,060,478
<u>Other Investments:</u>					
Equity Securities.....	11,334,087				
Equity Mutual Funds.....	44,116,819				
Alternative Investment Mutual Funds.....	3,274,408				
Real Estate Mutual Funds.....	6,257,311				
Total Investments.....	\$ 79,617,883				

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 of \$95,625 in Federal Farm Credit Bank securities, \$1,381,747 in corporate bonds and \$3,681,096 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 MMDT is not exposed to custodial credit risk because the existence is not evidenced by securities that exist in physical or book entry form. The \$2,729,395 repurchase agreement is invested in collateralized Federal Home Loan Mortgage Corporation government backed securities. The City does not have an investment policy related to custodial credit risk.

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

Interest Rate Risk

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

Credit Risk

The City has not adopted a formal policy related to Credit Risk. Moody's Investors Service rated \$295,615 of corporate bonds AAA, \$197,548 AA, and \$888,584 A. The federal farm credit bank investment of \$95,625 and \$32,182 of MMDT investments are rated AA. The repurchase agreements and equity mutual fund investments are unrated

The System has not adopted a formal policy related to Credit Risk. Moody's Investors Service rated \$2,549,962 of corporate bonds AAA, \$1,598,654 AA, \$2,333,029 A, \$1,276,379 BAA, \$91,000 BA and 706,649 were unrated. The Federal Home Loan investments of \$677,179 are rated AAA. The repurchase agreement, equity mutual fund securities, alternate investment mutual funds and real estate mutual fund 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 Mortgage Corporation.....	33%

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>
Freedom Capital Equity Style Fund.....	12%
Freedom Large Capital Value Fund.....	10%
Freedom Core Plus Fixed Income Fund.....	13%
Freedom Large Capital Growth Fund.....	9%
Invesco Equity Real Estate Fund.....	7%
TBC International Core Equity.....	11%

**NOTE 3 – RECEIVABLES**

At June 30, 2006, receivables for the individual major governmental funds, non-major governmental funds and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 703,725	\$ -	\$ 703,725
Tax liens.....	880,994	-	880,994
Motor vehicle and other excise taxes.....	872,902	(244,253)	628,649
Departmental and other.....	114,118	-	114,118
Intergovernmental.....	49,943,424	-	49,943,424
Loans.....	1,002,486	-	1,002,486
Total.....	<u>\$ 53,517,649</u>	<u>\$ (244,253)</u>	<u>\$ 53,273,396</u>

At June 30, 2006, receivables for the water and sewer enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water user fees.....	\$ 852,417	\$ -	\$ 852,417
Sewer user fees.....	1,429,427	-	1,429,427
Total.....	<u>\$ 2,281,844</u>	<u>\$ -</u>	<u>\$ 2,281,844</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.....	\$ 281,504	\$ -	\$ 281,504
Tax liens.....	880,994	-	880,994
Motor vehicle and other excise.....	628,649	-	628,649
Intergovernmental.....	43,667,936	1,034,166	44,702,102
Loans.....	-	1,002,486	1,002,486
Total.....	<u>\$ 45,459,083</u>	<u>\$ 2,036,652</u>	<u>\$ 47,495,735</u>

**NOTE 4 – CAPITAL ASSETS**

As allowed by GASB Statement #34, in fiscal year 2006, the City retroactively reported general infrastructure assets acquired prior to the initial year of implementation of GASB Statement #34. Accordingly, net assets of governmental activities as of June 30, 2005, which were previously reported as \$90,022,004, have been restated to \$118,808,144.

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 4,684,753	\$ -	\$ -	\$ 4,684,753
Construction in progress.....	2,047,584	2,937,819	(1,670,324)	3,315,079
Total capital assets not being depreciated.....	<u>6,732,337</u>	<u>2,937,819</u>	<u>(1,670,324)</u>	<u>7,999,832</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	2,401,862	-	-	2,401,862
Buildings and improvements.....	108,288,058	1,542,149	-	109,830,207
Equipment.....	3,891,272	3,354,422	(208,343)	7,037,351
Infrastructure.....	50,255,463	659,962	-	50,915,425
Vehicles.....	6,474,013	757,624	(1,225,512)	6,006,125
Total capital assets being depreciated.....	<u>171,310,668</u>	<u>6,314,157</u>	<u>(1,433,855)</u>	<u>176,190,970</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(1,185,436)	(89,583)	-	(1,275,019)
Buildings and improvements.....	(26,700,876)	(2,862,958)	-	(29,563,834)
Equipment.....	(2,566,162)	(388,780)	208,343	(2,746,599)
Infrastructure.....	(20,819,559)	(1,356,690)	-	(22,176,249)
Vehicles.....	(5,116,194)	(370,882)	1,225,512	(4,261,564)
Total accumulated depreciation.....	<u>(56,388,227)</u>	<u>(5,068,893)</u>	<u>1,433,855</u>	<u>(60,023,265)</u>
Total capital assets being depreciated, net.....	<u>114,922,441</u>	<u>1,245,264</u>	<u>-</u>	<u>116,167,705</u>
Total governmental activities capital assets.....	<u>\$ 121,654,778</u>	<u>\$ 4,183,083</u>	<u>\$ (1,670,324)</u>	<u>\$ 124,167,537</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Water Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 10,589	\$ -	\$ -	\$ 10,589
Construction in progress.....	876,413	-	(876,413)	-
Total capital assets not being depreciated.....	887,002	-	(876,413)	10,589
<u>Capital assets being depreciated:</u>				
Land improvements.....	114,550	-	-	114,550
Infrastructure.....	9,081,083	2,036,041	-	11,117,124
Total capital assets being depreciated.....	9,195,633	2,036,041	-	11,231,674
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(20,047)	(5,728)	-	(25,775)
Infrastructure.....	(5,301,483)	(145,738)	-	(5,447,221)
Total accumulated depreciation.....	(5,321,530)	(151,466)	-	(5,472,996)
Total capital assets being depreciated, net.....	3,874,103	1,884,575	-	5,758,678
Total water activities capital assets.....	\$ 4,761,105	\$ 1,884,575	\$ (876,413)	\$ 5,769,267
<b>Sewer Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 99,552	\$ -	\$ -	\$ 99,552
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	5,425	-	-	5,425
Vehicles.....	125,486	-	-	125,486
Infrastructure.....	1,444,815	-	-	1,444,815
Total capital assets being depreciated.....	1,575,726	-	-	1,575,726
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(4,815)	(136)	-	(4,951)
Vehicles.....	(125,486)	-	-	(125,486)
Infrastructure.....	(1,012,380)	(18,286)	-	(1,030,666)
Total accumulated depreciation.....	(1,142,681)	(18,422)	-	(1,161,103)
Total capital assets being depreciated, net.....	433,045	(18,422)	-	414,623
Total sewer activities capital assets.....	\$ 532,597	\$ (18,422)	\$ -	\$ 514,175

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Golf Course Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 118,067	\$ -	\$ -	\$ 118,067
<u>Capital assets being depreciated:</u>				
Land improvements.....	312,852	-	-	312,852
Buildings and improvements.....	453,988	-	-	453,988
Equipment.....	274,409	56,000	-	330,409
Total capital assets being depreciated.....	1,041,249	56,000	-	1,097,249
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(283,397)	(10,829)	-	(294,226)
Buildings and improvements.....	(64,739)	(11,350)	-	(76,089)
Equipment.....	(216,007)	(20,707)	-	(236,714)
Total accumulated depreciation.....	(564,143)	(42,886)	-	(607,029)
Total capital assets being depreciated, net.....	477,106	13,114	-	490,220
Total golf course activities capital assets.....	\$ 595,173	\$ 13,114	\$ -	\$ 608,287
<b>Parking Activities:</b>				
<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.....	1,084,746	-	-	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	-	(10,668)	7,922,900
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(20,653)	(33,488)	-	(54,141)
Buildings and improvements.....	(3,166,007)	(192,948)	-	(3,358,955)
Equipment.....	(3,315)	(510)	-	(3,825)
Vehicles.....	(10,668)	-	10,668	-
Total accumulated depreciation.....	(3,200,643)	(226,946)	10,668	(3,416,921)
Total capital assets being depreciated, net.....	4,732,925	(226,946)	-	4,505,979
Total parking activities capital assets.....	\$ 5,817,671	\$ (226,946)	\$ -	\$ 5,590,725

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

**Governmental Activities:**

General government.....	\$ 215,722
Public safety.....	395,248
Education.....	2,731,571
Public works.....	1,479,243
Health and human services.....	57,619
Culture and recreation.....	<u>189,489</u>

Total depreciation expense - governmental activities..... \$ 5,068,893

**Business-Type Activities:**

Water.....	\$ 151,466
Sewer.....	18,422
Golf Course.....	42,886
Parking.....	<u>226,946</u>

Total depreciation expense - business-type activities..... \$ 439,720

**NOTE 5 – INTERFUND TRANSFERS AND BALANCES**

Interfund transfers for the fiscal year ended June 30, 2006, are summarized as follows:

Transfers Out:	Transfers In:			
	General Fund	Stabilization Fund	Golf Course Enterprise Fund	Total
General Fund.....	\$ -	\$ 246,663	\$ 362,110	\$ 608,773 (1)
Stabilization Fund.....	1,000,000	-	-	1,000,000 (2)
Nonmajor Governmental Funds.....	1,082,910	-	-	1,082,910 (3)
Parking Enterprise Fund.....	929,473	-	-	929,473 (4)
Golf Course Enterprise Fund.....	555,147	-	-	555,147 (5)
Sewer Enterprise Fund.....	753,162	-	-	753,162 (6)
Water Enterprise Fund.....	<u>753,162</u>	<u>-</u>	<u>-</u>	<u>753,162 (7)</u>
Total.....	<u>\$ 5,073,854</u>	<u>\$ 246,663</u>	<u>\$ 362,110</u>	<u>\$ 5,682,627</u>

- (1) Transfer from general fund to stabilization fund and 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 nonmajor 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.

The City’s interfund balances at June 30, 2006 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 for cash flow purposes.

**NOTE 6 – CAPITAL & OPERATING LEASES**

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

The assets acquired through capital leases are as follows:

<u>Asset:</u>	<u>Governmental Activities</u>
Machinery and equipment.....	\$ 2,236,248
Vehicles.....	196,648
Less: accumulated depreciation.....	<u>(318,643)</u>
 Total.....	 \$ <u><u>2,114,253</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2006, were as follows:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2007.....	\$ 720,364
2008.....	242,968
2009.....	57,264
2010.....	57,264
2011.....	57,264
2012.....	57,264
2013.....	57,264
2014.....	<u>57,264</u>
 Total minimum lease payments.....	 1,306,916
 Less: amounts representing interest.....	 <u>(134,265)</u>
 Present value of minimum lease payments.....	 \$ <u><u>1,172,651</u></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, 2006, totaled \$360,000, and is reported as a general government expenditure in the general fund.

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

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2007.....	\$ 360,000
2008.....	360,000
2009.....	360,000
2010.....	360,000
2011.....	<u>240,000</u>
 Total.....	 \$ <u><u>1,680,000</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, 2006, are as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2005	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2006
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	-
RAN	Governmental Activities.....	4.8%	02/02/06	-	4,500,000	4,500,000	-
RAN	Governmental Activities.....	3.8%	05/02/06	-	2,500,000	2,500,000	-
BAN	School Construction.....	3.9%	04/12/06	-	4,246,418	4,246,418	-
BAN	School Construction.....	4.3%	01/11/07	-	4,000,000	-	4,000,000
GAN	Equipment - Ferry Boat.....	6.0%	07/21/06	-	2,325,000	-	2,325,000
BAN	Equipment - Ferry Boat.....	6.0%	07/21/06	-	775,000	-	775,000
BAN	Police Equipment.....	4.3%	01/11/07	-	658,864	-	658,864
	Sub-total governmental-type notes....			<u>11,246,418</u>	<u>19,005,282</u>	<u>22,492,836</u>	<u>7,758,864</u>
BAN	Water System.....	3.5%	01/12/06	3,253,582	-	3,253,582	-
BAN	Water System.....	4.3%	01/11/07	-	3,341,136	-	3,341,136
	Sub-total business-type notes.....			<u>3,253,582</u>	<u>3,341,136</u>	<u>3,253,582</u>	<u>3,341,136</u>
	Total notes payable.....			<u>\$ 14,500,000</u>	<u>\$ 22,346,418</u>	<u>\$ 25,746,418</u>	<u>\$ 11,100,000</u>

Subsequent to year end, on August 30, 2006, the City borrowed Revenue Anticipation Notes to finance the timing difference of anticipated receipts, including taxes and Grant reimbursements, and budgeted expenditures. The Revenue Anticipation Notes were issued for \$9,100,000 at a 3.75% rate and mature on November 1, 2006.

On July 21, 2006, the City retired the \$2,325,000 Grant Anticipation Note with a capital grant received from the Commonwealth and available funds. The City reissued the \$775,000 BAN at 6.5% with a maturity date of July 18, 2007.

**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, 2006, and the debt service requirements are as follows:

**Bonds and Notes Payable Schedule – Governmental Funds**

Project	Interest Rate (%)	Outstanding at June 30, 2005	Issued	Redeemed	Outstanding at June 30, 2006
School Construction.....	5.125-5.750%	\$ 4,575,000	\$ -	\$ 395,000	\$ 4,180,000
School Construction.....	5.125-5.750%	1,025,000	-	95,000	930,000
HUD Section 108.....	3.41-3.70%	165,000	-	110,000	55,000
HUD Section 108.....	9.00%	315,000	-	70,000	245,000
School Construction.....	4.50-6.75%	9,340,000	-	395,000	8,945,000
Swimming Pool.....	4.50-6.75%	280,000	-	40,000	240,000
School Construction.....	3.50-4.00%	3,220,000	-	565,000	2,655,000
School Construction.....	3.50-4.00%	4,657,000	-	721,000	3,936,000
Police Station.....	3.50-4.00%	2,053,000	-	294,000	1,759,000
School Construction.....	3.00-5.00%	16,470,000	-	630,000	15,840,000
School Construction.....	3.00-5.00%	8,890,000	-	340,000	8,550,000
School Construction.....	3.00-5.00%	1,375,000	-	70,000	1,305,000
School Construction.....	2.25-4.50%	3,940,000	-	530,000	3,410,000
School Construction.....	3.00-5.00%	1,887,447	-	97,447	1,790,000
School Construction.....	3.00-5.00%	577,553	-	32,553	545,000
Total Governmental bonds payable.....		\$ 58,770,000	\$ -	\$ 4,385,000	\$ 54,385,000

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>
2007.....	\$ 4,255,000	\$ 2,297,438	\$ 6,552,438
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>\$ 54,385,000</u>	<u>\$ 18,508,826</u>	<u>\$ 72,893,826</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 2006, \$16,560,000 of such assistance was received. Approximately \$61,826,000 will be received in future fiscal years. Of this amount, approximately \$48,080,000 represents reimbursement of long-term interest costs, and approximately \$13,746,000 represents reimbursement of approved construction costs. Accordingly, a \$48,080,000 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, 2005</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2006</u>
Golf Course.....	4.50-6.75%	\$ <u>350,000</u>	\$ <u>-</u>	\$ <u>30,000</u>	\$ <u>320,000</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 320,000</u>	<u>\$ 83,858</u>	<u>\$ 403,858</u>

**Bonds and Notes Payable Schedule – Parking Enterprise Fund**

<u>Project</u>	<u>Interest Rate (%)</u>	<u>Outstanding at June 30, 2005</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2006</u>
Parking Garage Repairs.....	3.00-5.00%	\$ 1,100,000	\$ -	\$ 75,000	\$ 1,025,000

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 1,025,000</u>	<u>\$ 305,990</u>	<u>\$ 1,330,990</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, 2006, the City had the following authorized and unissued debt:

Purpose	Amount
School construction.....	\$ 19,666,031
School construction.....	7,850,000
Water systems improvements.....	8,658,864
School construction.....	10,183,000
Ferry Boat Project.....	<u>2,325,000</u>
Total.....	<u>\$ 48,682,895</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2006, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
Capital leases.....	\$ 723,214	\$ 1,046,619	\$ (597,182)	\$ 1,172,651	\$ 661,898
Long-term bonds and notes.....	58,770,000	-	(4,385,000)	54,385,000	4,255,000
Compensated absences.....	7,145,000	1,015,491	(2,058,491)	6,102,000	1,758,000
Workers' compensation.....	<u>705,225</u>	<u>119,493</u>	<u>(394,626)</u>	<u>430,092</u>	<u>123,136</u>
Total governmental activity long-term liabilities.....	<u>\$ 67,343,439</u>	<u>\$ 2,181,603</u>	<u>\$ (7,435,299)</u>	<u>\$ 62,089,743</u>	<u>\$ 6,798,034</u>
<b>Business-Type Activities:</b>					
Capital leases.....	\$ 20,205	\$ -	\$ (20,205)	\$ -	-
Long-term bonds and notes.....	1,450,000	-	(105,000)	1,345,000	105,000
Compensated absences.....	<u>175,000</u>	<u>34,000</u>	<u>(102,000)</u>	<u>107,000</u>	<u>34,000</u>
Total business-type activity long-term liabilities.....	<u>\$ 1,645,205</u>	<u>\$ 34,000</u>	<u>\$ (227,205)</u>	<u>\$ 1,452,000</u>	<u>\$ 139,000</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, namely the general fund and the sewer, water, golf and parking enterprise funds.

**NOTE 9 – RISK FINANCING**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. 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 \$110,000 per claim. At June 30, 2006, the estimated future liability ranges from \$900,000 to \$987,000. This liability is the best estimate based on available information.

Changes in the reported liability since July 1, 2004, 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 2005.....	\$ 800,000	\$	8,878,000	\$	(8,778,000)	\$	900,000	\$	900,000
Fiscal Year 2006.....	900,000		10,092,974		(10,014,974)		978,000		978,000

*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, 2006, the amount of the liability for workers' compensation claims totaled \$430,092.

Changes in the reported liability since July 1, 2004, 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 2005.....	\$ 895,225	\$	129,331	\$	(319,331)	\$	705,225	\$	320,000
Fiscal Year 2006.....	705,225		119,493		(394,626)		430,092		123,136

**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 \$6,376,140 for the fiscal year ended June 30, 2006, 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, 2005, the System's membership consists of the following:

Active members.....	840
Inactive members.....	162
Retirees and beneficiaries currently receiving benefits.....	<u>619</u>
 Total.....	 <u><u>1,621</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, 2006, 2005, 2004, 2003, 2002 and 2001 were \$6,957,102, \$5,918,415, \$4,923,382, \$5,053,036, \$4,323,114 and \$4,158,590, respectively, which equaled its required contribution for each fiscal year. At June 30, 2006, the City did not have a net pension obligation. The required contribution was determined as part of the January 1, 2006, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included an inflation rate of 4.5%, 8.25% investment rate of return and projected salary increases of 5.5% per year. The actuarial value of the System's assets was determined using the fair value of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining open amortization period at January 1, 2006 was 19 years.

### Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/06	\$ 84,796,044	\$ 166,958,606	\$ 82,162,562	50.8%	\$ 32,824,144	250.3%
01/01/05	81,801,377	156,479,479	74,678,102	52.3%	31,328,083	238.4%
01/01/04	80,659,012	142,499,185	61,840,173	56.6%	29,355,291	210.7%
01/01/03	76,438,885	137,111,559	60,672,674	55.7%	31,089,195	195.2%
01/01/01	73,727,923	117,334,727	43,606,804	62.8%	29,072,197	150.0%
01/01/99	68,563,143	111,294,953	42,731,810	61.6%	25,411,629	168.2%
01/01/97	51,236,360	82,440,774	31,204,414	62.1%	22,930,939	136.1%

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 2006 totaled approximately \$173,000.

#### 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, 2006, 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, 2006, 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, 2006, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2006.

**NOTE 14 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During fiscal year 2006, the following GASB pronouncements were implemented:

The GASB issued Statement #42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, which was required to be implemented in Fiscal 2006. This pronouncement did not 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 did 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 did not impact the basic financial statements.

The GASB issued Statement # 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues which is required to be implemented in Fiscal 2008. Management has elected to implement this GASB early. The basic financial statements were not impacted by this GASB.

**Other Future GASB Pronouncements:**

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.

## ***Required Supplementary Information***

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

FISCAL YEAR ENDED JUNE 30, 2006

	Budgeted Amounts						
	Amounts	Current Year			Actual	Amounts	Variance
	Carried forward From Prior Year	Initial Budget	Original Budget	Final Budget	Budgetary Amounts	Carried Forward To Next Year	
<b>REVENUES:</b>							
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 59,266,632	\$ 59,266,632	\$ 58,795,886	\$ 58,523,805	\$ -	\$ (272,081)
Tax liens.....	-	-	-	-	1,095,631	-	1,095,631
Motor vehicle and other excise taxes.....	-	3,650,000	3,650,000	3,650,000	3,577,544	-	(72,456)
Hotel/motel tax.....	-	295,500	295,500	295,500	263,962	-	(31,538)
Charges for services.....	-	1,300,000	1,300,000	1,300,000	1,198,183	-	(101,817)
Penalties and interest on taxes.....	-	310,000	310,000	310,000	350,651	-	40,651
Payments in lieu of taxes.....	-	1,073,500	1,073,500	1,073,500	1,088,754	-	15,254
Licenses and permits.....	-	500,000	500,000	500,000	497,479	-	(2,521)
Fines and forfeitures.....	-	1,000,000	1,000,000	1,000,000	1,084,428	-	84,428
Intergovernmental.....	-	26,730,453	26,730,453	26,730,453	26,762,477	-	32,024
Departmental and other.....	-	1,910,000	1,910,000	1,910,000	1,763,900	-	(146,100)
Investment income.....	-	155,000	155,000	155,000	159,031	-	4,031
<b>TOTAL REVENUES.....</b>	<b>-</b>	<b>96,191,085</b>	<b>96,191,085</b>	<b>95,720,339</b>	<b>96,365,845</b>	<b>-</b>	<b>645,506</b>
<b>EXPENDITURES:</b>							
Current:							
General government							
City Council							
Personnel.....	-	119,700	119,700	119,700	119,303	-	397
Non - Personnel.....	-	22,850	22,850	22,850	22,424	-	426
<b>Total.....</b>	<b>-</b>	<b>142,550</b>	<b>142,550</b>	<b>142,550</b>	<b>141,727</b>	<b>-</b>	<b>823</b>
Mayor							
Personnel.....	-	228,464	228,464	228,464	228,464	-	-
Non - Personnel.....	32,000	77,135	109,135	109,135	88,035	21,100	-
<b>Total.....</b>	<b>32,000</b>	<b>305,599</b>	<b>337,599</b>	<b>337,599</b>	<b>316,499</b>	<b>21,100</b>	<b>-</b>
Finance/Auditing							
Personnel.....	-	211,848	211,848	211,848	202,050	9,700	98
Non - Personnel.....	3,100	3,955	7,055	7,055	4,017	580	2,458
<b>Total.....</b>	<b>3,100</b>	<b>215,803</b>	<b>218,903</b>	<b>218,903</b>	<b>206,067</b>	<b>10,280</b>	<b>2,556</b>
Purchasing							
Personnel.....	-	132,856	132,856	122,856	121,804	-	1,052
Non - Personnel.....	-	17,600	17,600	17,600	15,329	-	2,271
Fixed Costs.....	-	61,504	61,504	61,504	52,255	-	9,249
<b>Total.....</b>	<b>-</b>	<b>211,960</b>	<b>211,960</b>	<b>201,960</b>	<b>189,388</b>	<b>-</b>	<b>12,572</b>
Assessors							
Personnel.....	-	232,688	232,688	222,028	219,283	-	2,745
Non - Personnel.....	-	34,000	34,000	34,000	17,809	12,300	3,891
<b>Total.....</b>	<b>-</b>	<b>266,688</b>	<b>266,688</b>	<b>256,028</b>	<b>237,092</b>	<b>12,300</b>	<b>6,636</b>
Treasurer							
Personnel.....	-	140,663	140,663	140,663	140,588	-	75
Non - Personnel.....	-	91,550	91,550	91,550	84,614	-	6,936
<b>Total.....</b>	<b>-</b>	<b>232,213</b>	<b>232,213</b>	<b>232,213</b>	<b>225,202</b>	<b>-</b>	<b>7,011</b>
Collector							
Personnel.....	-	145,694	145,694	145,694	141,840	-	3,854
Non - Personnel.....	-	23,025	23,025	23,025	15,430	7,300	295
<b>Total.....</b>	<b>-</b>	<b>168,719</b>	<b>168,719</b>	<b>168,719</b>	<b>157,270</b>	<b>7,300</b>	<b>4,149</b>
Solicitor							
Personnel.....	-	115,340	115,340	93,340	93,340	-	-
Non - Personnel.....	-	113,200	113,200	135,200	135,200	-	-
<b>Total.....</b>	<b>-</b>	<b>228,540</b>	<b>228,540</b>	<b>228,540</b>	<b>228,540</b>	<b>-</b>	<b>-</b>

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2006

	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			
<b>Human Resources</b>							
Personnel.....	-	184,037	184,037	184,037	183,968	-	69
Non - Personnel.....	-	27,687	27,687	27,687	23,455	-	4,232
Total.....	-	211,724	211,724	211,724	207,423	-	4,301
<b>Data Processing</b>							
Personnel.....	-	145,291	145,291	145,291	145,281	-	10
Non - Personnel.....	985	9,116	10,101	10,101	9,606	-	495
Fixed Costs.....	-	238,029	238,029	238,029	237,655	-	374
GIS.....	-	57,000	57,000	57,000	57,000	-	-
Total.....	985	449,436	450,421	450,421	449,542	-	879
<b>City Clerk Record Maintenance</b>							
Personnel.....	-	149,094	149,094	149,094	149,087	-	7
Non - Personnel.....	-	10,200	10,200	10,200	9,832	-	368
Total.....	-	159,294	159,294	159,294	158,919	-	375
<b>Elections &amp; Registrations</b>							
Personnel.....	-	161,129	161,129	162,165	161,551	-	614
Non - Personnel.....	-	51,850	51,850	51,850	51,347	-	503
Total.....	-	212,979	212,979	214,015	212,898	-	1,117
<b>Licensing</b>							
Personnel.....	-	46,039	46,039	46,039	46,037	-	2
Non - Personnel.....	-	1,539	1,539	1,539	1,060	-	479
Total.....	-	47,578	47,578	47,578	47,097	-	481
<b>Conservation Commission</b>							
Personnel.....	-	21,669	21,669	21,669	14,475	-	7,194
Non - Personnel.....	-	425	425	425	165	-	260
Total.....	-	22,094	22,094	22,094	14,640	-	7,454
<b>Subdivision, Planning, and Zoning Board</b>							
Personnel.....	-	21,669	21,669	21,669	21,509	-	160
Non - Personnel.....	-	3,500	3,500	3,500	1,231	-	2,269
Total.....	-	25,169	25,169	25,169	22,740	-	2,429
<b>Board of Appeals</b>							
Personnel.....	-	3,000	3,000	3,000	3,000	-	-
Non - Personnel.....	-	975	975	975	598	-	377
Total.....	-	3,975	3,975	3,975	3,598	-	377
<b>Planning Department</b>							
Personnel.....	-	177,684	177,684	170,162	151,455	-	18,707
Non - Personnel.....	-	7,275	7,275	7,275	4,051	-	3,224
Total.....	-	184,959	184,959	177,437	155,506	-	21,931
<b>Public Property/Building Maintenance</b>							
Personnel.....	-	107,329	107,329	87,329	85,707	-	1,622
Non - Personnel.....	11,906	117,160	129,066	183,320	176,392	4,739	2,189
Fixed Costs.....	-	533,500	533,500	508,500	495,918	11,900	682
Total.....	11,906	757,989	769,895	779,149	758,017	16,639	4,493
<b>Market and Tourism.....</b>	-	8,767	8,767	8,767	7,248	-	1,519
<b>Total General Government.....</b>	47,991	3,856,036	3,904,027	3,886,135	3,739,413	67,619	79,103

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2006

	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			
<b>Public safety</b>							
Police							
Personnel.....	-	6,529,444	6,529,444	6,554,167	6,554,166	-	1
Non - Personnel.....	9,047	438,052	447,099	447,099	436,256	-	10,843
Total.....	9,047	6,967,496	6,976,543	7,001,266	6,990,422	-	10,844
Fire							
Personnel.....	-	5,425,208	5,425,208	5,423,208	5,414,508	-	8,700
Non - Personnel.....	-	363,863	363,863	365,863	331,084	-	34,779
Total.....	-	5,789,071	5,789,071	5,789,071	5,745,592	-	43,479
Building, Plumbing, Gas Inspections							
Personnel.....	-	247,513	247,513	247,513	225,988	-	21,525
Electrical Inspection and Maintenance							
Personnel.....	-	264,219	264,219	264,219	264,217	-	2
Non - Personnel.....	-	527,545	527,545	527,545	524,441	-	3,104
Total.....	-	791,764	791,764	791,764	788,658	-	3,106
Harbormaster							
Personnel.....	-	179,023	179,023	168,122	164,209	-	3,913
Non - Personnel.....	-	35,900	35,900	38,570	37,436	-	1,134
Total.....	-	214,923	214,923	206,692	201,645	-	5,047
Parking Fines							
Personnel.....	-	27,576	27,576	27,576	27,182	-	394
<b>Total Public Safety.....</b>	<b>9,047</b>	<b>14,038,343</b>	<b>14,047,390</b>	<b>14,063,882</b>	<b>13,979,487</b>	<b>-</b>	<b>84,395</b>
<b>Education</b>							
School.....	1,098,447	42,163,350	43,261,797	42,761,797	42,760,339	-	1,458
NSRS/Charter/Choice.....	-	1,330,094	1,330,094	1,302,497	1,302,497	-	-
<b>Total Education.....</b>	<b>1,098,447</b>	<b>43,493,444</b>	<b>44,591,891</b>	<b>44,064,294</b>	<b>44,062,836</b>	<b>-</b>	<b>1,458</b>
<b>Public Works</b>							
Public Services/Engineering							
Personnel.....	-	685,849	685,849	615,849	610,954	-	4,895
Non - Personnel.....	-	328,600	328,600	342,782	320,913	-	21,869
Total.....	-	1,014,449	1,014,449	958,631	931,867	-	26,764
Snow and Ice							
Personnel.....	-	50,000	50,000	50,000	55,175	-	(5,175)
Non - Personnel.....	-	344,560	344,560	344,560	595,977	-	(251,417)
Total.....	-	394,560	394,560	394,560	651,152	-	(256,592)
Solid Waste Collection.....	-	3,002,347	3,002,347	3,002,347	2,998,597	-	3,750
Parking Garage							
Personnel.....	-	411,059	411,059	396,059	369,243	-	26,816
Non - Personnel.....	-	132,261	132,261	147,261	133,879	12,691	691
Total.....	-	543,320	543,320	543,320	503,122	12,691	27,507

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2006

	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.....	-	462,645	462,645	490,491	488,778	-	1,713
Non - Personnel.....	6,605	57,803	64,408	102,588	91,828	5,695	5,065
Total.....	6,605	520,448	527,053	593,079	580,606	5,695	6,778
Total Public Works.....	6,605	5,475,124	5,481,729	5,491,937	5,665,344	18,386	(191,793)
Health and Human Services							
Board of Health							
Personnel.....	-	367,175	367,175	367,175	357,963	-	9,212
Non - Personnel.....	570	16,650	17,220	17,220	14,396	1,220	1,604
Total.....	570	383,825	384,395	384,395	372,359	1,220	10,816
Council on Aging							
Personnel.....	-	319,729	319,729	305,829	301,389	-	4,440
Non - Personnel.....	-	18,797	18,797	18,797	15,318	-	3,479
Total.....	-	338,526	338,526	324,626	316,707	-	7,919
Veterans Services							
Personnel.....	-	58,136	58,136	58,136	56,227	-	1,909
Non - Personnel.....	-	88,937	88,937	88,937	81,073	-	7,864
Total.....	-	147,073	147,073	147,073	137,300	-	9,773
Total Health and Human Services.....	570	869,424	869,994	856,094	826,366	1,220	28,508
Library							
Personnel.....	-	753,400	753,400	736,400	727,404	-	8,996
Non - Personnel.....	-	258,167	258,167	258,167	255,064	-	3,103
Total.....	-	1,011,567	1,011,567	994,567	982,468	-	12,099
Parks and Recreation							
Personnel.....	-	741,753	741,753	689,717	685,284	-	4,433
Non - Personnel.....	4,311	233,112	237,423	237,423	202,784	656	33,983
Total.....	4,311	974,865	979,176	927,140	888,068	656	38,416
Golf Course							
Personnel.....	-	219,173	219,173	219,173	214,956	-	4,217
Non - Personnel.....	-	77,911	77,911	109,211	100,979	2,000	6,232
Total.....	-	297,084	297,084	328,384	315,935	2,000	10,449
Witch House							
Personnel.....	-	74,066	74,066	74,066	70,808	-	3,258
Non - Personnel.....	-	45,680	45,680	60,680	51,705	-	8,975
Total.....	-	119,746	119,746	134,746	122,513	-	12,233
Historical Commission							
Personnel.....	-	6,729	6,729	6,729	6,721	-	8
Non - Personnel.....	-	1,609	1,609	1,609	191	-	1,418
Total.....	-	8,338	8,338	8,338	6,912	-	1,426
Winter Island							
Personnel.....	-	106,841	106,841	106,841	105,658	-	1,183
Non - Personnel.....	-	39,020	39,020	44,020	40,266	-	3,754
Total.....	-	145,861	145,861	150,861	145,924	-	4,937
Total Culture and Recreation.....	4,311	2,557,461	2,561,772	2,544,036	2,461,820	2,656	79,560

(continued)

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

FISCAL YEAR ENDED JUNE 30, 2006

	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.....	-	4,310,000	4,310,000	4,310,000	4,310,000	-	-
Interest.....	-	2,491,307	2,491,307	2,491,307	2,491,306	-	1
Short Term Interest.....	-	442,532	442,532	442,532	428,277	14,000	255
Total.....	-	7,243,839	7,243,839	7,243,839	7,229,583	14,000	256
State and county charges.....	-	5,184,105	5,184,105	5,184,105	5,047,971	-	136,134
Pension benefits							
Contributory Retirement.....	-	6,977,372	6,977,372	6,901,854	6,839,449	62,400	5
Non-Contributory Retirement.....	-	185,000	185,000	185,000	173,304	11,600	96
Total.....	-	7,162,372	7,162,372	7,086,854	7,012,753	74,000	101
Workmen's Compensation.....	-	321,121	321,121	395,190	394,626	-	564
Unemployment Compensation.....	-	200,000	200,000	183,941	183,941	-	-
Group Insurance.....	-	10,486,802	10,486,802	10,642,000	10,634,171	-	7,829
Medicare.....	-	670,000	670,000	670,000	645,640	19,700	4,660
Municipal Insurance.....	-	311,898	311,898	493,798	493,748	-	50
TOTAL EXPENDITURES.....	1,166,971	101,869,969	103,036,940	102,806,105	102,377,699	197,581	230,825
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(1,166,971)	(5,678,884)	(6,845,855)	(7,085,766)	(6,011,854)	(197,581)	876,331
<b>OTHER FINANCING SOURCES (USES):</b>							
Premium from issuance of bonds.....	-	-	-	-	10,443	-	10,443
Transfers in.....	-	3,970,993	3,970,993	4,143,072	4,144,381	-	1,309
Transfers out.....	-	-	-	(246,663)	(246,663)	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	-	3,970,993	3,970,993	3,896,409	3,908,161	-	11,752
NET CHANGE IN FUND BALANCE.....	(1,166,971)	(1,707,891)	(2,874,862)	(3,189,357)	(2,103,693)	(197,581)	888,083
BUDGETARY FUND BALANCE, Beginning of year	4,113,613	4,113,613	4,113,613	4,113,613	4,113,613	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ 2,946,642	\$ 2,405,722	\$ 1,238,751	\$ 924,256	\$ 2,009,920	\$ (197,581)	\$ 888,083

(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 the fiscal year, any amount appropriated for the use of any department to the appropriation for any other department, provided that no such transfer may be made from any appropriation for a school department, regional school district, or municipal light department.

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

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2006 approved budget authorized approximately \$101,900,000 in appropriations and other amounts to be raised. During fiscal year 2006, the Council also approved supplemental appropriations and budget reductions for a net increase of \$15,828.

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, 2006, is presented below:

Net change in fund balance - budgetary basis.....	\$ (2,103,693)
<u>Basis of accounting differences:</u>	
Net change in revenues in recording tax refunds payable.....	78,129
Additional expense to fund internal service deficit.....	2,142,901
Recognition of revenue for on-behalf payments.....	6,376,140
Recognition of expenditures for on-behalf payments.....	(6,376,140)
Reclassification of enterprise fund revenue budged in the general fund.....	(1,549,833)
Reclassification of enterprise fund expenditures budged in the general fund...	1,549,833
Net difference in recognition of expenditures.....	<u>838,791</u>
Net change in fund balances - GAAP basis.....	<u>\$ 956,128</u>

3. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2006, actual expenditures exceeded appropriations for snow and ice removal. These over-expenditures will be funded through available funds during fiscal year 2007.

# ***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.

## ***Capital Project Funds***

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

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

*Computer System* – This fund is used to account for the purchase of new computers for the school department which are being financed through the issuance of capital leases.

## ***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, 2006

	Special Revenue Funds					
	City Grants	School Grants	Community Development Grants	School Lunch	Highway Grants	Donations & Gifts
<b>ASSETS</b>						
Cash and cash equivalents.....	\$ 1,251,464	\$ 961,825	\$ 184,972	\$ -	\$ -	\$ 491,481
Investments.....	-	-	-	-	-	-
Receivables, net of uncollectibles:						
Departmental and other.....	-	-	28,300	-	-	-
Intergovernmental.....	267,899	186,859	2,727	95,000	1,224,014	-
Loans.....	-	-	-	-	-	-
Due from other funds.....	334,693	-	-	-	-	-
<b>TOTAL ASSETS.....</b>	<b>\$ 1,854,056</b>	<b>\$ 1,148,684</b>	<b>\$ 215,999</b>	<b>\$ 95,000</b>	<b>\$ 1,224,014</b>	<b>\$ 491,481</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES:</b>						
Warrants payable.....	\$ 45,322	\$ 102,575	\$ 49,484	\$ 21,905	\$ 123,671	\$ -
Deferred revenues.....	-	-	-	-	1,034,166	-
Due to other funds.....	-	-	-	268,516	66,177	-
Notes payable.....	-	-	-	-	-	-
<b>TOTAL LIABILITIES.....</b>	<b>45,322</b>	<b>102,575</b>	<b>49,484</b>	<b>290,421</b>	<b>1,224,014</b>	<b>-</b>
<b>FUND BALANCES:</b>						
Reserved for:						
Perpetual permanent funds.....	-	-	-	-	-	-
Unreserved:						
Undesignated, reported in:						
Special revenue funds.....	1,808,734	1,046,109	166,515	(195,421)	-	491,481
Capital projects funds.....	-	-	-	-	-	-
Permanent funds.....	-	-	-	-	-	-
<b>TOTAL FUND BALANCES.....</b>	<b>1,808,734</b>	<b>1,046,109</b>	<b>166,515</b>	<b>(195,421)</b>	<b>-</b>	<b>491,481</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 1,854,056</b>	<b>\$ 1,148,684</b>	<b>\$ 215,999</b>	<b>\$ 95,000</b>	<b>\$ 1,224,014</b>	<b>\$ 491,481</b>

(Continued)

**NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET**

JUNE 30, 2006

	Special Revenue Funds				Capital Project Funds		
	Receipts Reserved	City Revolving Accounts	School Revolving Accounts	Subtotal	Police Station Equipment	Salem Ferry	Subtotal
<b>ASSETS</b>							
Cash and cash equivalents.....	\$ 619,010	\$ 1,527,499	\$ 44,082	\$ 5,080,333	\$ 628,710	\$ 268,978	\$ 897,688
Investments.....	-	-	-	-	-	-	-
Receivables, net of uncollectibles:							
Departmental and other.....	-	-	-	28,300	-	-	-
Intergovernmental.....	-	-	-	1,776,499	-	2,295,688	2,295,688
Loans.....	-	1,002,486	-	1,002,486	-	-	-
Due from other funds.....	-	-	-	334,693	-	-	-
<b>TOTAL ASSETS.....</b>	<b>\$ 619,010</b>	<b>\$ 2,529,985</b>	<b>\$ 44,082</b>	<b>\$ 8,222,311</b>	<b>\$ 628,710</b>	<b>\$ 2,564,666</b>	<b>\$ 3,193,376</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>LIABILITIES:</b>							
Warrants payable.....	\$ -	\$ 311,215	\$ 425	\$ 654,597	\$ -	\$ 81,874	\$ 81,874
Deferred revenues.....	-	1,002,486	-	2,036,652	-	-	-
Due to other funds.....	-	-	-	334,693	-	-	-
Notes payable.....	-	-	-	-	658,864	3,100,000	3,758,864
<b>TOTAL LIABILITIES.....</b>	<b>-</b>	<b>1,313,701</b>	<b>425</b>	<b>3,025,942</b>	<b>658,864</b>	<b>3,181,874</b>	<b>3,840,738</b>
<b>FUND BALANCES:</b>							
Reserved for:							
Perpetual permanent funds.....	-	-	-	-	-	-	-
Unreserved:							
Undesignated, reported in:							
Special revenue funds.....	619,010	1,216,284	43,657	5,196,369	-	-	-
Capital projects funds.....	-	-	-	-	(30,154)	(617,208)	(647,362)
Permanent funds.....	-	-	-	-	-	-	-
<b>TOTAL FUND BALANCES.....</b>	<b>619,010</b>	<b>1,216,284</b>	<b>43,657</b>	<b>5,196,369</b>	<b>(30,154)</b>	<b>(617,208)</b>	<b>(647,362)</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 619,010</b>	<b>\$ 2,529,985</b>	<b>\$ 44,082</b>	<b>\$ 8,222,311</b>	<b>\$ 628,710</b>	<b>\$ 2,564,666</b>	<b>\$ 3,193,376</b>

(Continued)

Permanent Funds				Total Nonmajor Governmental Funds
Cemetery Funds	Human Service Funds	Other	Subtotal	
\$ 285,305	\$ 158,773	\$ 109,381	\$ 553,459	\$ 6,531,480
2,099,293	1,168,257	804,847	4,072,397	4,072,397
-	-	-	-	28,300
-	-	-	-	4,072,187
-	-	-	-	1,002,486
-	-	-	-	334,693
<u>\$ 2,384,598</u>	<u>\$ 1,327,030</u>	<u>\$ 914,228</u>	<u>\$ 4,625,856</u>	<u>\$ 16,041,543</u>
\$ -	\$ -	\$ -	\$ -	736,471
-	-	-	-	2,036,652
-	-	-	-	334,693
-	-	-	-	3,758,864
-	-	-	-	6,866,680
927,105	221,174	458,625	1,606,904	1,606,904
-	-	-	-	5,196,369
-	-	-	-	(647,362)
<u>1,457,493</u>	<u>1,105,856</u>	<u>455,603</u>	<u>3,018,952</u>	<u>3,018,952</u>
<u>2,384,598</u>	<u>1,327,030</u>	<u>914,228</u>	<u>4,625,856</u>	<u>9,174,863</u>
<u>\$ 2,384,598</u>	<u>\$ 1,327,030</u>	<u>\$ 914,228</u>	<u>\$ 4,625,856</u>	<u>\$ 16,041,543</u>

(Concluded)

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

FISCAL YEAR ENDED JUNE 30, 2006

	Special Revenue Funds					
	City Grants	School Grants	Community Development Grants	School Lunch	Highway Grants	Donations & Gifts
<b>REVENUES:</b>						
Charges for services.....	\$ 15,642	\$ 9,095	\$ -	\$ -	\$ -	\$ -
Intergovernmental.....	4,255,086	6,902,814	1,981,421	1,435,907	752,569	-
Departmental and other.....	44,587	32,230	-	-	-	-
Contributions.....	308,932	-	-	-	-	168,818
Investment income.....	3,650	-	3,786	-	-	-
<b>TOTAL REVENUES.....</b>	<b>4,627,897</b>	<b>6,944,139</b>	<b>1,985,207</b>	<b>1,435,907</b>	<b>752,569</b>	<b>168,818</b>
<b>EXPENDITURES:</b>						
Current:						
General government.....	245,634	-	-	-	-	117,596
Public safety.....	516,946	-	-	-	-	3,161
Education.....	214,810	7,753,208	-	1,542,180	-	10,176
Public works.....	89,939	-	-	-	752,569	101,411
Community development.....	-	-	1,732,143	-	-	-
Human services.....	3,496,884	-	-	-	-	66,077
Culture and recreation.....	71,191	-	-	-	-	16,246
Employee benefits.....	17,066	163,832	-	-	-	-
Debt service:						
Principal.....	-	-	180,000	-	-	-
Interest.....	-	-	19,574	-	-	-
<b>TOTAL EXPENDITURES.....</b>	<b>4,652,470</b>	<b>7,917,040</b>	<b>1,931,717</b>	<b>1,542,180</b>	<b>752,569</b>	<b>314,667</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(24,573)</b>	<b>(972,901)</b>	<b>53,490</b>	<b>(106,273)</b>	<b>-</b>	<b>(145,849)</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Capital lease financing.....	-	-	-	-	-	-
Transfers in.....	-	-	-	-	-	-
Transfers out.....	(600,350)	-	(940)	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>(600,350)</b>	<b>-</b>	<b>(940)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>(624,923)</b>	<b>(972,901)</b>	<b>52,550</b>	<b>(106,273)</b>	<b>-</b>	<b>(145,849)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>2,433,657</b>	<b>2,019,010</b>	<b>113,965</b>	<b>(89,148)</b>	<b>-</b>	<b>637,330</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 1,808,734</b>	<b>\$ 1,046,109</b>	<b>\$ 166,515</b>	<b>\$ (195,421)</b>	<b>\$ -</b>	<b>\$ 491,481</b>

(Continued)

Special Revenue Funds				Capital Project Funds			
Receipts Reserved	City Revolving Accounts	School Revolving Accounts	Subtotal	Police Station Equipment	Salem Ferry	Computer System	Subtotal
\$ 350,000	\$ 29,160	\$ -	\$ 403,897	\$ -	\$ -	\$ -	\$ -
-	408,600	-	15,736,397	-	2,295,688	-	2,295,688
412,316	478,145	804,999	1,772,277	-	-	-	-
-	-	9,543	487,293	-	-	-	-
-	29,401	2,546	39,383	-	-	-	-
<u>762,316</u>	<u>945,306</u>	<u>817,088</u>	<u>18,439,247</u>	<u>-</u>	<u>2,295,688</u>	<u>-</u>	<u>2,295,688</u>
-	486,015	-	849,245	-	2,912,896	-	2,912,896
-	-	66	520,173	657,490	-	-	657,490
-	-	1,010,634	10,531,008	-	-	287,475	287,475
-	35,591	-	979,510	-	-	-	-
-	159,243	-	1,891,386	-	-	-	-
-	-	-	3,562,961	-	-	-	-
-	101,819	-	189,256	-	-	-	-
-	-	19,460	200,358	-	-	-	-
-	-	-	180,000	-	-	-	-
-	-	-	19,574	-	-	-	-
<u>-</u>	<u>782,668</u>	<u>1,030,160</u>	<u>18,923,471</u>	<u>657,490</u>	<u>2,912,896</u>	<u>287,475</u>	<u>3,857,861</u>
<u>762,316</u>	<u>162,638</u>	<u>(213,072)</u>	<u>(484,224)</u>	<u>(657,490)</u>	<u>(617,208)</u>	<u>(287,475)</u>	<u>(1,562,173)</u>
-	-	-	-	627,336	-	287,475	914,811
-	-	-	-	-	-	-	-
<u>(459,755)</u>	<u>(18)</u>	<u>-</u>	<u>(1,061,063)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(459,755)</u>	<u>(18)</u>	<u>-</u>	<u>(1,061,063)</u>	<u>627,336</u>	<u>-</u>	<u>287,475</u>	<u>914,811</u>
302,561	162,620	(213,072)	(1,545,287)	(30,154)	(617,208)	-	(647,362)
316,449	1,053,664	256,729	6,741,656	-	-	-	-
<u>\$ 619,010</u>	<u>\$ 1,216,284</u>	<u>\$ 43,657</u>	<u>\$ 5,196,369</u>	<u>\$ (30,154)</u>	<u>\$ (617,208)</u>	<u>\$ -</u>	<u>\$ (647,362)</u>

(Continued)

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

FISCAL YEAR ENDED JUNE 30, 2006

	Permanent Funds				Total Nonmajor Governmental Funds
	Cemetery Funds	Human Service Funds	Other	Subtotal	
<b>REVENUES:</b>					
Charges for services.....	\$ -	\$ -	\$ -	\$ -	\$ 403,897
Intergovernmental.....	-	-	10,542	10,542	18,042,627
Departmental and other.....	-	-	-	-	1,772,277
Contributions.....	34,491	-	5,333	39,824	527,117
Investment income.....	169,400	85,631	49,916	304,947	344,330
<b>TOTAL REVENUES.....</b>	<b>203,891</b>	<b>85,631</b>	<b>65,791</b>	<b>355,313</b>	<b>21,090,248</b>
<b>EXPENDITURES:</b>					
Current:					
General government.....	-	-	29,619	29,619	3,791,760
Public safety.....	-	-	10,362	10,362	1,188,025
Education.....	-	-	-	-	10,818,483
Public works.....	66,423	-	-	66,423	1,045,933
Community development.....	-	-	-	-	1,891,386
Human services.....	-	86,086	-	86,086	3,649,047
Culture and recreation.....	-	-	4,459	4,459	193,715
Employee benefits.....	-	-	-	-	200,358
Debt service:					
Principal.....	-	-	-	-	180,000
Interest.....	-	-	-	-	19,574
<b>TOTAL EXPENDITURES.....</b>	<b>66,423</b>	<b>86,086</b>	<b>44,440</b>	<b>196,949</b>	<b>22,978,281</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>137,468</b>	<b>(455)</b>	<b>21,351</b>	<b>158,364</b>	<b>(1,888,033)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Capital lease financing.....	-	-	-	-	914,811
Transfers in.....	-	-	-	-	-
Transfers out.....	(21,847)	-	-	(21,847)	(1,082,910)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>(21,847)</b>	<b>-</b>	<b>-</b>	<b>(21,847)</b>	<b>(168,099)</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>115,621</b>	<b>(455)</b>	<b>21,351</b>	<b>136,517</b>	<b>(2,056,132)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>2,268,977</b>	<b>1,327,485</b>	<b>892,877</b>	<b>4,489,339</b>	<b>11,230,995</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 2,384,598</b>	<b>\$ 1,327,030</b>	<b>\$ 914,228</b>	<b>\$ 4,625,856</b>	<b>\$ 9,174,863</b>

(Concluded)

## ***Private Purpose Trust Funds***

*Trust Fund Commissioners* – This fund is used to account for trusts held by the City to benefit individuals and 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, 2006

	Private Purpose Trust Funds		
	Trust Fund Commissioners	Scholarship Funds	Total
<b>ASSETS</b>			
CURRENT:			
Cash and cash equivalents.....	\$ 29,395	\$ 70,498	\$ 99,893
Investments.....	1,331,659	-	1,331,659
<b>TOTAL ASSETS</b> .....	<b>1,361,054</b>	<b>70,498</b>	<b>1,431,552</b>
<b>NET ASSETS</b>			
Held in trust for other purposes.....	\$ 1,361,054	\$ 70,498	\$ 1,431,552

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

FISCAL YEAR ENDED JUNE 30, 2006

	Private Purpose Trust Funds		
	Trust Fund Commissioners	Scholarship Funds	Total
<b>ADDITIONS:</b>			
Contributions:			
Private donations.....	\$ 1,093	\$ 11,000	\$ 12,093
Net investment income (loss):			
Interest.....	75,529	1,821	77,350
TOTAL ADDITIONS.....	76,622	12,821	89,443
<b>DEDUCTIONS:</b>			
Educational scholarships.....	16,634	10,889	27,523
Housing subsidies.....	27,833	-	27,833
TOTAL DEDUCTIONS.....	44,467	10,889	55,356
CHANGE IN NET ASSETS.....	32,155	1,932	34,087
NET ASSETS AT BEGINNING OF YEAR.....	1,328,899	68,566	1,397,465
NET ASSETS AT END OF YEAR.....	\$ 1,361,054	\$ 70,498	\$ 1,431,552

# ***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**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Beginning of Year	Additions	Deletions	End of Year
<b>ASSETS</b>				
CURRENT:				
Cash and cash equivalents.....	\$ 274,062	\$ 4,045,068	\$ (3,842,502)	\$ 476,628
Receivables, net of allowance for uncollectibles:				
Departmental and other.....	88,559	6,041	(88,559)	6,041
<b>TOTAL ASSETS.....</b>	<b>\$ 362,621</b>	<b>\$ 4,051,109</b>	<b>\$ (3,931,061)</b>	<b>\$ 482,669</b>
<b>LIABILITIES</b>				
Warrants payable.....	\$ 18,753	\$ 1,047,224	\$ (1,037,878)	\$ 28,099
Payroll withholdings.....	48,373	1,426,664	(1,353,715)	121,322
Special detail.....	31,843	1,033,068	(1,049,731)	15,180
Other liabilities.....	263,652	449,553	(395,137)	318,068
<b>TOTAL LIABILITIES.....</b>	<b>\$ 362,621</b>	<b>\$ 3,956,509</b>	<b>\$ (3,836,461)</b>	<b>\$ 482,669</b>

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# ***Statistical Section***



*Photo courtesy of Jim McAllister*

## **Pioneer Village - 1630**

Located in Forest River Park, Pioneer Village is a recreation of the English colony established by Roger Conant and his intrepid band of settlers. From these humbling beginnings the seeds of Revolution were planted.

# ***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 Five Fiscal Years**

	Fiscal Year				
	2002	2003	2004	2005	2006
<b>Governmental activities</b>					
Invested in capital assets, net of related debt..... \$	82,253,876	\$ 83,045,604	\$ 79,729,492	\$ 112,740,510	\$ 109,183,737
Restricted.....	5,755,817	5,237,908	8,759,761	9,734,998	8,649,700
Unrestricted.....	<u>4,546,625</u>	<u>9,656,396</u>	<u>6,519,783</u>	<u>(3,667,364)</u>	<u>(371,947)</u>
<b>Total governmental activities net assets..... \$</b>	<b><u>92,556,318</u></b>	<b><u>\$ 97,939,908</u></b>	<b><u>\$ 95,009,036</u></b>	<b><u>\$ 118,808,144</u></b>	<b><u>\$ 117,461,490</u></b>
<b>Business-type activities</b>					
Invested in capital assets, net of related debt.....	8,782,331	8,319,902	8,147,378	9,212,891	9,018,231
Unrestricted.....	<u>7,754,552</u>	<u>6,649,222</u>	<u>7,538,395</u>	<u>4,492,692</u>	<u>4,722,252</u>
<b>Total business-type activities net assets..... \$</b>	<b><u>16,536,883</u></b>	<b><u>\$ 14,969,124</u></b>	<b><u>\$ 15,685,773</u></b>	<b><u>\$ 13,705,583</u></b>	<b><u>\$ 13,740,483</u></b>
<b>Primary government</b>					
Invested in capital assets, net of related debt.....	91,036,207	91,365,506	87,876,870	121,953,401	118,201,968
Restricted.....	5,755,817	5,237,908	8,759,761	9,734,998	8,649,700
Unrestricted.....	<u>12,301,177</u>	<u>16,305,618</u>	<u>14,058,178</u>	<u>825,328</u>	<u>4,350,305</u>
<b>Total primary government net assets..... \$</b>	<b><u>109,093,201</u></b>	<b><u>\$ 112,909,032</u></b>	<b><u>\$ 110,694,809</u></b>	<b><u>\$ 132,513,727</u></b>	<b><u>\$ 131,201,973</u></b>

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

**Changes in Net Assets**

**Last Five Fiscal Years**

	<b>Fiscal Year</b>				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Expenses</b>					
<b>Governmental activities:</b>					
General government.....	\$ 8,640,622	\$ 8,514,423	\$ 9,454,148	\$ 9,373,119	\$ 9,867,573
Public safety.....	20,770,322	20,884,198	22,235,461	22,058,002	23,481,525
Education.....	59,420,837	59,386,206	61,775,760	67,483,676	67,258,196
Public works.....	5,397,486	6,464,257	6,517,047	8,421,997	7,991,774
Community development.....	5,856,034	4,954,608	5,767,362	2,066,749	1,891,386
Health and human services.....	1,416,802	1,388,761	1,410,712	4,856,366	5,016,513
Culture and recreation.....	3,694,420	4,022,880	4,186,622	3,689,992	3,718,183
Interest.....	3,046,692	3,366,107	3,136,763	2,689,312	2,889,116
<b>Total government activities expenses.....</b>	<b>108,243,215</b>	<b>108,981,440</b>	<b>114,483,875</b>	<b>120,639,153</b>	<b>122,114,266</b>
<b>Business-type activities:</b>					
Water services.....	10,967,114	10,196,489	9,619,356	3,186,840	3,197,864
Sewer services.....	(A)	(A)	(A)	6,616,318	5,686,595
Golf course.....	387,935	333,512	320,632	292,187	279,981
Parking.....	719,042	679,171	665,458	664,686	800,506
<b>Total business type activities expenses.....</b>	<b>12,074,091</b>	<b>11,209,172</b>	<b>10,605,446</b>	<b>10,760,031</b>	<b>9,964,946</b>
<b>Total primary government expenses.....</b>	<b>\$ 120,317,306</b>	<b>\$ 120,190,612</b>	<b>\$ 125,089,321</b>	<b>\$ 131,399,184</b>	<b>\$ 132,079,212</b>
<b>Program Revenues</b>					
<b>Governmental activities:</b>					
Education charges for services.....	\$ 1,216,334	\$ 1,097,764	\$ 1,141,196	\$ 1,023,839	\$ 831,579
Public Safety charges for services.....	1,323,642	1,804,781	1,865,270	1,923,845	2,003,791
Other charges for services.....	1,489,223	1,197,196	2,055,497	1,481,467	1,825,898
Operating grants and contributions.....	40,717,414	39,127,290	35,305,349	34,087,248	37,934,300
Capital grant and contributions.....	17,467,468	7,019,891	2,129,821	2,090,467	3,312,346
<b>Total government activities program revenues.....</b>	<b>62,214,081</b>	<b>50,246,922</b>	<b>42,497,133</b>	<b>40,606,866</b>	<b>45,907,914</b>
<b>Business-type activities:</b>					
Charges for services - Water.....	9,794,892	10,415,528	11,708,715	3,853,505	4,319,560
Charges for services - Sewer.....	(A)	(A)	(A)	5,512,922	6,233,883
Charges for services - Golf.....	615,878	549,091	543,467	502,770	525,404
Charges for services - Parking.....	1,270,928	1,364,076	1,536,390	1,453,088	1,549,833
<b>Total business-type activities program revenues.....</b>	<b>11,681,698</b>	<b>12,328,695</b>	<b>13,788,572</b>	<b>11,322,285</b>	<b>12,628,680</b>
<b>Total primary government program revenues.....</b>	<b>\$ 73,895,779</b>	<b>\$ 62,575,617</b>	<b>\$ 56,285,705</b>	<b>\$ 51,929,151</b>	<b>\$ 58,536,594</b>
<b>Net (Expense)/Revenue</b>					
Governmental activities.....	\$ (46,029,134)	\$ (58,734,518)	\$ (71,986,742)	\$ (78,692,287)	\$ (76,206,352)
Business-type activities.....	(392,393)	1,119,523	3,183,126	562,254	2,663,734
<b>Total primary government net expense.....</b>	<b>\$ (46,421,527)</b>	<b>\$ (57,614,995)</b>	<b>\$ (68,803,616)</b>	<b>\$ (78,130,033)</b>	<b>\$ (73,542,618)</b>
<b>General Revenues and other Changes in Net Assets</b>					
<b>Governmental activities:</b>					
Real estate and personal property taxes net of tax refunds payable.....	\$ 49,486,747	\$ 52,118,338	\$ 54,855,784	\$ 55,915,767	\$ 58,379,505
Tax liens.....	(B)	(B)	(B)	690,557	635,624
Motor vehicle excise taxes.....	3,626,065	3,793,044	3,478,999	3,489,584	3,452,569
Hotel/motel tax.....	(B)	(B)	(B)	219,628	263,962
Penalties and interest on taxes.....	330,035	391,429	322,003	288,874	350,651
Payments in lieu of taxes.....	(B)	(B)	(B)	1,073,539	1,088,754
Grants and contributions not restricted to specific programs.....	3,931,117	3,774,422	6,932,546	8,097,351	7,661,752
Unrestricted investment income.....	125,481	816,614	568,503	521,585	183,980
Miscellaneous.....	504,968	536,979	431,558	77,454	214,067
Transfers.....	2,274,567	2,687,282	2,466,477	2,542,444	2,628,834
<b>Total governmental activities</b>	<b>60,278,980</b>	<b>64,118,108</b>	<b>69,055,870</b>	<b>72,916,783</b>	<b>74,859,698</b>
<b>Business-type activities:</b>					
Transfers.....	(2,274,567)	(2,687,282)	(2,466,477)	(2,542,444)	(2,628,834)
<b>Total primary government.....</b>	<b>\$ 58,004,413</b>	<b>\$ 61,430,826</b>	<b>\$ 66,589,393</b>	<b>\$ 70,374,339</b>	<b>\$ 72,230,864</b>
<b>Changes in Net Assets</b>					
Governmental activities.....	\$ 14,249,846	\$ 5,383,590	\$ (2,930,872)	\$ (5,775,504)	\$ (1,346,654)
Business-type activities.....	(2,666,960)	(1,567,759)	716,649	(1,980,190)	34,900
<b>Total primary government.....</b>	<b>\$ 11,582,886</b>	<b>\$ 3,815,831</b>	<b>\$ (2,214,223)</b>	<b>\$ (7,755,694)</b>	<b>\$ (1,311,754)</b>

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

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

**Fund Balances, Governmental Funds**

**Last Ten Fiscal Years**

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
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	\$ 197,581
Unreserved.....	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	1,162,714
Total general fund.....	<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>	<u>\$ 1,360,295</u>
All Other Governmental Funds										
Reserved.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,430,279	\$ 1,481,549	\$ 1,844,725	\$ 1,591,750	\$ 1,606,904
Unreserved, reported in:										
Special revenue funds.....	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	5,474,128
Capital projects funds.....	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)	(1,859,435)
Permanent funds.....	-	-	-	-	-	3,137,655	2,801,999	2,555,014	2,897,589	3,018,952
Total all other governmental funds...	<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>	<u>\$ 8,240,549</u>

**Notes:**

Fiscal years 1997 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.

**Changes in Fund Balances, Governmental Funds**

**Last Ten Fiscal Years**

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Revenues:</b>										
Real estate and personal property taxes, net of tax refunds.....	\$ 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	\$ 58,601,934
Motor vehicle and excise taxes.....	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	3,577,544
Intergovernmental.....	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	40,386,321
Departmental and other.....	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	8,496,446
Investment income.....	294,782	540,904	392,136	736,266	1,024,892	127,462	816,821	568,503	828,933	927,302
Commonwealth school construction grants.....	-	-	-	-	-	-	-	-	(B) 12,739,570	16,559,515
On-behalf pension payments by Commonwealth.....	-	-	-	-	(C) 4,505,009	4,301,287	4,275,669	5,345,441	5,890,261	6,376,140
<b>Total Revenue.....</b>	<b>75,880,265</b>	<b>81,203,054</b>	<b>85,353,249</b>	<b>90,094,169</b>	<b>103,268,710</b>	<b>105,810,334</b>	<b>107,993,447</b>	<b>111,534,667</b>	<b>126,997,066</b>	<b>134,925,202</b>
<b>Expenditures:</b>										
General government.....	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	5,112,025
Public safety.....	11,794,339	12,471,452	14,328,164	14,074,132	14,589,271	15,738,798	15,368,476	14,999,915	14,417,276	14,548,888
Education.....	31,435,082	34,208,249	37,518,451	40,101,425	45,852,552	47,250,529	48,449,552	47,729,470	46,125,572	47,189,744
Public works.....	5,150,084	4,804,094	4,490,661	5,044,735	6,004,568	4,652,745	5,232,421	5,209,599	6,663,143	6,339,963
Community development.....	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	1,891,386
Health and human services.....	862,893	886,308	2,053,609	920,083	927,024	960,817	901,407	855,553 (A)	4,348,098	4,475,413
Culture and recreation.....	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	2,339,600
Pension.....	3,221,976	3,365,633	3,474,477	3,813,000	4,610,788	4,204,226	4,340,575	6,565,806	11,926,982	13,388,893
Massachusetts teachers' retirement.....	-	-	-	-	(C) 4,505,009	4,301,287	4,275,669	5,345,441	5,890,261	6,376,140
Employee benefits.....	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	9,964,302
State and district assessments.....	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	5,047,971
Capital outlay.....	785,085	1,909,687	3,198,871	10,684,440	17,106,792	12,975,601	18,550,903	15,793,932	1,422,955	7,125,628
Debt service.....										
Principal.....	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	4,385,000
Interest.....	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	2,958,101
<b>Total Expenditures.....</b>	<b>74,860,330</b>	<b>79,652,073</b>	<b>86,607,217</b>	<b>99,318,419</b>	<b>118,635,515</b>	<b>118,955,742</b>	<b>127,002,774</b>	<b>127,911,002</b>	<b>121,489,373</b>	<b>131,143,054</b>
Excess of revenues over (under) expenditures.....	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	3,782,148
<b>Other Financing Sources (Uses)</b>										
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	1,046,619
Transfers in.....	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	5,320,517
Transfers out.....	(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)	(2,691,683)
<b>Total other financing sources (uses).....</b>	<b>9,479,815</b>	<b>516,537</b>	<b>797,774</b>	<b>827,099</b>	<b>13,677,590</b>	<b>2,274,567</b>	<b>31,302,104</b>	<b>2,466,477</b>	<b>6,047,583</b>	<b>3,675,453</b>
<b>Net change in fund balance.....</b>	<b>\$ 10,499,750</b>	<b>\$ 2,067,518</b>	<b>\$ (456,194)</b>	<b>\$ (8,397,151)</b>	<b>\$ (1,689,215)</b>	<b>\$ (10,870,841)</b>	<b>\$ 12,292,777</b>	<b>\$ (13,909,858)</b>	<b>\$ 11,555,276</b>	<b>\$ 7,457,601</b>
Debt service as a percentage of noncapital expenditures.....	6.27%	6.51%	6.04%	5.09%	4.54%	4.86%	4.56%	4.87%	6.06%	5.69%

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

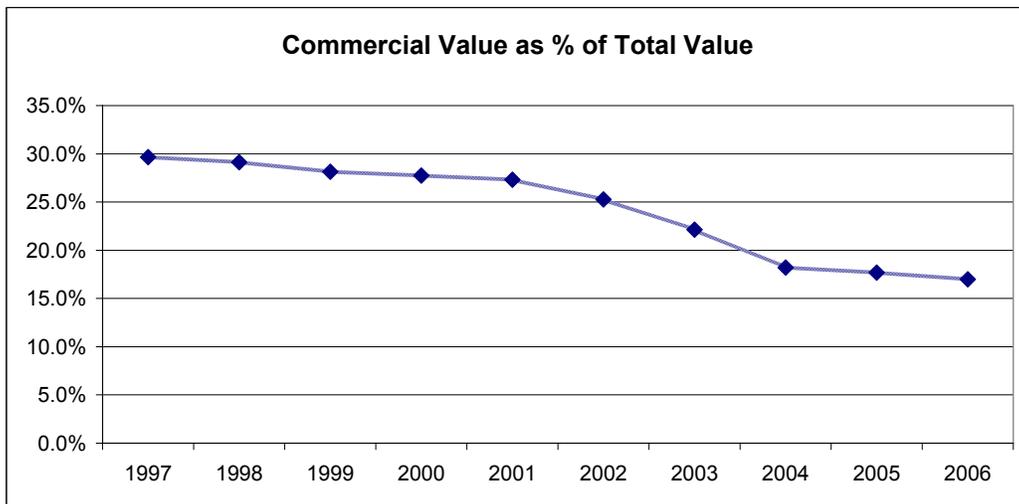
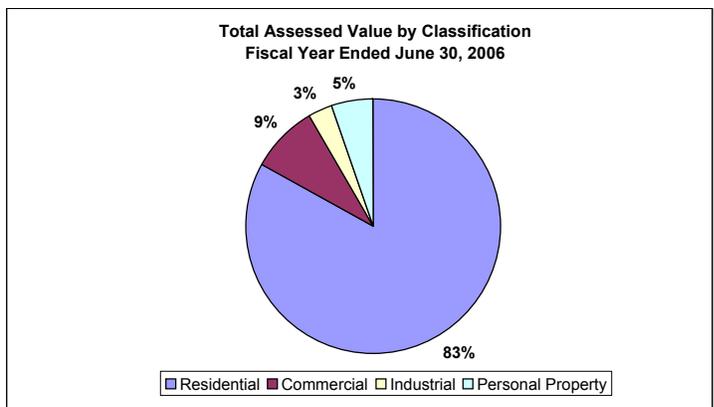
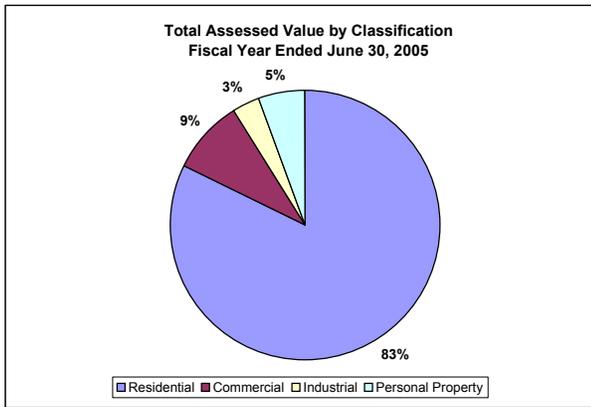
(B) Prior to fiscal year 2005 any receipts from the Commonwealth for school construction projects were included in intergovernmental revenue.

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

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

**Last Ten Fiscal Years**

Fiscal Year	Assessed and Actual Values and Tax Rates							
	Residential Value	Residential Tax Rate	Commercial Value	Industrial Value	Personal Property	Total Commercial Value	Commercial Tax Rate	Total Town Value
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
2006	\$3,807,396,999	\$11.21	\$393,448,700	\$143,388,000	\$241,940,480	\$778,777,180	\$21.33	\$4,586,174,179



(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	2006			1997*		
		Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value	Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value
Dominion	Personal & Industrial Property	\$210,964,700	1	4.6%	-		-
Salem LLC	Apartments	\$40,550,000	2	0.9%	-		-
Princeton Crossing Apartments	Apartments	\$36,354,900	3	0.8%	\$11,888,200	4	
Hawthorne Commons	Apartments	\$28,599,100	4	0.6%	-		-
Shetland Properties	Industrial Property	\$26,346,200	5	0.6%	\$11,748,500	5	0.6%
New England Power	Personal & Industrial Property	\$23,966,550	6	0.5%	\$254,268,600	1	13.0%
Massachusetts Electric	Personal Property	\$21,489,250	7	0.5%	\$25,798,400	2	1.3%
Highlander Plaza RT	Commercial Property	\$20,628,500	8	0.4%	\$11,567,900	6	0.6%
Second Pickwick Trust	Commercial Property	\$11,871,200	9	0.3%	-		-
Archstone	Apartments	\$10,788,700	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%
<b>Totals</b>		<u>\$431,559,100</u>		<u>9.4%</u>	<u>\$360,008,200</u>		<u>18%</u>

Source: Board of Assessors  
\* Actual numbers from fiscal 1996

**Property Tax Levies and Collections**

**Last Ten Years**

<b>Fiscal Year</b>	<b>Total Tax Levy</b>	<b>Less Abatements &amp; Exemptions</b>	<b>Net Tax Levy</b>	<b>First Year Current Tax Collections</b>	<b>Percent of Net Levy Collected</b>	<b>Delinquent Tax Collections</b>	<b>Total Tax Collections</b>	<b>Percent of Total Tax Collections to Net Tax Levy</b>
1997	\$41,814,532	\$728,298	\$41,086,234	\$40,660,473	99.0%	\$425,761	\$41,086,234	100.00%
1998 (1)	\$43,096,937	\$735,267	\$42,361,670	\$41,210,163	97.3%	\$1,151,507	\$42,361,670	100.00%
1999	\$44,177,362	\$379,865	\$43,797,497	\$43,723,214	99.8%	\$73,228	\$43,796,442	100.00%
2000	\$44,997,340	\$549,334	\$44,448,006	\$43,623,904	98.1%	\$820,868	\$44,444,772	99.99%
2001 (1)	\$48,228,214	\$654,519	\$47,573,695	\$47,565,588	100.0%	\$6,113	\$47,571,701	100.00%
2002	\$49,789,935	\$484,373	\$49,305,562	\$49,199,288	99.8%	\$87,458	\$49,286,746	99.96%
2003	\$52,210,909	\$508,719	\$51,702,190	\$51,303,297	99.2%	\$386,573	\$51,689,870	99.98%
2004 (1)	\$54,374,223	\$564,486	\$53,809,737	\$53,259,047	99.0%	\$539,944	\$53,798,991	99.98%
2005	\$56,839,329	\$418,415	\$56,420,914	\$55,554,023	98.5%	\$865,641	\$56,419,664	100.00%
2006	\$59,292,238	\$414,204	\$58,878,034	\$58,010,805	98.5%	\$0	\$58,010,805	98.53%

(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
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%
2006	40,407	1,085,609,084	4,586,174,179	\$54,385,000	\$1,172,651	\$1,375	5.12%	1.21%

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
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%
2006	\$1,345,000	\$0	\$56,902,651	\$1,408	5.24%	1.24%

Source: Audited Financial Statements, U. S. Census

**Direct and Overlapping Governmental Activities Debt**

**As of June 30, 2006**

	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
North Shore Regional Vocational School District.....	\$ 2,120,000	71.44%	\$ <u>1,514,562</u>
City direct debt.....			<u>54,385,000</u>
Total direct and overlapping debt.....			\$ <u><u>55,899,562</u></u>

Source: Treasurer and North Shore Regional Vocational School District

**Computation of Legal Debt Margin**

**Last Ten Fiscal Years**

	<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>	<u>2006</u>
Equalized Valuation.....	\$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	\$4,223,735,800
Debt Limit -5% of Equalized Valuation.....	\$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	\$211,186,790
Less:										
Outstanding debt applicable to limit.....	\$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	\$6,064,000
Authorized and unissued debt.....	\$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	\$48,682,895
Legal debt margin.....	<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>	<u>\$156,439,895</u>
Total debt applicable to the limit as a percentage of debt limit.....	5.47%	4.84%	69.76%	62.02%	70.89%	71.73%	46.79%	47.33%	21.98%	25.92%

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
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%
2006	40,407	\$1,085,609,084	\$26,867	36.4	4,714	4.1%

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**

<b>Employer</b>	<b>Nature of Business</b>	<b>2006</b>			<b>1997*</b>		
		<b>Employees</b>	<b>Rank</b>	<b>Percentage of Total City Employment</b>	<b>Employees</b>	<b>Rank</b>	<b>Percentage of Total City Employment</b>
North Shore Medical Center	Healthcare	5,910	1	24.9%	2,500	1	11.7%
Salem State College	Higher Education	1,400	2	5.9%	750	2	3.5%
Commonwealth of Massachusetts Offices	State Government	545	3	2.3%	-	-	-
Market Basket	Food Market	310	4	1.3%	-	-	-
Peabody Essex Museum	Cultural/ tourism	265	5	1.1%	-	-	-
Salem Five Savings Bank	Banking	200	6	0.8%	-	-	-
Home Depot	Retail	200	7	0.8%	-	-	-
Wal-Mart	Retail	180	8	0.8%	-	-	-
Hawthorne Hotel	Lodging	175	9	0.7%	-	-	-
Dominion/NEGT Salem Harbor Station	Public Utility	170	10	0.7%	-	-	-
Sears Boston Credit Central	Public Utility	-	-	-	600	3	2.8%
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 Market Place	Food Markets	-	-	-	176	8	0.8%
Van Waters & Rogers	Chemical Distribution	-	-	-	162	9	0.8%
Harbor Sweets	Candy & Confection Wholesale	-	-	-	101	10	0.5%
		<u>9,355</u>		<u>39.4%</u>	<u>5,635</u>		<u>26.5%</u>

Source: The City Planning Department  
 \* Actual numbers from fiscal 1996

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

Function	Fiscal Year						
	2000	2001	2002	2003	2004	2005	2006
General government.....	82	59	62	68	62	64	61
Public safety.....	198	183	183	185	180	190	181
Education.....	755	755	755	755	756	756	752
Public works.....	67	50	59	47	45	55	55
Health and human services.....	23	20	22	22	21	21	21
Culture and recreation.....	36	36	35	34	31	31	31
<b>Total .....</b>	<b>1,161</b>	<b>1,103</b>	<b>1,116</b>	<b>1,111</b>	<b>1,095</b>	<b>1,117</b>	<b>1,101</b>

Source: Various City Departments

Information not available on years prior to FY2000.

## Operating Indicators by Function/Program

### Last Ten Fiscal Years

<b>Function/Program</b>	<b>Fiscal Year</b>									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government										
Marriage recordings.....	290	274	317	292	328	362	327	330	327	375
Birth recordings.....	1,793	1,708	1,726	1,777	1,680	1,708	1,804	1,839	1,761	2,044
Death recordings.....	843	765	765	764	865	848	823	935	847	737
Police										
Physical arrests.....	1,097	1,157	1,131	975	1,039	1,057	984	965	685	2,792
Motor vehicle violations.....	4,772	3,472	2,791	3,066	3,967	4,872	5,489	5,238	4,334	6,477
Police personnel and officers.....	97	95	94	94	103	105	94	85	85	81
Fire										
Inspections.....	2,486	2,805	3,417	3,226	3,004	2,950	1,972	3,231	2,789	1,187
Emergency responses.....	3,786	3,517	3,433	3,717	3,917	3,993	3,911	4,281	4,572	6,235
Fire personnel and officers.....	94	88	89	90	92	96	85	78	78	75
Education										
Number of students.....	5,028	5,128	5,059	5,007	5,107	5,064	5,016	4,727	4,676	4,744
Number of graduates.....	197	213	187	213	220	237	218	257	246	255
Number of teachers.....	340	352	369	370	369	397	406	415	409	477
Water										
Service connections.....	9,600	9,600	9,627	9,720	9,812	9,842	9,898	10,516	10,568	11,000
Consumption in gallons.....	1,779	1,764	1,853	1,985	2,107	2,064	2,090	2,111	2,136	2,000
Daily consumption (MG).....	4.87	4.83	5.10	5.44	5.77	5.66	5.73	5.78	6.43	6.84
Sewer										
Service connections.....	9,600	9,600	9,627	9,720	9,812	9,842	9,898	10,516	10,568	11,000
Health and human services										
Number of persons using COA transportation.....	N/A	40,535	54,620	44,326	45,523	47,220	44,804	44,500	45,976	37,497
Libraries										
Volumes in circulation.....	117,758	119,300	127,923	126,526	130,510	128,626	124,435	125,516	128,569	141,595
Total volumes borrowed.....	363,817	370,542	379,511	379,534	395,311	453,548	470,192	464,453	490,116	508,728

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>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>	<u>2006</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	108	108	108	108
Health and human services										
Number of personnel.....	20	18	20	19	18	18	17	17	17	17
Culture and recreation										
Parks and playgrounds.....	33	34	35	35	35	35	35	35	35	35
Park and playground (acreage).....	218	218	219	230	230	230	230	230	230	230
Conservation land (acreage).....	114	114	114	114	114	114	114	128	128	128
Railroad right of way (acreage).....	89	89	89	89	89	89	89	89	89	89
Public beaches.....	7	7	7	7	7	7	7	7	7	7
Ball fields.....	13	13	13	13	13	13	13	13	13	13
Tennis courts.....	10	10	10	10	10	10	10	10	10	10

Source: Various City Departments, Manual of the City Government

## Free Cash & Stabilization Fund Balances

### Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Free Cash</u>	<u>Stabilization Fund</u>
FY2006.....	\$ 538,372	\$ 277,759
FY2005.....	\$ 2,732,090	\$ 1,021,351
FY2004.....	\$ 1,867,737	\$ 1,297,417
FY2003.....	\$ 3,212,194	\$ 2,278,823
FY2002.....	\$ 4,010,382	\$ 2,248,337
FY2001.....	\$ 4,965,894	\$ 1,713,814
FY2000.....	\$ 4,425,158	\$ 1,149,864
FY1999.....	\$ 4,313,929	\$ 1,087,575
FY1998.....	\$ 2,756,091	\$ 639,004
FY1997.....	\$ 1,423,512	\$ -

Source: City Records