

# CITY OF SALEM

MASSACHUSETTS

## COMPREHENSIVE ANNUAL FINANCIAL REPORT



**For the Fiscal Year Ended June 30, 2016**

Kimberley L. Driscoll, Mayor  
Sarah A. Stanton, Finance Director

Prepared by the City of Salem Finance Department

## On the Cover – The cruise ship *Seaborne Quest* coming into Salem Harbor in October 2014



**Port of Salem Expansion (Salem Wharf):** This \$18 million to \$20 million project calls for construction of a multi-purpose commercial wharf facility with supporting utilities and amenities for cruise ships, commercial fishing, transient, and charter vessels. A terminal building, harbor walk, dredging, and landside improvements are also proposed. The City has finished the design, engineering, and has obtained all the federal, state, and local regulatory permits for construction. Construction of the project is segmented into phases, which are undertaken as funding becomes available. The City was able to begin the first phase of construction in 2011 with a combination of local and state funds. Work included seawall construction, utility installation, base paving and installation of an interim, prefabricated ferry terminal. A combination of state and federal (Ferry Boat Discretionary (FBD) funds enabled the City, in 2012-13, to construct the second phase consisting of the first 260' of the pier, wave fence, a portion of the seawall, gangway and ramp system, utilities and some dredging. In 2014, using a \$4 million funding allocation from the Governor's Seaport Council, the City undertook renovations to the Footprint Deep-water Dock and constructed a connector to the Salem Wharf. These improvements enabled the City to successfully host its first major cruise ship, Holland America's *Seaborne Quest*. During this phase, the City also installed lighting, undertook landscaping improvements at Blaney Street and began construction of a commercial Marina and Harbor walk. This work was completed in the spring of 2015. During the upcoming year, the City will seek additional state and federal funding to complete dredging and pier construction. The Salem Wharf will implement the most important recommendation and goal of the City's Municipal Harbor Plan by creating a multi-use commercial wharf facility with deep water access for ocean-going vessels. This facility will fill a void in Salem Harbor and help move the Port of Salem one step closer to becoming a full service port.

# **CITY OF SALEM, MASSACHUSETTS**

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

For the Year Ended June 30, 2016



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CITY OF SALEM, MASSACHUSETTS  
COMPREHENSIVE ANNUAL FINANCIAL REPORT

JUNE 30, 2016

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# Introductory Section



## Salem Willows Park

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

Salem Willows is renowned for the European white willow trees planted here in

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



## Salem Art Scenes



# ***Introductory Section***

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## City of Salem, Massachusetts

Finance Department  
93 Washington Street  
Salem, MA 01970  
Ph. 978.745.9595 Ext 5625  
Fax 978.741.3348

[sstanton@salem.com](mailto:sstanton@salem.com)

### Letter of Transmittal

Sarah A. Stanton, Finance Director

December 13, 2016

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) 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, 2016 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, 2016, are fairly presented in conformity with GAAP.

The City of Salem's financial statements have been audited by Powers & Sullivan, LLC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2016, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2016 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

SALEM CITY HALL - 93 WASHINGTON STREET - SALEM, MA 01970-3592  
TELEPHONE: 978-745-9595 EXT. 5626 - FAX: 978-741-3348

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

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

### Profile of the City

The City of Salem, which was incorporated as a town in 1630 and became a city on March 23, 1836, is situated on the Massachusetts coast, 16 miles northeast of Boston. The City has a population of 41,340 and occupies a land area of approximately 8 square miles. The second city in the Commonwealth to be incorporated, it is the Shire City of Essex County. Salem has operated under the Plan B form of government, with a mayor and an eleven-person City Council, seven elected from wards, and four at-large, since 1915.

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

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

The City provides general governmental services for the territory within its boundaries, including police and fire protection, disposal of garbage and rubbish (for residential properties); public education, including vocational-technical education at the high school level; street maintenance; certain water services, through the Salem and Beverly Water Supply Board; certain sewerage disposal services, through the South Essex Sewerage District; and parks and recreational facilities. Approximately 95% of the City is connected to the sewerage system; the entire area of the City is served by the municipal water system. Both the Salem and Beverly Water Supply Board and the South Essex Sewerage District qualify as joint ventures. Accordingly, the City's equity interest in both entities has been included in the City's basic financial statements. The Salem Housing Authority is responsible for managing 1,922 units of low income housing for the City. Buildings are either owned by the Authority, or are part of the Section 8 Housing Choice Voucher Program. Of the 1,922 units, 715 are public housing, 211 are designated for families, and 465 are for elderly housing." These units are owned and operated by the Authority. The Salem Housing Authority does not meet the criteria to be considered a component unit of the City. The

principal highways serving the City are state Routes 1A, 107, and 114, all of which provide immediate access to Routes 1 and 128 and other major highways serving the greater Boston area.

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

Within 170 days after the annual organization of the City government (which is ordinarily in early January), the Mayor is required to submit a budget of proposed expenditures for the fiscal year beginning on the next July 1. The City Council may make appropriations for the recommended purposes and may reduce or reject any item. Without recommendation of the Mayor, the City Council may not increase any item or make an appropriation for a purpose not included in the proposed budget (except by a two-thirds vote in case of the failure of the Mayor to recommend an appropriation for such a purpose within 7 days after a request from the City Council, pursuant to state statute). If the Council fails to act on any item of the proposed budget within 45 days, that item takes effect. The amount raised on the tax recapitulation sheet approved by the Department of Revenue for fiscal year 2016 totaled approximately \$149 million, which includes Real & Personal Property tax revenue, State Revenues, MSBA Revenue, local revenues, transfers in of approximately \$1,300,000 from Receipts Reserved Harbormaster, Witch House and Golf Course (to reduce tax rate), other receipts reserved transfers, and approximately \$1.4 million of indirect costs from the Water & Sewer Enterprise funds. These revenues cover general fund budgeted expenses and deficits raised including snow and ice, school lunch, health insurance trust, and to fund the Retirement Anticipation Fund and Capital Improvement Projects Fund. These also include enterprise fund expenses.

The City includes the Salem Contributory Retirement System (the System) in its financial reporting since the City represents approximately 85% of the members of the System. The System was established to provide retirement benefits to its members, including employees and beneficiaries of the City of Salem, the Salem-Beverly Water Supply Board, the Salem Housing Authority, the South Essex Sewerage District, and the North Shore Regional Vocational School System. Per the Pension Reserves Investment Management Board July 2015 report, the market value of the System's assets totaled \$139 million with 96% of the funds invested in the State's Pension Reserve Investment Trust's (PRIT) Core Fund.

#### Factors Affecting Economic Condition

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

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

The City's golden years have left her modern inhabitants with architectural treasures, fine museums, and a sparkling literary heritage. Equally important, the development of Salem has produced a rich ethnic history, to which people of all races, creeds, colors and origins have contributed over the generations. Long a trading, manufacturing and retail center, Salem has been making a slow, and sometimes painful, transition to a service-based economy. The City today serves as the home of Salem State University, the North Shore Medical Center, the Essex County District Superior and Probate Courts, and Registry of Deeds, the world-famous Peabody Essex Museum, and a host of banks and other financial institutions. It is the educational, medical, legal, cultural and banking hub of the North Shore. Salem also boasts an impressive collection of historically significant residential

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

#### Private and Public Development-FY15/FY16/FY17

The City has numerous facilities of continuing cultural and/or historical significance:

**Peabody-Essex Museum** - In 2003, the Peabody Essex Museum ("PEM") began the largest museum addition in America. The \$125 million expansion allows them to showcase their extensive collection of Oceanic and Asiatic art for the first time. The PEM houses a broad spectrum of artifacts representing centuries of Essex County life and industry, as well as treasures from across the world brought to the region by early navigators. The PEM consists of a downtown campus, four National Historic landmarks and several properties on the National Register of Historic Places, as well as the Yin Yu Tang, the only complete Qing Dynasty house outside China. The PEM enjoys an attendance of approximately 250,000 visitors per year. See the section on Economic Development for overview of PEM's expansion project.

**The Salem Maritime National Historic Site and Derby Wharf Lighthouse** – This 9.2-acre site, operated by the National Park Service, ("NPS") is comprised of several buildings, including the original Customs House, as well as several wharves and homes. The NPS has restored the wharves and buildings. The Friendship, a full size replica of one of Salem's historic trading ships is berthed at the site. This \$6 million project was 75 percent federally-funded and has become a major cultural attraction and educational tool. The National Park Service has recently relocated the historic Pedrick's Warehouse from Marblehead to Derby Wharf and installed a pile supported dock adjacent to the building in order to facilitate interpretive display of historic maritime functions.

**The House of the Seven Gables** - The House of the Seven Gables was made famous by Nathaniel Hawthorne's novel of the same name. The site is a complex of the actual house occupied by Hawthorne and several adjacent historic structures. The House of Seven Gables received the prestigious designation of "Museum" status in 2008 and has been designated a National Historic Landmark District.

**Salem Witch Museum** - The Salem Witch Museum commemorates the famous witch trials that occurred in 1692 through an audio visual presentation. Life-size stage settings, lighting and historically accurate narration recreate the afflicted girls, the trials and the executions of the Salem Witch Trials.

**The Witch House** - The Witch House was the home of one of the famous Witch Trial judges, Jonathan Corwin. The Witch House is operated by the City of Salem and is an excellent example of 17th century architecture. The site recently received interior and exterior improvements for handicapped accessibility and historic preservation.

**Witch Dungeon Museum** – The Witch Dungeon Museum provides a live re-enactment of the Witch Trials for visitors to the City. The presentation is adapted from the 1692 transcripts and re-enacted by professional actors.

**The First Church** - The First Church, located on Essex Street, was founded in 1629 and is one of the oldest, continuing Protestant congregations in North America and the first to be governed by congregational polity, a central feature of Unitarian Universalism.

**Chestnut Street** - Chestnut Street is a National Historic Landmark consisting of a group of homes of notable architectural significance. The homes are primarily old mansions built by Salem's successful sea captains during the early 19th century.

**Pickering House** - The Pickering House is the oldest house in America to be continuously occupied by the same family.

Pioneer Village - Pioneer Village, situated in Forest River Park, is a living-history Museum that depicts life in Salem in 1630. Guides in historical costumes show visitors how early Puritans lived. The site contains a thatched cottage, historic gardens, wigwams, and animals.

The Old Burying Point - Located on Charter Street, this is the oldest burying ground in Salem. The site contains the graves of a Mayflower passenger and witchcraft trial judge John Hawthorne, and is adjacent to the Salem Witch Trial Memorial.

Winter Island Park - Operated by the City of Salem, Winter Island is a former U. S. Coast Guard Air and Sea Rescue Station located on Salem Harbor. The site is a seasonal recreation site with RV and tent spaces. The site also has a beach, boat launch, wind surfing, scuba diving, picnic areas and a snack bar. Historic Fort Pickering and Fort Pickering Light are located within the site. Winter Island is now the home of "Sail Salem", a community sailing program that provides free sailing lessons to Salem children.

Salem Wax Museum of Witches and Seafarers - The Wax Museum, opened in July of 1993, features a multi-media presentation and realistic wax figures depicting pirate and witch stories of Salem's past. The Wax Museum also offers hands-on children's activities.

Salem Witch Trials Memorial - The Salem Witch Trials Memorial was dedicated on August 5, 1992 to commemorate the 300th anniversary of the now famous Salem Witch Trials of 1692. The memorial is located adjacent to the Charter Street Burial Ground. The 20-year old Memorial has now been restored with a rededication ceremony on September 9, 2012.

Heritage Trail - The many cultural and historic facilities in Salem are connected by the Heritage Trail. Known locally as the "Red Line", it leads to world-renowned museums and historic homes, as well as to restaurants offering simple fare to gourmet meals, full service hotels, inns and bed and breakfasts.

Salem Common - Salem Common has been public land since Salem's early days. Its eight acres were originally a swampy area, with several ponds and small hills. Salem's military heritage begins in 1636, when the first muster occurred on Salem Common. Today, the National Guard traces its roots to that first muster. Needing a place for regular military drills, it was voted in 1714 by the commoners to be "forever kept as a training field for the use of Salem".

Baker's Island Lighthouse - The tower is located on the north end of the island. The lighthouse was automated in 1972. The lighthouse is accessible through the Essex National Heritage Commission, but the rest of the island is closed to the public.

Fort Lee - This American Revolution fort was built in 1776 and was added to the National Register of Historic Places in 1994.

The Phillips House - The Phillips House is the only home on historic Chestnut Street open to the public, and it provides a glimpse into the private world of the Phillips family during the early decades of the twentieth century.

Ye Olde Pepper Candy Companie - This is America's Oldest Candy Company, dating back to 1806, when an English woman, Mrs. Spencer, was shipwrecked and landed in Salem. Mrs. Spencer was assisted financially by residents, and what resulted was the first candy made and sold commercially in America and carried around the world by sea captains and their crew.

The tourist attractions described above are included to illustrate the continuously growing tourist economy. These attractions provide jobs and tax revenue for the City of Salem.

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### Public and Non-Profit Development Projects

Salem experienced new growth of approximately \$350 million in new development since 2003. Most recent highlights include:

- Redmond Park – Improvements to the old bridge abutment on Bridge Street Neck have been funded by the State. Construction was completed in FY2016.
- The Peabody Essex Museum is planning a 40,000 gross square feet expansion. It will include three floors of state-of-the-art galleries, a secondary entrance to the museum and a full basement for mechanical and electrical equipment.
- St. Joseph's Church Redevelopment - Located on the site of the former St. Joseph's Church that was closed in 2004, this affordable housing development is a key revitalization project for the Point Neighborhood and will provide much-needed housing for the City. Phase 1 of the project is complete and includes a new building with 51 affordable housing units, commercial space, and a community room.

### Downtown Development

A number of vacant and underutilized properties have been redeveloped into mixed-use residential/commercial buildings. The downtown alone has seen over \$40 million in private investment from projects such as the Laundry Building, The Distillery, Old Police Station Redevelopment, Bluestone Alley, 10 Federal Street, the Salem News Building, Latitudes in the old Tompkins Furniture Building and the Old Salem Jail. New projects continue to be proposed and permitted, as described below.

District Court Redevelopment – The District Court building has been transferred to the Salem Redevelopment Authority (SRA) in accordance with recent legislation passed by the Legislature for the purpose of redevelopment. The SRA solicited development proposals through a RFP process in 2015 and selected Diamond Sinacori as the designated developer. As of September 2016, Diamond Sinacori is undertaking its due diligence prior to execution of a Land Disposition Agreement and project permitting.

Washington and Dodge Street Redevelopment – This 160,000 square foot, \$50 million project includes a mixed-use development with 64 residential units, proposed hotel with approximately 100 rooms, commercial space, 212 parking spaces, associated landscaping, and pedestrian and transportation improvements. It has received approval from the Salem Planning Board. When completed, this project will dramatically increase the footprint of Salem's downtown. The City was awarded a state grant in the amount of \$3.36 million for infrastructure improvements to support this proposed project.

The Merchant – A new Lark Properties hotel opened in October 2015 in the historic Joshua Ward House in downtown Salem.

The Hotel Salem – A 44-room boutique hotel is planned for the Newmark Building located on the Essex Street Pedestrian Mall. The project has received approval from the Salem Redevelopment Authority. It will include loft style and micro rooms, a basement lounge with bowling alley, roof deck restaurant, and high-end fixtures and furnishings. It will be a catalyst for further economic development activity on the pedestrian mall.

Old Salem Jail Complex Redevelopment - The first phase was completed in 2010, which includes 23 housing units, a restaurant, and a jail exhibit. Phase 2 includes an additional 13 housing units in a new building for a total project cost of approximately \$11 million. Phase 2 has been approved by the local boards.

Old Town Hall - The City manages this building and programs both non-profit and private events, such as musical performances and weddings, in this historic space. The City received a \$20,000 Cultural Facilities grant from the state, which was matched with local CPA and C.I.P. funds for window restoration and repair. The restoration work was completed in early 2016.

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#### North River Canal Corridor Redevelopment

A second area undergoing transformation is the North River Canal Corridor, known as Blubber Hollow, adjacent to downtown. Formerly the region's whaling and then tannery center, the neighborhood has more than \$70 million in pending development. Guided by a community-based plan, the City changed the zoning to encourage development. The pending private investments will transform the largely vacant and contaminated sites into a vibrant mix of residences, offices, and retail uses. Specific projects are:

28 Goodhue Street - Now known as North River Apartments, this mixed-use project on the site of a former factory was completed in 2014. The development includes 44 residential condominiums, 6,000 square feet of commercial retail space and on-site parking. Construction is complete and the building is occupied.

Riverview Place - Located on the former Salem Suede site, Riverview Place consists of the demolition of the old tannery and construction of 130 residential rental units and 5,540 square feet of commercial space. It has been approved by the Planning Board and is under review by the Conservation Commission.

Gateway Center - High Rock Bridge Street, LLC, is before the Planning Board for approval of the development of a 3.48-acre parcel located at the corner of Bridge Street and Boston Street to include a mixed-use building with a commercial/retail and 117 housing units and a free-standing building that will house the City's Community Life center. Construction is set to begin in 2017.

Grove Street Apartments (formerly known as Legacy Apartments) - This project consists of 129 residential apartments and re-use of an existing 17,000 square foot commercial office building. It was approved by the Planning Board in 2012 and amended in 2015 to meet MEPA requirements. In July 2015 the project received a MEPA certificate and Superseding Order of Condition. Environmental remediation and demolition of some on-site structures is underway.

Flynn Tan Site (70-92 ½ Boston Street) - The Planning Board approved a new medical office building with 40,000 square feet in 2014; however, the project has not moved forward. The city is expecting submittal of an application for a mixed-use development containing commercial/retail and housing. The Flynn Tan property is a 1.98-acre site containing vacant industrial buildings and land along Boston Street, a major entrance corridor into Salem and within the new North River Canal Corridor (NRCC) Neighborhood Mixed Use District.

#### Waterfront Development

Key changes also are rapidly occurring along Salem's shoreline, creating rare waterfront development opportunities.

Salem Harbor Power Station/Footprint Power - Demolition of the coal plant is underway, which will enable the construction of the new natural gas facility by Footprint power. Footprint Power is demolishing all existing structures, undertaking any necessary environmental cleanup, and constructing a new state-of-the-art, 630-megawatt gas-fired plant. The new plant will be developed on one-third of the site, opening up the remaining two-thirds of the 63-acre waterfront property to re-development opportunities. The new plant will be operational in 2017.

Port of Salem Expansion (Salem Wharf) - This \$20 million project calls for construction of a multi-purpose commercial wharf facility with supporting utilities and amenities for cruise ships, commercial fishing, transient, and charter vessels. A terminal building, harbor walk, dredging, and landside improvements are part of the project. During the project's first phase undertaken in 2011, the City completed utility installation, seawall construction, base paving and installation of an interim ferry terminal. In 2012 and 2013 a combination of state and federal Ferry Boat Discretionary (FBD) Funds enabled the City to construct the second phase of the project, which

consisted of the first 260 feet of pier, wave fence and a portion of the seawall, install a gangway and ramp system, install utilities and begin dredging. The City has completed Phase 3 which includes final paving, landscaping, lighting and construction of the harbor walk. In addition, the City has made improvements to the adjoining deep water dock owned by Footprint Power, and is constructing a connecting walkway between Footprint's dock and the City's Blaney Street pier. The first moderately-sized cruise ship docked in October 2014 and a larger ship docked at the Footprint pier in 2015. Funding has just been received for construction of the commercial marina. The Salem Wharf will implement the most important recommendation and goal of the City's Municipal Harbor Plan by creating a multi-use commercial wharf facility with deep water access for ocean-going vessels. When completed, this facility will make the Port of Salem a full service commercial and industrial port.

**South River Dredge** - The maintenance dredging for the South River Channel was last performed by the US Army Corps of Engineers (USACE) in 1967. In February 2008, the USACE dredged the Federal Navigation Channel into Salem Harbor, the Federal Anchorage Basin off Derby Wharf, and the approach to the South River Channel but stopped short of the South River Channel because contaminated sediment that exceeded the state levels for open ocean disposal were encountered. Since then, the City obtained \$155,000 from the Governor's Seaport Advisory Council for sediment testing, bathymetric survey work, cost analysis for dredge disposal options, and preliminary design and engineering of the dredge footprint for the South River Channel and the South River Basin (area west of the Congress Street Bridge). In 2012, the City received an additional \$275,000 from the Seaport Council to finish the design, engineering and permitting stage of the dredge project. The City's consultant, Apex, has prepared a Draft Environmental Impact Report and Notice of Intent. Upon the Army Corps of Engineers' final determination of the suitability of the CAD cell material for offshore disposal, the City will submit both documents to the appropriate regulatory agencies. Once completed, the dredging will provide direct access to downtown Salem for deeper drafting vessels, transient boats, and dingy boats, which will encourage increased boating activity and support economic development.

**Salem Ferry** - The Salem to Boston Ferry is an alternative transportation option connecting two great cities. Named the Nathaniel Bowditch after the founder of modern maritime navigation and Salem's native son, the ferry is a high-speed catamaran that carries 149 passengers, is entirely ADA accessible and makes the trip from Salem to Boston – where it docks at Long Wharf – in less than 45 minutes. On the three commuter runs, a second stop is added, located at the World Trade Center dock in Boston Harbor. The City of Salem and the Massachusetts Bay Transportation Association (MBTA) have an agreement which allows commuters to purchase a pass that can be used both on the Ferry commuter runs and on the commuter train, strengthening the Ferry's viability as a transportation choice for daily commuters. In October a second ferry was added on a weekend schedule which brings visitors from Hingham and the South Shore to Salem for the Haunted Happenings celebration. The City of Salem is one of only a few municipalities to own a ferry vessel, which it purchased with a grant from the Massachusetts Executive Office of Transportation.

**South River Harborwalk** - The City secured \$1,336,000 from the Governor's Seaport Advisory Council for construction of the South River Harborwalk. The City has contributed \$267,200 of Community Development Block Grant (CDBG) for its required 20% match, totaling \$1.6 million. On July 15, 2010 the South River Harborwalk was completed and unveiled to the public. The Harborwalk is a fully accessible public walkway with pedestrian amenities such as benches, lighting and landscaping along the southern and western banks of the South River Basin.

**Port Security Grants (Installation of Wireless Surveillance Cameras/Infrastructure)** - The Governor's Seaport Advisory Council submitted and obtained a Port Security Grant from the US Homeland Security Department on behalf of the Ports of Salem and Gloucester for \$518,320 to begin implementing security features within each Port to address federal mandates. With the help of the Salem Police Department, the City installed fourteen wireless surveillance cameras around critical waterfront infrastructure in August 2010. The City will continue to work to comply with federal Homeland Security mandates as the Port of Salem continues to grow.

### Public Infrastructure Projects

Grove Street Improvements - The City received a \$1,250,000 grant for improvement to Grove Street to support the proposed housing and mixed use developments in the North River Canal Corridor. The project is substantially complete.

Washington and Dodge Street Public Infrastructure Improvements - The City received a \$2.5 million grant through the State MassWorks program to fund infrastructure improvements associated with the proposed 160,000 square foot mixed-use development on Washington and Dodge Streets. Due to increased construction costs, the City was awarded an additional \$825,000 for this project. The contractor has been selected and began in 2016.

North Street Improvement Project - Reconstruction of North Street, including roadway, sidewalk, signalization and period lighting was completed.

Derby/Congress Traffic Lights - This intersection was redesigned to increase pedestrian safety. Installation of traffic lights for pedestrian and vehicle safety and traffic circulation was completed.

Congress/Peabody/Ward Street Intersection - Reconstruction of the intersection was completed in November 2009. The work included the reconfiguration of the entire intersection to provide a more organized roadway for both vehicular and pedestrian safety. The reconfiguration of the intersection was facilitated by the demolition and remediation of the former 61 Ward Street property. These changes have minimized the crossing distance for pedestrians and greatly improved the traffic movement for vehicles entering and exiting the intersection. Pedestrian improvements include striped crosswalks, handicap ramps, and a pocket park that was created as a result of the reconfiguration. The pocket park consists of concrete and stone paver walkways, landscaping beds, trees, and seating areas.

### Residential Development

Clark Avenue Cluster Subdivision – The proposed plan for a 26-lot residential subdivision is currently before the Planning Board for permitting.

Osborne Hills Subdivision (Strongwater Crossing) - Currently under construction, Strongwater Crossing Subdivision is a cluster development project that includes the construction of 131 single-family homes on approximately 162 acres of land. Approximately 93 acres of the project will be permanently protected open space. The project represents one of the largest subdivisions built in Salem in recent history. Due to its size, this subdivision is being completed in phases. There is no scheduled date for completion.

Witch Hill - The construction of 23 single family homes along the extension of an existing roadway is underway. There is no scheduled date for completion.

Eaton Place/Former Elks Lodge (17 North Street) - With Planning Board Site Plan Approval in December 2009 to add a third and fourth floor, the former assembly hall's conversion into six residential condominiums was completed with special care to restore the structure's historic appearance.

50 Palmer Street - This project by the Salem Harbor Community Development Corporation (CDC) included the demolition of the existing structure and the construction of a new three-story residential structure with a footprint of 7,300 square feet. The new structure is complete and consists of 15 units of affordable rental housing for low and moderate income households. This project was funded using a partnership of private and public sources, including funds from the City.

### Commercial Development

Salem enjoys a mix of businesses and markets. Markets for Salem businesses include the local population, the large tourist trade of over 1 million visitors, Salem State University, the North Shore Medical Center, and the J. Michael Ruane Judicial Center. Salem State University with its 10,000 students and large employment base generated over \$104 million for the City of Salem in direct and indirect spending, which is derived directly from employee salaries and benefits, purchased goods and services, and student spending. The North Shore Medical Center will be expanding its facilities in Salem, and the Probate Court is currently under construction and when complete will represent the completion of the J. Michael Ruane Judicial Center.

Large commercial and industrial development, prominent in the Highland Avenue, Swampscott Road and Vinnin Square areas, is strong. Salem's industrial park on Technology Way houses large companies such as Salem Glass and Thermal Circuits. On Swampscott Road, a 170,000 square foot vacant building was converted to commercial condominiums and is now home to 9 businesses relocating or expanding in Salem. A number of significant national retailers such as Staples, WalMart, Home Depot, Target, Pep Boys and Petsmart are located in these areas. The City also is home to Shetland Park, a 900,000 square foot business park abutting downtown, which houses more than 70 businesses.

U.S. Biological completed the construction of a new \$3 million, 50,000 square foot headquarters building on Technology Way with the plan to have 28 new jobs within five years.

Endicott School (110 Boston Street) - The former Endicott School sits on a .53-acre lot along Boston Street, a major entrance-corridor into Salem with direct access to Route 128. After a competitive RFP process, the property was sold for \$350,000 to a nonprofit organization, Children's Friend, who relocated their office from another location in Salem. The City also negotiated a PILOT Agreement with the agency.

319 Highland Avenue - Highland Avenue is the major commercial corridor in Salem with a mix of shopping and dining options. However, this area had long lacked a gas service station. 319 Highland Avenue is the site of the former Moose Lodge. Construction of an Irving Gas Station with a Blue Canoe Convenience Store, North Shore Bank, and a Subway Restaurant was completed in 2007. In coordination with this project, Mass Highway undertook improvements to the Highland Avenue and Swampscott Road Intersection, which included a right turn lane and cueing of the lights. Now MADOT is undertaking a study for transportation improvements for this corridor in coordination with the Cities of Salem and Lynn.

### Other City Initiatives

Working Cities Challenge - The City successfully implemented a \$100,000 grant from the Boston Federal Reserve Bank to improve the quality of life through economic development initiatives in the Point neighborhood. A second grant to further this initiative has been recently awarded.

EPA Brownfields grant - The City with the City of Peabody received a \$950,000 federal grant to be utilized for a revolving loan fund to clean up contaminated sites.

Universal Steel site - This brownfield site was taken by the City for tax title in 2012. Through a coordinated effort with EPA, DEP, and MassDevelopment, the site has been remediated and paved and was used for temporary parking during the construction of the MBTA garage. The City solicited proposals for redevelopment in order to put the site back on the tax rolls and received a proposal from the adjacent commercial business, F.W. Webb Company, to build a new warehouse and commercial showroom. The proposal is currently before Council for a number of approvals.

Public Art - Over the past three years, the City has been working to increase the amount and quality of public art. Partly in response to public demand, this initiative is being pursued to support the City's identity as an arts and cultural destination. The physical presence of public works of art further supports the City's efforts to leverage the arts for economic development purposes. A Master Plan for Public Art was completed in 2013; Council adopted an ordinance to establish a Public Art Commission in 2014 and the City's first full-time public Art Planner was hired in 2014 to spearhead new initiatives. The City currently manages a program to transform utility boxes into works of art. In May 2012, a mural by an internationally renowned artist was installed on the exterior of the downtown parking garage, and in November 2015 another renowned artist turned two crosswalks into works of art in the Point neighborhood, which received an award from the Massachusetts Chapter of the American Planning Association. In addition to these activities, the City supports the annual arts festival which draws thousands of participants into downtown in early June.

Salem Main Streets Program - In July 2007, the City, in collaboration with the Salem Chamber of Commerce and the Salem Partnership, revived the Salem Main Streets program. The program works to support the revitalization of downtown Salem as a vibrant year-round retail, dining and cultural destination through business recruitment, retention, and the promotion of downtown Salem. The program has continued to support business recruitment and retention while adding an annual downtown arts festival and a weekly farmers market.

Salem Affordable Housing Trust Fund - The City adopted an ordinance to create a municipal housing trust fund in October, 2006. Through negotiations with a developer, the Trust Fund received \$50,000 and additional funds are expected from negotiated contributions from other large development projects. The Trust held its first meeting in March, 2007 and has developed a set of goals and strategies to increase affordable housing opportunities in Salem. In 2009, the Trust provided \$25,000 to HAWC toward construction of a shelter for abused parents and children. The remainder of the funds was provided to the St. Joseph's redevelopment project for assistance with designated units of affordable housing.

Destination Salem – The City continues to market Salem as a premier, year-round travel destination. The City continues its funding commitment to destination Salem through its annual allocation of hotel/motel tax revenue.

#### Planning

Salem Artists' Row Framework Plan - Completed in late 2015, this Plan lays out a vision and action steps to enhance this core area of the downtown.

Salem Housing Needs and Demand Analysis - Completed in July 2015 by the Metropolitan Area Planning Council, this analysis identifies the need for an additional 1,900 to 2,725 units of housing by 2030.

Vision and Action Plan for the Point Neighborhood in Salem 2013 – 2020 - This Plan outlines a vision to improve the quality of life in the Point neighborhood and an action agenda that the City of Salem and community partners will work together to implement over a seven-year period from 2013 to 2020. This Plan is a product of a year-long grassroots, neighborhood-level visioning process.

Public Art Master Plan - In recognition of the value that public art can bring to the cultural aesthetic and economic vitality of the community, the City completed a master plan for public art in partnership with the Peabody Essex Museum and the Salem Partnership, funded through the National Endowment for the Arts.

Greenlawn Cemetery - The City was awarded a \$4,000 Massachusetts Historical Commission Survey and Planning Grant in March 2013 to prepare a National Register of Historic Places nomination form for the Greenlawn Cemetery, and the Cemetery has since been nominated to the National Register.

Salem Downtown Renewal Plan - In January 2012 the Department of Housing and Community Development approved a major plan change to the City's urban renewal plans, creating a consolidated plan, the "Salem Downtown Renewal Plan", which updates goals and objective and design guidelines. This new plan will be in effect for thirty years.

Winter Island Master Plan - The City utilized grant funds to undertake a Master Plan for the renovation and redevelopment of Winter Island Park. The City, with its consultant The Cecil Group, conducted a six month public planning process and completed the final report in 2011. The City is now seeking funding to implement the plan's recommendations. See below for recent state grant award.

Bridge Street Neck Neighborhood Revitalization Plan - This neighborhood master plan for the Bridge Street Neck area was completed in August 2009. The City was awarded technical assistance funds from the regional planning agency, MAPC, to undertake implementation of one of the key recommendations of the plan, creation of a mixed use district.

Salem Harbor Plan Update - The update of the City's Municipal Harbor Plan, created in 2000, was approved by the EOEAA in 2008. The City worked with a consultant and the Salem Harbor Plan Implementation Committee to update the plan. The Plan outlines a 10-year strategy for port development which guides the future use and character of the Port of Salem.

#### Parks and Recreation

Winter Island - Salem was recently awarded a Parks and Conservation Partnership grant in the amount of \$192,404 for a scenic multi-use trail on Winter Island bordering Cat Cove. Improvements include interpretive signage, native plantings, installation of site amenities and improvements to the boat launch parking area.

Mary Jane Lee Park Splash Pad - The City was awarded a \$200,000 grant from the "Our Common Backyards" program for a splash pad at Mary Jane Lee Park located in our densest neighborhood. The splash pad was completed in time for the 2015 season and was a significant success. Additional funding is being sought through the State PARC grant to complete improvements.

Bertram Field - A complete renovation of Bertram Field football stadium and track was completed, including a synthetic turf surface expansion of the track to regulation size and installation of a resilient surface. Cost of the project is \$1.9 million and was partially funded with a Massachusetts PARC grant in the amount \$400,000.

Salem Common Fence - The City was awarded a \$62,000 Massachusetts Historical Commission MPPF Grant in 2014 for the restoration of the Salem Common Fence, continuing the phasing of improvements to this historically significant fence at Salem Common. In addition, the project was awarded \$100,000 in local CPA funds, and an additional \$113,000 in City funding for a total project budget of \$275,000. Construction on this phase of the project was completed and additional funding secured from CPA to continue incremental improvements.

Fort Avenue/Szetela Lane Redevelopment - This City-owned site at the intersection of Fort Avenue and Szetela Lane consists of five parcels containing approximately 2.13 acres. A Phase II and Phase III environmental assessment were completed and the City will be improving the site as a park.

Bicycling Accommodations - The City is proposing to undertake a demonstration project for protected bike lanes on Lafayette Street in accordance with Vision 2020. The City and the Salem Bike Path Committee continue to be committed to extending the Salem Bike Path to downtown Salem via an extension of the former Boston & Maine Railroad ROW at Canal Street, behind Gardner Mattress and all the businesses on Broadway Street, and a portion of the MBTA's active and abandoned railroad ROW. This extension has been engineered as part of the



Canal Street Roadway reconstruction project and the City is seeking to secure funding in order to construct it in the near future.

Open Space & Recreation Plan Update - The City has recently submitted an updated Open Space and Recreation Plan to the State for approval. The Plan establishes long-term goals for the preservation, continued protection and maintenance of open space and recreational areas in the City. Completion of the Plan makes the City eligible to apply for grants through the State PARC program. The City has been successful in the past and has received grants for Peabody Street Park, Furlong Park, Bertram Field, Lead Mills acquisition of open space, and Splaine Park.

Splaine Park - The City was awarded a \$420,946 grant from the State through the PARC program to upgrade Splaine Park. Improvements to the park include the construction of a stone dust bike/walking path along the park perimeter, the enhancement of the two main entrances, the construction of play structures, the installation of a new baseball field and irrigation system, and the rebuilding of the bleachers and dugouts. Construction is complete.

Furlong Park - The City received a \$500,000 Parkland Acquisition and Renovation for Communities (PARC) Grant from the State Division of Conservation Services for the restoration of Furlong Park. The 5.5 acre park is located along the North River and contains a baseball field, tennis court, playground, and basketball court. As part of the project these features were renovated and additions to the park included construction of a car top boat launch and stabilization of the eroded embankment that borders the North River. Environmental remediation work was funded with a separate state grant. Park renovations are now complete.

#### Community Preservation Projects

The Community Preservation Act (CPA) was adopted by Salem voters in November, 2012. It established a local dedicated fund for the purpose of undertaking open space, historic preservation, outdoor recreation and community housing projects. It is financed by a voter-approved property tax surcharge along with annual matching funds from the statewide CPA Trust Fund. In FY14 projects totaling \$709,623 were recommended by the Community Preservation Committee (CPC) and approved by Council; in FY15 projects totaling \$740,975 were recommended by the CPC and approved by Council; in FY16 projects totaling \$824,790 were recommended by the CPC and approved by Council. Projects include North Shore Housing Acquisition assistance, Salem Public Library roof replacement, Salem Common Fence restoration, Old Town Hall window restoration, Choate Statue restoration, Winter Island scenic trail, 15 Ward Street pocket park, Community Gardens improvements, Driver and Patten Parks improvements, Harbor and Lafayette Homes, Council Chamber Artwork restoration, Greenlawn Cemetery Chapel restoration, House of the 7 Gables roof project, Hamilton hall window restoration, Forest River Conservation Area trail upgrades, McGlew Park redesign, Mary Jane Lee Park improvements, Camp Naumkeag rehabilitation plan, Bates Elementary School playground, Boston Street housing acquisition, Emmerton House preservation, Proctor's Ledge memorial, Salem Willows pavilions restoration, Forest River bathrooms improvements, Forest River Pool conditions assessment, Ryan Brennan Memorial Skate Park renovation, Mack Park bathrooms improvements, Bentley Academy Charter School playground installation and Collins Cove Playground renovation.

#### Financial Planning and Forecasting

In fiscal year 2009, the City modified its budget format to improve upon its content and layout. The goal was to have a comprehensive budget that would allow an average person to read and comprehend the budget and budget process of the City. It also was modeled after several budgets that were submitted and approved for the Government Financial Officer's Association (GFOA) "Distinguished Budget Presentation Award". The new model included more narrative, including goals and objectives of each department, financial forecasts, policies and glossary of financial terms. It required a significant amount of work for all department heads and especially the finance division, who had to ensure all the materials were pulled together timely for submission to both the City

Council and the GFOA. As a result of our efforts, the City has been awarded the GFOA's "Distinguished Budget Presentation Award" for fiscal years 2009 through 2015.

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

As part of the fiscal year 2017 CIP, the City has authorized over \$26.8 million in general and enterprise fund capital projects. Funding sources ranging from bonding, grants, to CPA will begin several major projects including the second phase of Canal Street redevelopment, a new pumper truck for the Fire Department, and a heavy investment in public safety and public works vehicles.

### *Health Insurance*

The City continues to explore options to contain the rising cost of health care for City employees/retirees. In fiscal year 2006, the City Council accepted the provisions of Massachusetts General Law (M.G.L.) chapter 32B, section 18, a Massachusetts statute requiring all Medicare-eligible retirees who are currently on self-insured plans to move from self-insured coverage to a fully insured Medicare supplement plan. This provision saved the City approximately \$700,000 in fiscal 2007 and continues to realize savings for the City. This is a major cost saving initiative that will insure that all retirees over the age of 65 are treated consistently, while also providing greater control of costs associated with the City's Healthcare Insurance.

The City has used many different approaches to keep the cost of health insurance affordable as it relates to the overall budget of the City, including the procurement of new health care providers, modifications of existing plans, and collective bargaining to modify the employee/employer apportionment of costs. However, the most significant approach was enacted in FY2012 with the City Council's adoption of the Municipal Health Care Reform Act (the Act).

As part of the Act, the City was allowed to enter into the State's Group Insurance Commission (GIC), which resulted in significant short term savings (\$1.5 million in FY13), and long term savings for the City. In fact, the City was able to reduce its long term liability, also known as "other postemployment benefits" (OPEB) by \$26 million dollars, from \$171 million in 2010 to \$109 million as of January 1, 2014, per the City's OPEB liability report performed by the Segal Company, the City's contracted actuary.

The savings to the City employees and retirees come from lower premiums, an increase in City's contribution to PPO plans from 65% to 70%. The City also has agreed to pay all administrative fees for any person who wishes to enroll in a flexible spending account, which allows for pre-tax payments for certain medical costs, prescriptions, and some over the counter medications.

### *Pension Assessment*

During fiscal year 2009, the Salem Contributory Retirement Board moved all available funds into the State's Public Reserve Investment Trust (PRIT) to take advantage of its higher returns and lower administrative fees. Because of its size, the PRIT can diversify assets for maximum possible return. The Retirement Board shifted these assets voluntarily to the PRIT after a complete analysis and a vote of the Retirement Board.

The City includes the Salem Contributory Retirement System (the System) in its financial reporting since the City represents approximately 82% of the members of the System. The System was established to provide retirement benefits to its members, including employees and beneficiaries of the City of Salem, the Salem-Beverly Water Supply Board, the Salem Housing Authority, the South Essex Sewerage District, and the Essex North Shore Agricultural and Technical High School District. Per the Pension Reserves Investment Management Board July 2016 report, the market value of the System's assets totaled \$139 million, with 98% of the funds invested in the State's Pension Reserve Investment Trust's (PRIT) Core Fund.

The Salem Contributory Retirement Board last completed an updated calculation of its Net Pension Liability as of the measurement date December 31, 2015. The study reported that the actuarial value of the system's assets, as of December 31, 2015, had increased to \$138.6 million, while the system's Net Pension Liability was \$124.1 million. The Board maintains a funding schedule which will fully amortize the existing unfunded liability by June 30, 2031, with amortization payments that increase 4.5% per year. The City's share of this liability is 84.67% which amounted to \$105.0 million.

#### Other Significant Financial Matters

The Salem Harbor Power Station is the City's largest taxpayer. The power plant in August of 2012 changed ownership from Dominion Energy to Footprint Power LLC.

As of September 2016, Footprint Power has nearly completed the demolition of all existing structures and undertaken any necessary environmental remediation. Footprint has begun constructing a state-of-the-art 630 megawatt gas-fired plant on a portion of the site and will open the remaining two-thirds of the 63 acre waterfront property to private and public development opportunities.

From a revenue perspective, at the end of FY2011, the City's tax agreement with Dominion expired. Prior to this date, the City received a total payment from Dominion Energy in the amount of \$4.75 million for FY2011, \$3 million in tax dollars within the tax levy and \$1.75 million dollars designated as a "host fee" accounted for as miscellaneous non-recurring revenues.

In FY2011, Dominion announced major operational changes shutting down two of their power generating units due to market conditions and regulatory challenges at the state level. Due to the implementation of state regulations impacting its operations, during the FY2012 budget process, the Massachusetts Legislature adopted a proposal to ensure that Salem taxpayers will not be overly burdened by lost revenues from the power plant through 2017. Chapter 68 of the Acts of 2011, Section 33 states that "...the municipality shall be entitled to reimbursement for the difference between the amount called for....prior to the full or partial decommissioning or the change in operating status of the facility." This legislation postpones the financial impact of the loss of a major taxpayer. More importantly, it allows the City to work toward replacing the lost revenues and planning for an appropriate reuse of the site.

As of December 2014, the City has negotiated, and the City Council approved, a 18 year PILOT agreement with Footprint Power LLC. This agreement will utilize the "hold harmless agreement" of \$4.75 million from the State during construction through 2019, with payments increasing steadily as the plan becomes up and running. A graduated escalation factor will result in the City receiving over \$99,242,000 for the duration of the contract, or \$5.5 million a year; a 16% increase over the current tax level collected. In addition to the negotiated PILOT agreement, the City was able to draft and finalize a community benefits agreement which will provide the City and School District with over \$4.4 million in additional funding.

## Financial Policy

The City has set a goal to fund the Stabilization fund in the amount of 5% of the City's current operating budget, or roughly \$7.2 million. As of June 30, 2016, the balance in the City's Stabilization fund is \$5.5 million. The target date to have the Stabilization fund fully funded is projected to occur by fiscal year 2018. The Stabilization fund shall be funded by appropriations from free cash (available funds), operating budget appropriations when available, and other one-time non-recurring revenues that become available for appropriation per Massachusetts General Law.

In fiscal 2008, the City established a second Stabilization fund (Retirement Stabilization Fund) for the funding of retirement buyouts for both City and School employees. As of June 30, 2016, the balance of this account was \$578,000. During the fiscal 2017 budget process, all department heads were asked if they anticipated any retirements and to calculate the estimated cost of each person's buyout for fiscal 2017. As such, the City appropriated \$600,000 to that fund. The goal of the Retirement Stabilization Fund is to pay for any unanticipated retirements from this Fund instead of using general fund appropriations. This will allow the departments to backfill vacancies in a timely manner without having to request a supplemental appropriation by the Council.

In fiscal 2011, the City adopted Massachusetts General Law Chapter 32B, Section 20, establishing the "Other Postemployment Benefits (OPEB) Liability Trust Fund" as a local option. This fund gives communities a mechanism to reduce the unfunded actuarial liability of health care and other post-employment benefits. The City currently has \$1.7 million in the account. Future appropriations will be made to this fund in accordance to financial policies of the Finance Department of the City.

Free cash is the remaining unrestricted funds from operations of the previous fiscal year including unexpended free cash from the previous year, actual receipts in excess of revenue estimates shown on the tax rate recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash. The calculation of free cash is based on the balance sheet as of June 30th, which is submitted by the community's auditor, accountant, or comptroller. Free cash is not available for appropriation until certified by the Massachusetts Director of Accounts. Free cash is the term used for a community's funds that are available for appropriation. Once free cash is certified, it is available for appropriation by City Council. The balance for free cash was certified at \$5.4 million.

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

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

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

Any free cash available after funding the above may be used to augment trust funds related to fringe benefits and unfunded liabilities related to employee benefits, including 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, 2015. In order to receive this prestigious award, a government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

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

The GFOA also awarded a Distinguished Budget Presentation Award to the City of Salem for its budget document for the fiscal year beginning July 1, 2015. The GFOA established the Distinguished Budget Award in 1984 to encourage and assist state and local governments to prepare budget documents of the very highest quality that reflect both the guidelines established by the National Advisory Council on State and Local Budgeting and the GFOA's recommended practices on budgeting and then to recognize individual governments that succeed in achieving that goal.

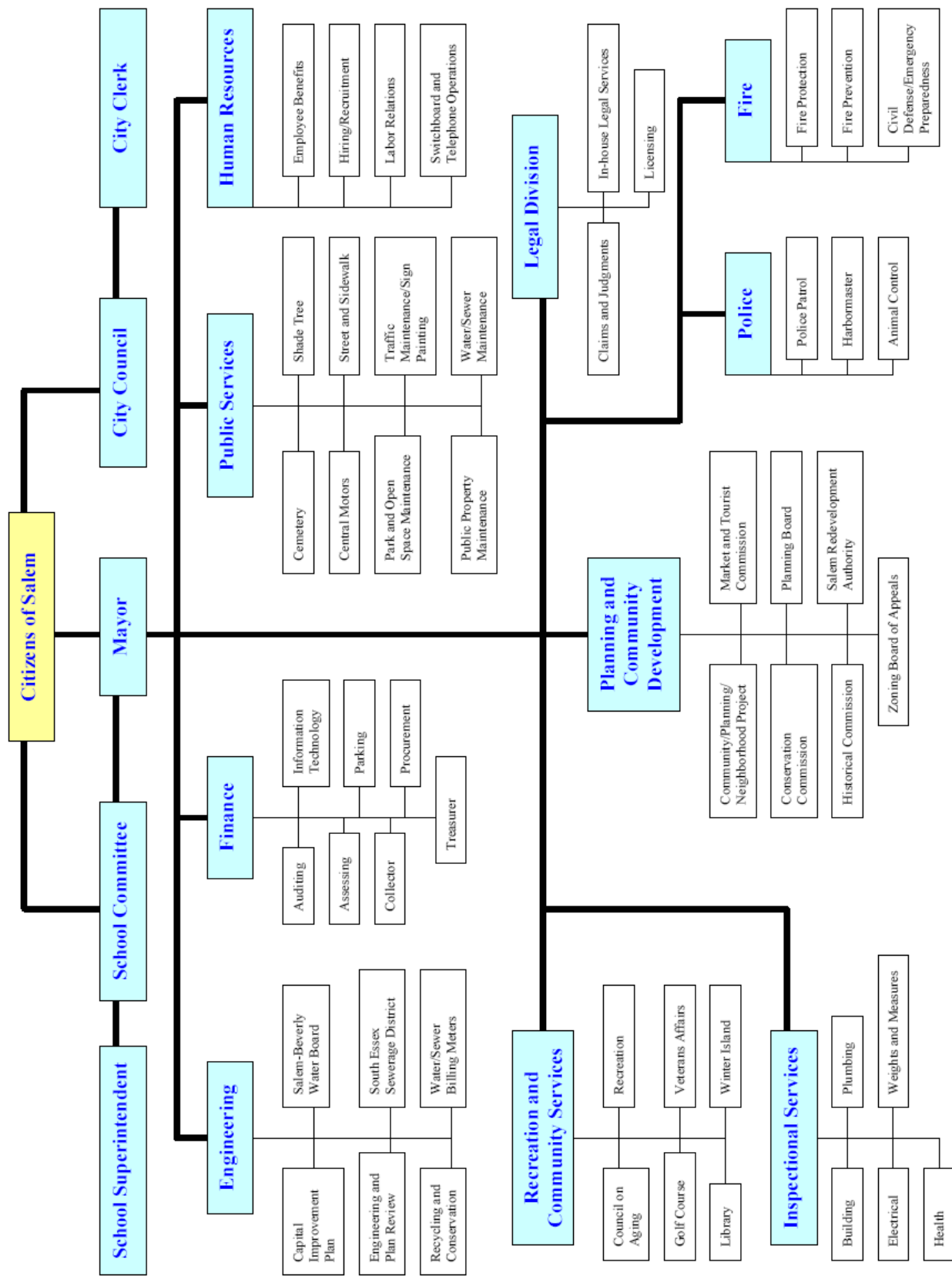
Documents submitted to the Budget Awards Program are reviewed by selected members of the GFOA professional staff and by outside reviewers with experience in public-sector budgeting.

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

Respectfully submitted,



Sarah A. Stanton  
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	12/31/2017
President, City Council	Josh H. Truiel	1/1/2016	12/31/2016
Finance Director	Sarah Stanton	3/14/2013	1/31/2017
Treasurer	Kathleen McMahon	12/27/2010	1/31/2019
Collector	Bonnie Celi	3/11/2004	1/31/2018
City Clerk	Cheryl LaPointe	7/15/2004	11/9/2018
City Solicitor	Elizabeth Rennard	1/10/2006	Indefinite
Assistant Finance Director	Nina Bridgman	1/22/2004	1/31/2018



Government Finance Officers Association

**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, 2015**

A handwritten signature in black ink, reading "Jeffrey R. Enos". The signature is fluid and cursive.

Executive Director/CEO



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished  
Budget Presentation  
Award*

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**City of Salem  
Massachusetts**

For the Fiscal Year Beginning

**July 1, 2015**

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the City of Salem, Massachusetts for the Annual Budget beginning July 1, 2015. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operational guide, as a financial plan, and as a communication device.

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# ***Financial Section***



**Downtown Salem - Jazz Festival**

## ***Financial Section***



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100 Quannapowitt Parkway

Suite 101

Wakefield, MA 01880

T. 781-914-1700

F. 781-914-1701

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## Independent Auditor's Report

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

## Report on the Financial Statements

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 year ended June 30, 2016 (except for the Salem Contributory Retirement System which is as of and for the year ended December 31, 2015), and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## 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, 2016 (except for the Salem Contributory Retirement System which is as of December 31, 2015), and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Salem's basic financial statements. The introductory, combining and individual fund statements and statistical sections are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2016 on our consideration of the City of Salem, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Salem, Massachusetts' internal control over financial reporting and compliance.



December 13, 2016

## ***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 year ended June 30, 2016. We encourage readers to consider the information presented in this report in conjunction with additional information that we have furnished in our letter of transmittal.

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

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

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

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

The *statement of net position* presents information on all assets and liabilities, and deferred inflows/outflows of resources, with the difference between them reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent year. All changes in net position 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 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, community preservation, culture and recreation and interest. The business-type activities include the activities of water and sewer, the municipal golf course, and trash disposal.

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 year. Such information may be useful in evaluating a government's near-term financing requirements.

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

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

**Proprietary funds.** The City maintains two types of proprietary funds.

*Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer activities, trash disposal, and for the operation of the municipal golf course.

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. The internal service fund is now used to account for funds set aside by the City to help offset health insurance costs of employees that were highly impacted from the switch to the GIC (Group Insurance Commission).

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

The fiduciary fund financial statements provide separate information for the pension and other postemployment benefit (OPEB) trust funds of the City. Private-purpose trust funds and agency funds are reported and combined into a single, aggregate presentation in the fiduciary funds financial statements under the captions "private purpose trust funds" and "agency funds", respectively.

**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 position may serve over time as a useful indicator of a government's financial position. The City of Salem's governmental assets exceeded liabilities by \$54 million at the close of 2016. This represents a decrease of \$4.3 million from the prior year.

Net position of \$171.2 million reflects the City's net investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment, less any related debt used to acquire those assets that are still outstanding). The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the governmental net position, \$9.2 million, represents resources that are subject to external restrictions on how they may be used. The balance of *unrestricted net position* has a year-end deficit of \$126.4 million. The primary reason for this deficit balance is the recognition of other postemployment benefit liabilities totaling \$49.1 million and a net pension liability of \$102.4 million, in accordance with recent requirements of Governmental Auditing Standards Board (GASB). To calculate the estimated other postemployment benefit (OPEB) liabilities, the City is required to obtain a biannual actuarial valuation of the City's liability to pay other postemployment benefits to current employees and retirees. The City is allowed to amortize the unfunded liability, which is currently estimated to be approximately \$108.9 million, over 30 years. Since there is no legal obligation to fund the liability at this time, the City has opted to continue to fund the majority of its other postemployment benefits on a pay-as-you go basis. As a result, the City is required to record the difference between the current year pay-as-you go cost and the current year actuarial determined cost plus interest on any prior unfunded liability as an expense in the full accrual financial statements. This difference totaled \$4.6 million for governmental activities for 2016. The City has begun the process of pre-funding a portion of the liability by establishing an irrevocable trust which, as of June 30, 2016, has a balance of \$1.7 million and is reported within the fiduciary funds in the City's financial statements. The net pension liability was recorded in accordance with GASB Statements #67, #68 and #71. This requires the Salem Contributory Retirement System (System) to obtain a biannual actuarial valuation of the System's liability to pay pension benefits to retirees and beneficiaries. The City funds a portion of the net pension liability annually as part of the required appropriation to the System.

	2016	2015
<b>Assets:</b>		
Current assets.....	\$ 51,804,803	\$ 50,149,219
Noncurrent assets (excluding capital).....	2,225,911	2,826,215
Capital assets.....	220,388,173	219,428,010
<b>Total assets.....</b>	<b>274,418,887</b>	<b>272,403,444</b>
<b>Deferred Outflows of Resources.....</b>	<b>7,559,761</b>	<b>574,798</b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	11,368,650	14,794,543
Noncurrent liabilities (excluding debt).....	163,582,171	147,577,395
Current debt.....	6,913,357	12,636,403
Noncurrent debt.....	46,089,814	39,682,873
<b>Total liabilities.....</b>	<b>227,953,992</b>	<b>214,691,214</b>
<b>Deferred Inflows of Resources.....</b>	<b>55,222</b>	<b>-</b>
<b>Net Position:</b>		
Net investment in capital assets.....	171,154,357	172,084,606
Restricted.....	9,234,701	12,047,560
Unrestricted.....	(126,419,624)	(125,845,138)
<b>Total net position.....</b>	<b>\$ 53,969,434</b>	<b>\$ 58,287,028</b>

Overall governmental net position decreased during 2016 by \$4.3 million. Of this decrease \$4.6 million is directly related to the additional amortization of the OPEB liability. Operating grants have increased due to a change in on-behalf payments associated with the Massachusetts Teachers' Retirement System which have been recorded in accordance with the new GASB pension standards. The governmental expenses totaled \$172.9 million of which \$67.9 million (39%) was directly supported by program revenues consisting of charges for services, operating and capital grants, and contributions. General government expenses decreased during 2016 partially because of decreased spending in state grant programs. Education expenses increased due to MTRS on-behalf payments increasing by \$3.5 million.

	2016	2015
<b>Program revenues:</b>		
Charges for services.....	\$ 8,485,074	\$ 8,512,218
Operating grants and contributions.....	52,223,253	46,826,741
Capital grants and contributions.....	7,213,351	5,050,922
<b>General Revenues:</b>		
Real estate and personal property taxes.....	84,802,453	82,444,144
Community preservation taxes.....	561,424	535,637
Motor vehicle and other excise taxes.....	4,194,711	3,929,230
Nonrestricted grants.....	6,881,968	7,182,509
Unrestricted investment income.....	459,322	554,360
Other revenues.....	4,145,949	3,681,525
<b>Total revenues.....</b>	<b>168,967,505</b>	<b>158,717,286</b>
<b>Expenses:</b>		
General government.....	11,788,264	12,503,170
Public safety.....	29,707,698	29,652,698
Education.....	105,955,199	100,997,380
Public works.....	12,627,503	11,878,911
Community development.....	1,033,601	1,569,281
Health and human services.....	6,793,390	6,850,201
Community preservation.....	80,610	356,518
Culture and recreation.....	3,585,339	3,277,578
Interest.....	1,313,435	1,349,443
<b>Total expenses.....</b>	<b>172,885,039</b>	<b>168,435,180</b>
<b>Excess (Deficiency) before transfers.....</b>	<b>(3,917,534)</b>	<b>(9,717,894)</b>
<b>Transfers.....</b>	<b>(400,060)</b>	<b>9,736</b>
<b>Change in net position.....</b>	<b>(4,317,594)</b>	<b>(9,708,158)</b>
<b>Net position, beginning of year.....</b>	<b>58,287,028</b>	<b>67,995,186</b>
<b>Net position, end of year.....</b>	<b>\$ 53,969,434</b>	<b>\$ 58,287,028</b>



### **Business-type Activities**

For the City's business-type activities, assets exceeded liabilities by \$11.9 million at the close of 2016.

	<u>2016</u>	<u>2015</u>
<b>Assets:</b>		
Current assets.....	\$ 14,014,842	\$ 14,078,860
Capital assets.....	33,760,168	29,763,387
<b>Total assets.....</b>	<b><u>47,775,010</u></b>	<b><u>43,842,247</u></b>
<b>Deferred Outflows of Resources.....</b>	<b><u>195,596</u></b>	<b><u>12,335</u></b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	2,142,421	1,971,915
Noncurrent liabilities (excluding debt).....	4,306,157	3,944,053
Current debt.....	2,251,468	7,562,532
Noncurrent debt.....	27,415,426	18,622,468
<b>Total liabilities.....</b>	<b><u>36,115,472</u></b>	<b><u>32,100,968</u></b>
<b>Deferred Inflows of Resources.....</b>	<b><u>1,443</u></b>	<b><u>-</u></b>
<b>Net Position:</b>		
Net investment in capital assets.....	8,280,350	8,744,920
Unrestricted.....	3,573,341	3,008,694
<b>Total net position.....</b>	<b><u>\$ 11,853,691</u></b>	<b><u>\$ 11,753,614</u></b>

Business-type net position of \$8.3 million (70%) represents net investment in capital assets. The remaining \$3.6 million (30%) is available to be used for the ongoing operation of the City's water, sewer, trash and municipal golf course activities. There was an overall increase of \$100,000 in net position reported in connection with the enterprise funds.

The water and sewer enterprise fund's net position of \$7.8 million (74%) represents the net investment in capital assets, while \$2.8 million (26%) is unrestricted. The water and sewer enterprise experienced a net decrease of \$52,000 in net position from the prior year. The fund pays annual assessments to the Salem Beverly Water Supply Board and to the South Essex Sewerage District, which totaled \$2.5 million and \$4.9 million, respectively. Combined, these assessments represent 72% the fund's operating expenses for 2016.

The unrestricted balance includes the City's \$722,000 equity interest in the South Essex Sewerage District.

The golf course enterprise fund's net position of \$484,000 represents the net investment in capital assets, while \$346,000 is unrestricted. The golf course's net position remained substantially unchanged from 2015.

The City's trash enterprise fund operates on a trash fee that is set with full knowledge that the revenue will not be sufficient to cover the cost of operations. The City budgets for a subsidy from the general fund equal to the estimated cash basis deficit in the fund at year end. At year-end a \$2.0 million transfer was made from the general fund to subsidize for the budgeted deficit. As of June 30, 2016, the trash fund had unrestricted net position totaling \$439,000.

	2016	2015
<b>Program revenues:</b>		
Charges for services.....	\$ 14,687,976	\$ 14,702,590
Capital grants and contributions.....	-	102,518
<b>Total revenues.....</b>	<b>14,687,976</b>	<b>14,805,108</b>
<b>Expenses:</b>		
Cost of service and administration.....	5,326,724	5,798,649
District assessment.....	7,858,326	7,939,255
Depreciation.....	1,054,659	883,012
Interest.....	748,250	686,749
<b>Total expenses.....</b>	<b>14,987,959</b>	<b>15,307,665</b>
<b>Excess (Deficiency) before transfers.....</b>	<b>(299,983)</b>	<b>(502,557)</b>
<b>Transfers.....</b>	<b>400,060</b>	<b>(9,736)</b>
<b>Change in net position.....</b>	<b>100,077</b>	<b>(512,293)</b>
<b>Net position, beginning of year.....</b>	<b>11,753,614</b>	<b>12,265,907</b>
<b>Net position, end of year.....</b>	<b>\$ 11,853,691</b>	<b>\$ 11,753,614</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 the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

In accordance with generally accepted accounting standards, the City reports the components of fund balance as nonspendable, restricted, committed, assigned and unassigned, based on restrictions on spending. Additionally, the City's stabilization funds are reported within the general fund as unassigned.

As of the end of the current year, governmental funds reported combined ending fund balances of \$37 million of which \$13.6 million is reported in the general fund, \$1.0 million in the community preservation fund, a deficit of \$23,000 is reported in the city wharf project fund, \$4.2 million is reported in the city grants fund, \$2.7 million is reported in the capital improvement fund and \$15.3 million is reported in the nonmajor governmental funds. Cumulatively there was an increase of \$11 million in fund balances from the prior year.

The general fund is the City's chief operating fund. At the end of the current year, unassigned fund balance of the general fund totaled \$12.9 million, while total fund balance was \$13.6 million. The general fund balance increased by \$1.5 million in 2016. The increase is the result of positive budgetary results.

The Community Preservation fund had an ending restricted fund balance at June 30, 2016, of \$1.0 million. These funds are attributable to the City's acceptance of the Community Preservation Act, which allows the City to impose up to a 1% surcharge on property taxes and to receive matching State grant funds for specified uses related to the acquisition, creation, preservation and support of open space, historical resources, land for

recreational use and community housing. This is the third year that the City has operated the Community Preservation fund and the second year that the City received a contribution from the state toward the operation of this fund.

The City wharf project fund includes improvements to the City's harborwalk, docks, walkways, and pier construction. The City has \$928,000 in state grant anticipation notes outstanding related to this project at year end which is expected to be repaid during 2017. Project expenditures totaled \$1.1 million, while state capital grant reimbursements totaled \$974,000 during 2016.

The city grants fund is used to account for non-school related activity specifically financed by federal, state, and other grants which are designated for special programs. The ending restricted fund balance at June 30, 2016, was \$4.2 million. Total fund balance increased by \$1.9 million in 2016, due to revenues and transfers in exceeding current year expenditures.

The capital improvement funds are used to account for the projects in the City's capital improvement plan that specifically relate to City improvements for roads and fields. The fund had a year-end fund balance of \$2.7 million. This fund recognized \$6.5 million in bond proceeds and \$1.8 million in capital lease proceeds as funding sources for ongoing projects.

Cumulatively, nonmajor governmental funds had a net increase of \$4.4 million. This represents the activity of other nonmajor capital projects, grants, and permanent trust funds. The 2016 increase was almost entirely the result of bond and grant proceeds recognized for school capital projects.

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

The City's final general fund operating budget included \$135 million in total current year appropriations to be funded with \$130.1 million in estimated receipts and transfers in and approximately \$4.9 million in available funds.

The 3.4 million increase between the original budget and the final amended budget was due to several council orders issued throughout the year to appropriate available funds. The most notable components of this increase include an additional \$1.5 million in available funds appropriated to fund stabilization reserves, capital improvements, other postemployment benefits trust, pension reserves and various additional appropriations. The actual general fund revenues came in \$1.9 million higher than budgeted. The City does not budget revenue for tax liens which totaled \$535,000. Additionally, motor vehicle and other excise taxes and hotel/motel tax and meals taxes reported budgetary surpluses of \$617,000 and \$154,000, respectively.

The City's general fund reported expenditures and encumbrances less than appropriations by a net of approximately \$2.4 million. The budget was overspent by \$301,000 for the removal of snow and ice. This over-expenditure is allowed under state law.

On a budgetary basis, the general fund ended the year with a net increase of \$1.1 million.

### ***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, 2016, amounts to \$254.1 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and land improvements, equipment, vehicles and infrastructure related to governmental and business-type activities. The City's total investment in capital assets for the current year totaled \$10.3 million for governmental activities and \$5.1 million for business-type activities.

Major governmental additions included ongoing upgrades to the Collins and Saltonstall school buildings, roadway improvements and improvements to the City wharf.

Capital improvements for business-type activities were mainly for water infrastructure including water main improvements and infrastructure related to the South River Basin, Forest Street, and Canal Street drainage projects and the Folly Hill water tank project.

**Debt Administration.** Outstanding long-term debt of the governmental activities, as of June 30, 2016, totaled \$50.7 million.

The Commonwealth of Massachusetts is obligated to provide school construction assistance for approved school projects through a grant program administered by the MSBA. The assistance is paid to offset a portion of principal and interest on debt issued to finance approved school construction costs. At June 30, 2016, the City has recorded a receivable from the MSBA totaling \$3.3 million, which represents anticipated future reimbursements of approved construction costs on projects completed under this MSBA program.

The City issued \$5.7 million in general obligation bonds during fiscal year 2016 to finance various governmental capital projects. The City also issued bond and state grant anticipation notes totaling \$7.0 million. Subsequent to year end, the City retired the majority of the bond anticipation notes through the issuance of general obligation bonds. These bond anticipation notes have been recorded as long-term debt as of June 30, bringing the total bonds issued to \$10.5 million which included \$4.6 million for school projects.

Outstanding debt of the water and sewer, and golf enterprise funds totaled \$28.7 million and \$133,000 respectively, and funded various repairs, maintenance and infrastructure projects. This includes new debt issued in 2016 for water and sewer improvements of \$6.3 million and golf course equipment of \$114,000 and water and sewer bonds issued in 2017 to retire BANs outstanding as of June 30<sup>th</sup> totaling \$3.9 million which have been classified as long-term bonds.

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

### ***Requests for Information***

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

## ***Basic Financial Statements***

## STATEMENT OF NET POSITION

JUNE 30, 2016

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents.....	\$ 28,609,630	\$ 10,329,279	\$ 38,938,909
Investments.....	11,686,786	-	11,686,786
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	1,115,404	-	1,115,404
Tax liens.....	1,867,658	-	1,867,658
Motor vehicle and other excise taxes.....	618,654	-	618,654
User fees.....	-	2,866,552	2,866,552
Trash fees.....	-	97,097	97,097
Departmental and other.....	122,689	-	122,689
Intergovernmental.....	7,650,842	-	7,650,842
Loans.....	133,140	-	133,140
Investment in joint venture.....	-	721,914	721,914
Total current assets.....	51,804,803	14,014,842	65,819,645
<b>NONCURRENT:</b>			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	2,021,243	-	2,021,243
Loans.....	204,668	-	204,668
Capital assets, non depreciable.....	7,327,160	228,208	7,555,368
Capital assets, net of accumulated depreciation.....	213,061,013	33,531,960	246,592,973
Total noncurrent assets.....	222,614,084	33,760,168	256,374,252
<b>TOTAL ASSETS.....</b>	<b>274,418,887</b>	<b>47,775,010</b>	<b>322,193,897</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on refunding.....	74,785	-	74,785
Deferred outflows of resources related to pensions.....	7,484,976	195,596	7,680,572
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES.....</b>	<b>7,559,761</b>	<b>195,596</b>	<b>7,755,357</b>
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Warrants payable.....	341,280	1,338,500	1,679,780
Accrued liabilities.....	928,510	416,733	1,345,243
Accrued payroll.....	6,174,007	15,115	6,189,122
Tax refunds payable.....	849,003	-	849,003
Accrued interest.....	335,031	245,427	580,458
Capital lease obligations.....	456,704	101,947	558,651
Landfill closure.....	200,000	-	200,000
Compensated absences.....	1,971,809	24,699	1,996,508
Workers' compensation.....	112,306	-	112,306
Notes payable.....	2,267,900	-	2,267,900
Bonds payable.....	4,645,457	2,251,468	6,896,925
Total current liabilities.....	18,282,007	4,393,889	22,675,896
<b>NONCURRENT:</b>			
Capital lease obligations.....	1,754,520	172,607	1,927,127
Landfill closure.....	2,050,000	-	2,050,000
Compensated absences.....	6,971,339	34,532	7,005,871
Other postemployment benefits.....	49,134,159	1,424,095	50,558,254
Net pension liability.....	102,362,764	2,674,923	105,037,687
Workers' compensation.....	1,309,389	-	1,309,389
Bonds payable.....	46,089,814	27,415,426	73,505,240
Total noncurrent liabilities.....	209,671,985	31,721,583	241,393,568
<b>TOTAL LIABILITIES.....</b>	<b>227,953,992</b>	<b>36,115,472</b>	<b>264,069,464</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pensions.....	55,222	1,443	56,665
<b>NET POSITION</b>			
Net investment in capital assets.....	171,154,357	8,280,350	179,434,707
Restricted for:			
Loans.....	337,808	-	337,808
Permanent funds:			
Expendable.....	4,191,872	-	4,191,872
Nonexpendable.....	2,176,969	-	2,176,969
Grants and gifts.....	2,528,052	-	2,528,052
Unrestricted.....	(126,419,624)	3,573,341	(122,846,283)
<b>TOTAL NET POSITION.....</b>	<b>\$ 53,969,434</b>	<b>\$ 11,853,691</b>	<b>\$ 65,823,125</b>

See notes to basic financial statements.

# STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
General government.....	\$ 11,788,264	\$ 3,443,668	\$ 703,087	\$ 1,208,507	\$ (6,433,002)
Public safety.....	29,707,698	2,289,056	1,462,992	-	(25,955,650)
Education.....	105,955,199	1,224,683	43,504,942	970,922	(60,254,652)
Public works.....	12,627,503	203,413	80,500	4,908,205	(7,435,385)
Community development.....	1,033,601	143,947	938,035	-	48,381
Health and human services.....	6,793,390	127,050	5,150,114	-	(1,516,226)
Community preservation.....	80,610	-	-	125,717	45,107
Culture and recreation.....	3,585,339	1,053,257	207,882	-	(2,324,200)
Interest.....	1,313,435	-	175,701	-	(1,137,734)
Total Governmental Activities...	172,885,039	8,485,074	52,223,253	7,213,351	(104,963,361)
Business-Type Activities:					
Water and Sewer.....	11,694,630	13,043,867	-	-	1,349,237
Golf Course.....	531,307	805,227	-	-	273,920
Trash.....	2,762,022	838,882	-	-	(1,923,140)
Total Business-Type Activities..	14,987,959	14,687,976	-	-	(299,983)
Total Primary Government.....	\$ 187,872,998	\$ 23,173,050	\$ 52,223,253	\$ 7,213,351	\$ (105,263,344)

See notes to basic financial statements.

(Continued)

# STATEMENT OF ACTIVITIES (Continued)

YEAR ENDED JUNE 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Changes in net position:</b>			
Net (expense) revenue from previous page.....	\$ <u>(104,963,361)</u>	\$ <u>(299,983)</u>	\$ <u>(105,263,344)</u>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	84,802,453	-	84,802,453
Community preservation taxes.....	561,424	-	561,424
Tax liens.....	523,414	-	523,414
Motor vehicle and other excise taxes.....	4,194,711	-	4,194,711
Hotel/motel and meals taxes.....	1,541,901	-	1,541,901
Penalties and interest on taxes.....	497,484	-	497,484
Payments in lieu of taxes.....	1,322,806	-	1,322,806
Grants and contributions not restricted to specific programs.....	6,881,968	-	6,881,968
Unrestricted investment income.....	459,322	-	459,322
Miscellaneous.....	260,344	-	260,344
<i>Transfers, net</i> .....	<u>(400,060)</u>	<u>400,060</u>	<u>-</u>
Total general revenues and transfers.....	<u>100,645,767</u>	<u>400,060</u>	<u>101,045,827</u>
Change in net position.....	(4,317,594)	100,077	(4,217,517)
<b>NET POSITION:</b>			
Beginning of year.....	<u>58,287,028</u>	<u>11,753,614</u>	<u>70,040,642</u>
End of year.....	\$ <u><u>53,969,434</u></u>	\$ <u><u>11,853,691</u></u>	\$ <u><u>65,823,125</u></u>

(Concluded)



**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2016

	General	Community Preservation Funds	City Wharf Project Fund	City Grants	Capital Improvement Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>							
Cash and cash equivalents.....	\$ 14,892,902	\$ 1,026,502	\$ 298,980	\$ 3,237,874	\$ 2,750,468	\$ 6,309,411	\$ 28,516,137
Investments.....	5,829,541	-	-	-	-	5,857,245	11,686,786
Receivables, net of uncollectibles:							
Real estate and personal property taxes.....	1,105,900	9,504	-	-	-	-	1,115,404
Tax liens.....	1,867,658	-	-	-	-	-	1,867,658
Motor vehicle and other excise taxes.....	618,654	-	-	-	-	-	618,654
Departmental and other.....	-	-	-	-	-	122,689	122,689
Intergovernmental.....	2,673,245	106,681	680,562	2,357,566	-	3,854,031	9,672,085
Loans.....	-	-	-	-	-	337,808	337,808
Due from other funds.....	-	-	-	73,686	-	-	73,686
<b>TOTAL ASSETS.....</b>	<b>\$ 26,987,900</b>	<b>\$ 1,142,687</b>	<b>\$ 979,542</b>	<b>\$ 5,669,126</b>	<b>\$ 2,750,468</b>	<b>\$ 16,481,184</b>	<b>\$ 54,010,907</b>
<b>LIABILITIES</b>							
Warrants payable.....	\$ -	\$ 19,800	\$ 74,886	\$ 79,411	\$ 77,287	\$ 89,896	\$ 341,280
Accrued liabilities.....	928,510	-	-	-	-	-	928,510
Accrued payroll.....	5,969,234	-	-	26,379	-	178,394	6,174,007
Tax refunds payable.....	849,003	-	-	-	-	-	849,003
Due to other funds.....	-	-	-	-	-	73,686	73,686
Notes payable.....	-	-	928,000	1,339,000	900	-	2,267,900
<b>TOTAL LIABILITIES.....</b>	<b>7,746,747</b>	<b>19,800</b>	<b>1,002,886</b>	<b>1,444,790</b>	<b>78,187</b>	<b>341,976</b>	<b>10,634,386</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Unavailable revenue.....	5,642,298	116,185	-	-	-	877,023	6,635,506
<b>FUND BALANCES</b>							
Nonspendable.....	-	-	-	-	-	2,176,969	2,176,969
Restricted.....	-	1,006,702	-	4,224,336	2,672,281	13,085,216	20,988,535
Assigned.....	661,246	-	-	-	-	-	661,246
Unassigned.....	12,937,609	-	(23,344)	-	-	-	12,914,265
<b>TOTAL FUND BALANCES.....</b>	<b>13,598,855</b>	<b>1,006,702</b>	<b>(23,344)</b>	<b>4,224,336</b>	<b>2,672,281</b>	<b>15,262,185</b>	<b>36,741,015</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES.....</b>	<b>\$ 26,987,900</b>	<b>\$ 1,142,687</b>	<b>\$ 979,542</b>	<b>\$ 5,669,126</b>	<b>\$ 2,750,468</b>	<b>\$ 16,481,184</b>	<b>\$ 54,010,907</b>

See notes to basic financial statements.

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

JUNE 30, 2016

Total governmental fund balances.....	\$ 36,741,015
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....	220,388,173
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....	6,635,506
Certain changes in the net pension liability are required to be included in pension expense over future periods. These changes are reported as deferred outflows of resources or (deferred inflows of resources) related to pensions.....	7,429,754
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 position.....	93,493
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....	(335,031)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds payable.....	(50,735,271)
Deferred charge on refunding.....	74,785
Landfill closure.....	(2,250,000)
Workers' compensation.....	(1,421,695)
Capital leases.....	(2,211,224)
Compensated absences.....	(8,943,148)
Other postemployment benefits.....	(49,134,159)
Net pension liability.....	<u>(102,362,764)</u>
Net effect of reporting long-term liabilities.....	<u>(216,983,476)</u>
Net position of governmental activities.....	<u>\$ 53,969,434</u>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2016

	General	Community Preservation Funds	City Grant Wharf Fund	City Grants	Capital Improvement Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>							
Real estate and personal property taxes, net of tax refunds.....	\$ 84,741,658	\$ 551,920	\$ -	\$ -	\$ -	\$ -	\$ 85,293,578
Tax liens.....	534,521	-	-	-	-	-	534,521
Motor vehicle and other excise taxes.....	4,057,235	-	-	-	-	-	4,057,235
Hotel/motel and meals taxes.....	1,541,901	-	-	-	-	-	1,541,901
Charges for services.....	1,727,188	-	-	10,463	-	315,240	2,052,891
Penalties and interest on taxes.....	493,211	1,488	-	-	-	2,785	497,484
Payments in lieu of taxes.....	1,322,806	-	-	-	-	-	1,322,806
Licenses and permits.....	535,226	-	-	-	-	-	535,226
Fines and forfeitures.....	882,008	-	-	-	-	-	882,008
Intergovernmental.....	41,183,433	155,406	973,553	9,501,134	534,093	12,577,947	64,925,566
Departmental and other.....	2,989,056	-	-	318,535	-	3,898,238	7,205,829
Contributions.....	-	-	-	-	-	221,193	221,193
Investment income.....	458,607	244	-	23	-	448	459,322
<b>TOTAL REVENUES.....</b>	<b>140,466,850</b>	<b>709,058</b>	<b>973,553</b>	<b>9,830,155</b>	<b>534,093</b>	<b>17,015,851</b>	<b>169,529,560</b>
<b>EXPENDITURES:</b>							
Current:							
General government.....	6,779,722	-	-	472,725	729,110	191,725	8,173,282
Public safety.....	19,198,635	-	-	1,397,292	923,520	37,465	21,556,912
Education.....	58,654,848	-	-	180,956	554,892	11,657,525	71,048,221
Public works.....	4,131,090	-	1,063,521	2,653,210	3,293,730	2,710,003	13,851,554
Community development.....	-	-	-	1,999	-	1,031,602	1,033,601
Health and human services.....	1,261,064	-	-	4,947,846	25,451	132,170	6,366,531
Community preservation.....	-	506,415	-	-	-	-	506,415
Culture and recreation.....	2,014,308	-	-	101,682	165,964	290,683	2,572,637
Pension benefits.....	20,151,894	-	-	-	-	-	20,151,894
Employee benefits.....	13,529,621	-	-	-	-	-	13,529,621
State and county charges.....	7,061,663	-	-	-	-	-	7,061,663
Debt service:							
Principal.....	3,500,000	-	-	-	-	-	3,500,000
Interest.....	1,637,798	-	-	-	3,061	-	1,640,859
<b>TOTAL EXPENDITURES.....</b>	<b>137,920,643</b>	<b>506,415</b>	<b>1,063,521</b>	<b>9,755,710</b>	<b>5,695,728</b>	<b>16,051,173</b>	<b>170,993,190</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>2,546,207</b>	<b>202,643</b>	<b>(89,968)</b>	<b>74,445</b>	<b>(5,161,635)</b>	<b>964,678</b>	<b>(1,463,630)</b>
<b>OTHER FINANCING SOURCES (USES):</b>							
Issuance of bonds.....	-	-	-	-	6,475,829	3,997,532	10,473,361
Premium from issuance of bonds.....	606,548	-	-	-	-	-	606,548
Capital lease financing.....	-	-	-	-	1,805,846	-	1,805,846
Transfers in.....	2,736,607	-	-	1,952,531	-	90,430	4,779,568
Transfers out.....	(4,420,647)	-	-	(115,479)	-	(643,502)	(5,179,628)
<b>TOTAL OTHER FINANCING SOURCES (USES)...</b>	<b>(1,077,492)</b>	<b>-</b>	<b>-</b>	<b>1,837,052</b>	<b>8,281,675</b>	<b>3,444,460</b>	<b>12,485,695</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>1,468,715</b>	<b>202,643</b>	<b>(89,968)</b>	<b>1,911,497</b>	<b>3,120,040</b>	<b>4,409,138</b>	<b>11,022,065</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>12,130,140</b>	<b>804,059</b>	<b>66,624</b>	<b>2,312,839</b>	<b>(447,759)</b>	<b>10,853,047</b>	<b>25,718,950</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 13,598,855</b>	<b>\$ 1,006,702</b>	<b>\$ (23,344)</b>	<b>\$ 4,224,336</b>	<b>\$ 2,672,281</b>	<b>\$ 15,262,185</b>	<b>\$ 36,741,015</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**

YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds.....	\$ 11,022,065
<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.....	10,251,982
Depreciation expense.....	<u>(9,291,819)</u>
Net effect of reporting capital assets.....	960,163
<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>	
	(562,055)
<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 position. 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.....	293,217
Capital lease issuance.....	(1,805,846)
Premium from issuance of bonds payable.....	(606,548)
Amortization of deferred charge on refunding.....	(19,601)
Issuance of bonds.....	(10,473,361)
Amortization of premium on debt.....	318,462
Debt service principal payments.....	<u>3,500,000</u>
Net effect of reporting long-term debt.....	(8,793,677)
<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.....	139,031
Net change in landfill liability accrual.....	(910,000)
Net change in workers' compensation.....	(567,665)
Net change in accrued interest on long-term debt.....	28,563
Net change in other postemployment benefits.....	(4,615,144)
Net change in deferred outflow/(inflow) of resources related to pensions.....	6,949,342
Net change in net pension liability.....	<u>(7,935,517)</u>
Net effect of recording long-term liabilities and amortizing deferred losses.....	(6,911,390)
<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>(32,700)</u>
Change in net position of governmental activities.....	<u>\$ (4,317,594)</u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF NET POSITION**

JUNE 30, 2016

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water and Sewer	Golf Course	Trash	Total	
<b>ASSETS</b>					
<b>CURRENT:</b>					
Cash and cash equivalents.....	\$ 9,016,545	\$ 606,608	\$ 706,126	\$ 10,329,279	\$ 93,493
Receivables, net of allowance for uncollectibles:					
User fees.....	2,866,552	-	-	2,866,552	-
Trash fees.....	-	-	97,097	97,097	-
Investment in joint venture.....	721,914	-	-	721,914	-
Total current assets.....	12,605,011	606,608	803,223	14,014,842	93,493
<b>NONCURRENT:</b>					
Capital assets, non depreciable.....	110,141	118,067	-	228,208	-
Capital assets, net of accumulated depreciation.....	32,954,663	577,297	-	33,531,960	-
Total noncurrent assets.....	33,064,804	695,364	-	33,760,168	-
<b>TOTAL ASSETS.....</b>	<b>45,669,815</b>	<b>1,301,972</b>	<b>803,223</b>	<b>47,775,010</b>	<b>93,493</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred outflows of resources related to pensions.....	195,596	-	-	195,596	-
<b>LIABILITIES</b>					
<b>CURRENT:</b>					
Warrants payable.....	1,338,500	-	-	1,338,500	-
Accrued liabilities.....	158,837	-	257,896	416,733	-
Accrued payroll.....	13,265	-	1,850	15,115	-
Accrued interest.....	243,814	1,613	-	245,427	-
Capital lease obligations.....	63,306	38,641	-	101,947	-
Compensated absences.....	15,914	8,785	-	24,699	-
Bonds payable.....	2,213,829	37,639	-	2,251,468	-
Total current liabilities.....	4,047,465	86,678	259,746	4,393,889	-
<b>NONCURRENT:</b>					
Capital lease obligations.....	132,250	40,357	-	172,607	-
Compensated absences.....	34,532	-	-	34,532	-
Other postemployment benefits obligation.....	1,068,892	250,437	104,766	1,424,095	-
Net pension liability.....	2,674,923	-	-	2,674,923	-
Bonds payable.....	27,320,426	95,000	-	27,415,426	-
Total noncurrent liabilities.....	31,231,023	385,794	104,766	31,721,583	-
<b>TOTAL LIABILITIES.....</b>	<b>35,278,488</b>	<b>472,472</b>	<b>364,512</b>	<b>36,115,472</b>	<b>-</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred outflows of resources related to pensions.....	1,443	-	-	1,443	-
<b>NET POSITION</b>					
Net investment in capital assets.....	7,796,623	483,727	-	8,280,350	-
Unrestricted.....	2,788,857	345,773	438,711	3,573,341	93,493
<b>TOTAL NET POSITION.....</b>	<b>\$ 10,585,480</b>	<b>\$ 829,500</b>	<b>\$ 438,711</b>	<b>\$ 11,853,691</b>	<b>\$ 93,493</b>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2016

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water and Sewer	Golf Course	Trash	Total	
<b>OPERATING REVENUES:</b>					
Charges for services .....	\$ 13,043,867	\$ 805,227	\$ 838,882	\$ 14,687,976	\$ -
<b>OPERATING EXPENSES:</b>					
Cost of services and administration .....	2,097,930	466,772	2,762,022	5,326,724	-
District Assessment.....	7,858,326	-	-	7,858,326	-
Depreciation.....	991,247	63,412	-	1,054,659	-
Employee benefits .....	-	-	-	-	32,700
<b>TOTAL OPERATING EXPENSES .....</b>	<b>10,947,503</b>	<b>530,184</b>	<b>2,762,022</b>	<b>14,239,709</b>	<b>32,700</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>2,096,364</b>	<b>275,043</b>	<b>(1,923,140)</b>	<b>448,267</b>	<b>(32,700)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>					
Interest expense.....	(747,127)	(1,123)	-	(748,250)	-
<b>INCOME (LOSS) BEFORE TRANSFERS...</b>	<b>1,349,237</b>	<b>273,920</b>	<b>(1,923,140)</b>	<b>(299,983)</b>	<b>(32,700)</b>
<b>TRANSFERS:</b>					
Transfers in.....	-	511,212	2,049,482	2,560,694	-
Transfers out.....	(1,401,655)	(758,979)	-	(2,160,634)	-
<b>TOTAL TRANSFERS.....</b>	<b>(1,401,655)</b>	<b>(247,767)</b>	<b>2,049,482</b>	<b>400,060</b>	<b>-</b>
<b>CHANGE IN NET POSITION.....</b>	<b>(52,418)</b>	<b>26,153</b>	<b>126,342</b>	<b>100,077</b>	<b>(32,700)</b>
<b>NET POSITION AT BEGINNING OF YEAR.....</b>	<b>10,637,898</b>	<b>803,347</b>	<b>312,369</b>	<b>11,753,614</b>	<b>126,193</b>
<b>NET POSITION AT END OF YEAR.....</b>	<b>\$ 10,585,480</b>	<b>\$ 829,500</b>	<b>\$ 438,711</b>	<b>\$ 11,853,691</b>	<b>\$ 93,493</b>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2016

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water and Sewer	Golf Course	Trash	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Receipts from customers and users.....	\$ 13,363,311	\$ 805,227	\$ 820,892	\$ 14,989,430	\$ -
Payments to vendors.....	(8,780,319)	(199,847)	(2,893,231)	(11,873,397)	-
Payments to employees.....	(824,374)	(241,500)	(63,223)	(1,129,097)	-
Payments for interfund services used.....	-	-	-	-	(32,700)
NET CASH FROM OPERATING ACTIVITIES.....	3,758,618	363,880	(2,135,562)	1,986,936	(32,700)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Transfers in.....	-	511,212	2,049,482	2,560,694	-
Transfers out.....	(1,401,655)	(758,979)	-	(2,160,634)	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(1,401,655)	(247,767)	2,049,482	400,060	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Proceeds from the issuance of bonds and notes.....	14,035,500	113,639	-	14,149,139	-
Premium from the issuance of bonds and notes.....	788,037	-	-	788,037	-
Acquisition and construction of capital assets.....	(4,427,188)	-	-	(4,427,188)	-
Principal payments on bonds and notes.....	(11,425,282)	(30,000)	-	(11,455,282)	-
Principal payments on capital lease obligations.....	(61,498)	(42,397)	-	(103,895)	-
Interest expense.....	(679,696)	-	-	(679,696)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(1,770,127)	41,242	-	(1,728,885)	-
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	586,836	157,355	(86,080)	658,111	(32,700)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	8,429,709	449,253	792,206	9,671,168	126,193
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 9,016,545	\$ 606,608	\$ 706,126	\$ 10,329,279	\$ 93,493
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</b>					
Operating income (loss).....	\$ 2,096,364	\$ 275,043	\$ (1,923,140)	\$ 448,267	\$ (32,700)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation.....	991,247	63,412	-	1,054,659	-
Deferred (outflows)/inflows of resources related to pensions.....	(181,818)	-	-	(181,818)	-
Changes in assets and liabilities:					
User fees.....	319,444	-	-	319,444	-
Trash fees.....	-	-	(17,990)	(17,990)	-
Investment in joint venture.....	431,026	-	-	431,026	-
Warrants payable.....	(216,039)	-	-	(216,039)	-
Accrued liabilities.....	(23,475)	-	(204,415)	(227,890)	-
Accrued payroll.....	(9,561)	-	(359)	(9,920)	-
Other postemployment benefits.....	102,667	23,402	10,342	136,411	-
Accrued compensated absences.....	(1,604)	2,023	-	419	-
Net pension liability.....	250,367	-	-	250,367	-
Total adjustments.....	1,662,254	88,837	(212,422)	1,538,669	-
NET CASH FROM OPERATING ACTIVITIES.....	\$ 3,758,618	\$ 363,880	\$ (2,135,562)	\$ 1,986,936	\$ (32,700)

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2016

	Pension Trust Fund (1)	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds	Agency Fund
<b>ASSETS</b>				
Cash and cash equivalents.....	\$ 2,309,909	\$ -	\$ 264,499	\$ 612,207
Investments:				
Money Market Mutual Funds.....	-	4,991	-	-
Corporate Bond Mutual Funds.....	-	-	94,838	-
Corporate bonds.....	-	-	247,004	-
Equity securities.....	-	-	730,305	-
Equity mutual funds.....	-	1,744,496	3,213	-
Real estate and alternative investment mutual funds.....	160,009	-	-	-
PRIT.....	135,990,164	-	-	-
Federal Home Loan Bank.....	-	-	25,829	-
Receivables, net of allowance for uncollectibles:				
Other.....	59,173	-	-	-
<b>NONCURRENT:</b>				
Capital assets, net of accumulated depreciation.....	91,406	-	-	-
<b>TOTAL ASSETS.....</b>	<b>138,610,661</b>	<b>1,749,487</b>	<b>1,365,688</b>	<b>612,207</b>
<b>LIABILITIES</b>				
Warrants payable.....	12,408	-	-	-
Liabilities due depositors.....	-	-	-	612,207
<b>TOTAL LIABILITIES.....</b>	<b>12,408</b>	<b>-</b>	<b>-</b>	<b>612,207</b>
<b>NET POSITION</b>				
Restricted for pensions.....	138,598,253	-	-	-
Held in trust for OPEB benefits.....	-	1,749,487	-	-
Held for other purposes.....	-	-	1,365,688	-
<b>Total Net Position.....</b>	<b>\$ 138,598,253</b>	<b>\$ 1,749,487</b>	<b>\$ 1,365,688</b>	<b>\$ -</b>

(1) The Pension Trust Fund is as of December 31, 2015.

See notes to basic financial statements.



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

YEAR ENDED JUNE 30, 2016

	Pension Trust Fund (1)	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds
<b>ADDITIONS:</b>			
Contributions:			
Employer contributions.....	\$ 12,181,169	\$ 162,488	\$ -
Plan member contributions.....	4,121,728	-	-
Retirement benefits - reimbursement of 91A overearnings.....	4,926	-	-
Retirement benefits - 3(8)c contributions from other systems.....	160,813	-	-
Retirement benefits - transfers from other systems.....	342,880	-	-
Retirement benefits - state COLA reimbursements.....	168,346	-	-
Private donations.....	-	-	25,115
Total contributions.....	16,979,862	162,488	25,115
Net investment income:			
Net change in fair value of investments.....	(2,179,968)	(21,802)	(9,076)
Investment income.....	3,540,181	74,358	5,413
Total investment income.....	1,360,213	52,556	(3,663)
Less: investment expense.....	(700,251)	-	-
Net investment income.....	659,962	52,556	(3,663)
TOTAL ADDITIONS.....	17,639,824	215,044	21,452
<b>DEDUCTIONS:</b>			
Administration.....	235,249	-	-
Retirement benefits - transfers to other systems.....	205,419	-	-
Retirement benefits and refunds.....	14,248,680	-	-
Educational scholarships.....	-	-	28,225
Housing subsidies.....	-	-	45,956
Depreciation.....	3,125	-	-
TOTAL DEDUCTIONS.....	14,692,473	-	74,181
CHANGE IN NET POSITION.....	2,947,351	215,044	(52,729)
NET POSITION AT BEGINNING OF YEAR.....	135,650,902	1,534,443	1,418,417
NET POSITION AT END OF YEAR.....	\$ 138,598,253	\$ 1,749,487	\$ 1,365,688

(1) The Pension Trust Fund is for the year ended December 31, 2015.

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.

*Component Unit Presented as a Fiduciary Fund* – The following component unit is presented as a Fiduciary Fund of the primary government due to the nature and significance of relationship between the City and the component unit.

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

The System did issued a separate GAAP based audited financial statement along with a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). These reports may be obtained by contacting the System located at 20 Central Street, Suite 110, Salem, Massachusetts 01970.

*Joint Ventures* – The following are joint ventures of the City.

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, 2016, the City's equity interest in the operations of the District totaled \$721,914, which is recorded in the Water and 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 year ended June 30, 2016 totaled approximately \$2,537,000. Complete financial information for the Water Board can be obtained by contacting them at 50 Arlington Avenue, Beverly, MA 01915.

The Salem Public School System was granted a charter by the Secretary of Education of the Commonwealth of Massachusetts, pursuant to Chapter 71, Section 89 of the Massachusetts General Laws to operate a Horace Mann Charter School to address the needs of the City's high school dropouts and at-risk youth. The Salem Community Charter School opened during 2013 and is part of the Salem Public School System. Beginning in 2016, the name was changed to the New Liberty Charter School. The Charter School is managed by an appointed Board of Trustees and not by the School Committee and Superintendent. Ongoing funding for the school's operations is provided by the City based upon a negotiated amount between the School Committee and Board of Trustees within the guidelines established by the authorizing legislation of the Commonwealth of Massachusetts. The City did not fund the school in FY2017 and therefore FY2016 will be the last year of operations. The activity is included within the City's basic financial statements and is audited independently. Complete financial statements can be obtained by contacting the Salem Public Schools located at 29 Highland Ave., Salem MA 01970.

The City is a member of the Essex Technical High School that serves the members' students seeking an education in academic, technical and agriculture studies. The members' share in the operations of the Essex Technical High School and each member is responsible for its proportionate share of the operational and capital cost of the Essex Technical High School, which are paid in the form of assessments. The City does not have an equity interest in the Essex Technical High School and the 2016 assessment was \$2,560,000.

## B. Government-Wide and Fund Financial Statements

### *Government-Wide Financial Statements*

The government-wide financial statements (i.e., statement of net position and the statement of activities) 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 and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10% of the corresponding element (assets and deferred outflows of resources, liabilities and deferred inflows of resources, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*

- If the total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding element for all governmental and enterprise funds combined.

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

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

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

#### *Government-Wide Financial Statements*

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

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

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

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

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

#### *Fund Financial Statements*

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

Real estate and personal property tax revenues are considered available if they are collected within 60 days after 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 *community preservation fund* is a special revenue fund used to account for the accumulation of resources for the acquisition, creation, preservation and support of open space, historic resources, and community housing. The City is allowed to impose a surcharge on property taxes and to receive matching state funds for these specified uses.

The *city wharf project fund* is used to account for the fourth phase of the wharf project which includes improvements to the harborwalk, docks, walkways and pier construction.

The *city grants fund* is used to account for non-school related activity specifically financed by federal, state, and other grants which are designated to specific programs.

The *capital improvement fund* is used to account for the City's capital projects related to their capital improvement plan for City related projects.

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

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

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

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

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

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

The following major proprietary funds are reported:

The *water and sewer enterprise fund* is used to account for the City's water and sewer activities.

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

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

Additionally, the following proprietary fund type is reported:

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

**Fiduciary** fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting except for the agency fund, which has no measurement focus. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

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

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

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

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

#### D. Cash and Investments

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

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

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

### E. Fair Value Measurements

The Town reports required types of financial instruments in accordance with the fair value standards. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Fair value standards also require the government to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include actively traded equity and debt securities, U.S. government obligations, and mutual funds with quoted market prices in active markets.

Level 2 – Pricing inputs are other than quoted in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Certain fixed income securities, primarily corporate bonds, are classified as Level 2 because fair values are estimated using pricing models, matrix pricing, or discounted cash flows.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances the inputs used to measure fair value may fall into different levels of the fair value hierarchy and is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the Town's financial instruments, see Note 2 – Cash and Investments.

### F. 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 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 year. Liens are recorded as receivables in the 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 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 year of the levy. The Commonwealth is responsible for reporting the number of boats registered and the fair value of those boats. The tax calculation is the fair value of the boat multiplied by \$10 per \$1,000 of value.

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

### ***User Fees***

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

Trash user fees are levied monthly based on the number of units located on the property. The monthly per unit fee collected is \$26.50 for commercial and \$18 for residential. Collection from any one property shall not exceed \$120 per month. Unpaid trash fees are subject to interest and demand fees; any fees not paid within thirty (30) days may be liened to the property in the following years' real estate bill.

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

### ***Departmental and Other***

Departmental and other receivables consist primarily of grant proceeds, fire detail fees and investment funds of the retirement system received after year end that are recorded as receivables in the 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.

## G. Inventories and Prepaid Items

### *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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

## H. Capital Assets

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

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

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

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

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

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

*Governmental Fund Financial Statements*

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

I. Deferred Outflows/Inflows of Resources*Government-Wide Financial Statements (Net Position)*

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The City reported a deferred charge on refunding and deferred outflows related to pensions under this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City reported a deferred inflow related to pensions under this category.

*Governmental Fund Financial Statements*

In addition to assets and liabilities, the balance sheet will sometimes report separate sections for deferred inflows and outflows of resources. These separate financial statement elements represent either an acquisition or consumption of fund balance that applies to a future period(s) and so will *not* be recognized until that time. The City has recorded unavailable revenue as deferred inflows of resources in the governmental funds balance sheet. Unavailable revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements. The City did not have any deferred outflows of resources at year-end.

J. 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 position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net position 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.

K. 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 position. 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.

L. Net Position and Fund Equity*Government-Wide Financial Statements (Net position)*

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

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

Net position has been "restricted for" the following:

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

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

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

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

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

*Fund Financial Statements (Fund Balances)*

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

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

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

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority. An order of the City Council is the highest level of decision making authority that can commit or rescind funds for a specific purpose. Once voted, the limitation imposed by the order remains in place until the funds are used for their intended purpose or an order is taken to rescind the commitment.

“Assigned” fund balance includes amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. The City Finance Director has the authority to assign fund balance. Funds are assigned when the City has an obligation to purchase goods or services from the current years’ appropriation.

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

Sometimes the City will fund outlays for a particular purpose from different components of fund balance. In order to calculate the amounts to report as restricted, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. When different components of fund balance can be used for the same purpose, it is the City’s policy to consider restricted fund balance to have been depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

M. Long-term debt*Government-Wide and Proprietary Fund Financial Statements*

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

*Governmental Fund Financial Statements*

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

#### N. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of both the Salem Contributory Retirement System and the Massachusetts Teachers Retirement System and additions to/deductions from the Systems fiduciary net position have been determined on the same basis as they are reported by the Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### O. 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.

#### P. 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.

#### Q. Fund Deficits and Appropriation Deficits

Individual fund deficits existed at June 30, 2016 within the nonmajor governmental funds. These deficits will be funded through long-term borrowing, capital grants and grant proceeds in 2016.

Actual expenditures exceeded appropriations for snow and ice removal by \$301,000 in FY2016 which will be raised in FY2017. Due to the unusual magnitude of snow and ice removal costs in 2015, the state has allowed communities to raise the 2015 deficits over 3 years. At the end of FY2016 \$1,324,000 of the FY2015 deficit will be raised in equal installments of \$662,000 in FY2017 and FY2018. Massachusetts General Laws allows communities to overspend their snow and ice removal appropriation line, however, deficits must be raised in the subsequent year.

#### R. Use of Estimates

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

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

S. Total Column*Government-Wide Financial Statements*

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

*Fund Financial Statements*

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

**NOTE 2 – CASH AND INVESTMENTS**

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

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Treasurer and Trust Fund Commission may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth; provided, that not more than 15% of any trust fund may be invested in bank stocks and insurance company stocks, and not more than 15% of any trust fund can be invested in the stock of any one bank or insurance company.

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

The City Treasurer is the custodian of funds held in the Other Postemployment Benefit (OPEB) Trust Fund. As of June 30, 2016, \$1,749,487 from the OPEB Trust Fund is included within the City's cash and investments balances in the following disclosures.

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

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

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk. At year-end, the carrying amount of deposits totaled \$38,887,145 and the bank balance totaled \$40,864,876. Of the bank balance, \$3,328,889 was covered by Federal Depository Insurance, \$9,994,203 was covered by the Share Insurance Fund, \$8,763,600

was covered by the Depositors Insurance Fund, \$15,979,051 was collateralized and \$2,799,133 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The System does not have a formal deposit policy for custodial credit risk. At year-end, the carrying amount of deposits totaled \$382,178 and the bank balance totaled \$489,127. The entire bank balance was covered by Federal Depository Insurance.

### Investments

As of June 30, 2016, the City had the following investments:

Investment Type	Fair Value	Maturity		
		Under 1 Year	1-5 Years	6-10 Years
<u>Debt Securities:</u>				
U.S. Government Securities.....	\$ 2,704,910	\$ -	\$ 2,704,910	\$ -
Corporate Bonds.....	2,558,532	447,317	1,380,585	730,630
U.S. Treasury Notes.....	914,100	-	914,100	-
Total Debt Securities.....	6,177,542	\$ 447,317	\$ 4,999,595	\$ 730,630
<u>Other Investments:</u>				
Equity Securities.....	5,233,524			
Equity Mutual Funds.....	2,526,965			
Corporate Bond Mutual Funds.....	563,921			
Money Market Mutual Funds.....	890,102			
MMDT.....	73,878			
Total Investments.....	\$ 15,465,932			

As of December 31, 2015, the System had the following investments:

Investment Type	Fair Value	Maturity Under 1 Year
Repurchase Agreements.....	\$ 1,927,731	\$ 1,927,731
<u>Other Investments:</u>		
Alternative Investments.....	160,009	
Pension Reserve Investment Trust (PRIT).....	135,990,164	
Total Investments.....	\$ 138,077,904	

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

The System participates in PRIT which is unrated. The effective weighted duration rate for PRIT investments ranged from .14 to 24.23 years.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Citywide investment policy, as well as the investment policy specifically for OPEB funds, addresses custodial credit risk by requiring all securities not held directly by the City to be held in the City's name and tax identification number by a third party custodian approved by the Treasurer and evidenced by safekeeping receipts showing individual CUSIP numbers for each security. The City's investments, \$2,558,532 of corporate bonds, \$914,100 of U.S. Treasury Notes, \$2,704,910 of Government Sponsored Enterprises and \$5,233,524 of equity securities are covered by this policy.

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

Interest Rate Risk

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

Credit Risk

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

	<b>Corporate Bonds</b>	<b>Government Sponsored Enterprises</b>
AA+.....	\$ 321,934	\$ 3,619,010
A+.....	125,383	-
A.....	877,126	-
BBB.....	101,431	-
BBB-.....	292,946	-
BB+.....	97,810	-
	<u>\$ 2,558,532</u>	<u>\$ 3,619,010</u>

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

Concentration of Credit Risk

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

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



Fair Value Measurement

The City holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the City's mission, the City determines that the disclosures related to these investments only need to be disaggregated by major type. The City chooses a tabular format for disclosing the levels within the fair value hierarchy.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The following table presents financial assets at June 30, 2016, that the City measures fair value on a recurring basis, by level, within the fair value hierarchy:

Investment Type	June 30, 2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Debt Securities:</u>				
U.S. Government Treasuries.....	\$ 914,100	\$ 914,100	\$ -	\$ -
Corporate bonds.....	2,558,532	-	2,558,532	-
Government Sponsored Enterprises.....	2,704,910	2,704,910	-	-
Total debt securities.....	6,177,542	3,619,010	2,558,532	-
<u>Other investments:</u>				
Equity securities.....	5,233,524	5,233,524	-	-
Money market mutual funds.....	890,102	890,102	-	-
Equity mutual funds.....	2,526,965	2,526,965	-	-
Corporate Bond Mutual Funds.....	563,921	563,921	-	-
Total other investments.....	9,214,512	9,214,512	-	-
Total investments measured at fair value.....	15,392,054	\$ 12,833,522	\$ 2,558,532	\$ -
<b>Investments measured at amortized cost:</b>				
MMDT.....	73,878			
Total investments.....	\$ 15,465,932			

Debt and equity securities, U.S. Government Treasuries and Government Sponsored Enterprises, and Mutual Funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

MMDT investments are valued at amortized cost. Under the amortized cost method, an investment is valued initially at its cost and adjusted for the amount of interest income accrued each day over the term of the

investment to account for any difference between the initial cost and the amount payable at its maturity. If amortized cost is determined not to approximate fair value, the value of the portfolio securities will be determined under procedures established by the Advisor.

The retiree pension defined benefit plan holds significant amounts of investments that are measured at fair value on a recurring basis. Because investing is a key part of the plan's activities, the plan shows greater disaggregation in its disclosures. The plan chooses a tabular format for disclosing the levels within the fair value hierarchy.

The following table presents financial assets at December 31, 2016, that the System measures fair value on a recurring basis, by level, within the fair value hierarchy:

Investment Type	December 31, 2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Alternative Investments.....	\$ 160,009	\$ -	\$ -	\$ 160,009
Repurchase Agreements.....	1,927,731	-	-	1,927,731
Total investments measured at fair value.....	2,087,740	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,087,740</u>
<b>Investments measured at net asset value</b>				
PRIT.....	135,990,164			
Total investments.....	<u>\$ 138,077,904</u>			

Alternative investments and repurchase agreements classified in level 3 are valued using either a discounted cash flow or market comparable companies technique.

PRIT Investments are valued using the net asset value (NAV) method. This investment pool was established by the Treasurer of the Commonwealth of Massachusetts, who serves as Trustee. PRIT is administered by the Pension Reserves Investment Management Board (PRIM). The fair values of the positions in each investment Pool are the same as the value of each Pool's shares. The System does not have the ability to control any of the investment decisions relative to its funds in PRIT.

### NOTE 3 – RECEIVABLES

At June 30, 2016, receivables for the individual major governmental funds, non-major governmental funds and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 1,115,404	\$ -	\$ 1,115,404
Tax liens.....	1,867,658	-	1,867,658
Motor vehicle and other excise taxes.....	762,849	(144,195)	618,654
Departmental and other.....	122,689	-	122,689
Intergovernmental.....	9,672,085	-	9,672,085
Loans.....	337,808	-	337,808
Total.....	<u>\$ 13,878,493</u>	<u>\$ (144,195)</u>	<u>\$ 13,734,298</u>

At June 30, 2016, receivables for the water and sewer and trash enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water and sewer user fees.....	\$ 2,866,552	\$ -	\$ 2,866,552
Trash fees.....	97,097	-	97,097
Total.....	<u>\$ 2,963,649</u>	<u>\$ -</u>	<u>\$ 2,963,649</u>

In addition, as of December 31, 2015, the retirement system had outstanding receivables of \$805,490.

Governmental funds report *deferred inflows of resources* 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 year, the various components of *deferred inflows of resources* for unavailable 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.....	\$ 541,537	\$ 9,504	\$ 551,041
Tax liens.....	1,867,658	-	1,867,658
Motor vehicle and other excise taxes.....	618,654	-	618,654
Departmental and other.....	-	122,689	122,689
Intergovernmental.....	2,614,449	523,207	3,137,656
Loans.....	-	337,808	337,808
Total.....	<u>\$ 5,642,298</u>	<u>\$ 993,208</u>	<u>\$ 6,635,506</u>

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 6,330,757	\$ -	\$ -	\$ 6,330,757
Construction in progress.....	2,825,533	746,403	(2,575,533)	996,403
Total capital assets not being depreciated.....	9,156,290	746,403	(2,575,533)	7,327,160
<u>Capital assets being depreciated:</u>				
Land improvements.....	12,409,902	859,806	-	13,269,708
Buildings and improvements.....	231,810,180	3,836,078	-	235,646,258
Equipment.....	12,963,084	822,583	(128,978)	13,656,689
Infrastructure.....	72,616,338	5,628,866	-	78,245,204
Vehicles.....	4,817,817	933,779	(400,784)	5,350,812
Total capital assets being depreciated.....	334,617,321	12,081,112	(529,762)	346,168,671
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(3,588,597)	(531,943)	-	(4,120,540)
Buildings and improvements.....	(73,407,129)	(5,370,858)	-	(78,777,987)
Equipment.....	(7,050,222)	(1,017,330)	128,978	(7,938,574)
Infrastructure.....	(36,400,116)	(2,057,162)	-	(38,457,278)
Vehicles.....	(3,899,537)	(314,526)	400,784	(3,813,279)
Total accumulated depreciation.....	(124,345,601)	(9,291,819)	529,762	(133,107,658)
Total capital assets being depreciated, net.....	210,271,720	2,789,293	-	213,061,013
Total governmental activities capital assets.....	\$ 219,428,010	\$ 3,535,696	\$ (2,575,533)	\$ 220,388,173
<b>Water and Sewer Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 110,141	\$ -	\$ -	\$ 110,141
Construction in progress.....	1,139,857	-	(1,139,857)	-
Total capital assets not being depreciated.....	1,249,998	-	(1,139,857)	110,141
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	119,975	-	-	119,975
Equipment.....	296,290	-	-	296,290
Vehicles.....	423,701	-	-	423,701
Infrastructure.....	37,528,892	6,069,902	-	43,598,794
Total capital assets being depreciated.....	38,368,858	6,069,902	-	44,438,760
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(82,750)	(5,724)	-	(88,474)
Equipment.....	(231,347)	(29,629)	-	(260,976)
Vehicles.....	(130,201)	(65,219)	-	(195,420)
Infrastructure.....	(10,048,552)	(890,675)	-	(10,939,227)
Total accumulated depreciation.....	(10,492,850)	(991,247)	-	(11,484,097)
Total capital assets being depreciated, net.....	27,876,008	5,078,655	-	32,954,663
Total water and sewer activities capital assets.....	\$ 29,126,006	\$ 5,078,655	\$ (1,139,857)	\$ 33,064,804

	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.....	570,076	121,395	-	691,471
Total capital assets being depreciated.....	1,336,916	121,395	-	1,458,311
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(309,850)	(1,201)	-	(311,051)
Buildings and improvements.....	(184,488)	(11,000)	-	(195,488)
Equipment.....	(323,264)	(51,211)	-	(374,475)
Total accumulated depreciation.....	(817,602)	(63,412)	-	(881,014)
Total capital assets being depreciated, net.....	519,314	57,983	-	577,297
Total golf course activities capital assets.....	\$ 637,381	\$ 57,983	\$ -	\$ 695,364

In the fiduciary activities, the Retirement System owns a condominium, which is being depreciated on a straight-line basis over 40 years. The historical cost of the condominium was \$125,000; accumulated depreciation through December 31, 2015 totals \$33,594, for a net book value of \$91,406.

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

**Governmental Activities:**

General government.....	\$ 514,602
Public safety.....	706,974
Education.....	5,145,817
Public works.....	2,667,814
Health and human services.....	13,494
Culture and recreation.....	243,118
Total depreciation expense - governmental activities.....	\$ 9,291,819

**Business-Type Activities:**

Water and Sewer.....	991,247
Golf Course.....	63,412
Total depreciation expense - business-type activities.....	\$ 1,054,659

**Fiduciary Activities:**

Pension Trust.....	\$ 3,125
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**NOTE 5 – INTERFUND TRANSFERS AND BALANCES**

Interfund transfers for the year ended June 30, 2016, are summarized as follows:

Transfers Out:	Transfers In:				
	General Fund	Trash Enterprise Fund	Golf Course Enterprise Fund	Other Governmental Funds	Total
General Fund.....	\$ -	\$ 2,049,482	\$ 511,212	\$ 1,859,953	\$ 4,420,647 (1)
Other Governmental Funds.....	575,973	-	-	183,008	758,981 (2)
Golf Course Enterprise Fund.....	758,979	-	-	-	758,979 (3)
Water and Sewer Enterprise Fund.....	1,401,655	-	-	-	1,401,655 (4)
Total.....	<u>\$ 2,736,607</u>	<u>\$ 2,049,482</u>	<u>\$ 511,212</u>	<u>\$ 2,042,961</u>	<u>\$ 7,340,262</u>

(1) Transfer from general fund to trash enterprise fund for the City's subsidized portion; transfer from general fund to golf enterprise fund to reimburse for amounts raised by taxation; transfer from general fund to nonmajor governmental funds to fund capital projects.

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

(3) Transfers from the golf course enterprise fund to the general fund as voted by the City council to fund related operations.

(4) Transfer from the water and sewer enterprise fund to the general fund for their share of indirect costs

The City's interfund balances at June 30, 2016, consisted of \$73,686 in balances within the nonmajor governmental funds representing interfund borrowings for cash flow purposes.

**NOTE 6 – CAPITAL AND OPERATING LEASES**Capital Leases

The City has entered into lease agreements as lessee for financing the acquisition of various vehicles and equipment for governmental activities. 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 City has also entered into a new capital lease agreements for golf and turf equipment recorded in business-type activities.

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-type Activities
<u>Asset:</u>		
Machinery and equipment.....	\$ 677,752	\$ 447,254
Vehicles.....	995,762	-
Infrastructure.....	1,240,594	-
Less: accumulated depreciation.....	(226,195)	(77,362)
Total.....	<u>\$ 2,687,913</u>	<u>\$ 369,892</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2016, were as follows:

<u>Years Ending June 30</u>	Governmental Activities	Business-type Activities
2017.....	\$ 471,030	\$ 111,202
2018.....	481,474	111,203
2019.....	571,484	69,055
2020.....	230,409	-
2021.....	185,618	-
2022.....	182,866	-
2023.....	180,075	-
Total minimum lease payments.....	2,302,956	291,460
Less: amounts representing interest.....	(91,732)	(16,906)
Present value of minimum lease payments.....	<u>\$ 2,211,224</u>	<u>\$ 274,554</u>

#### Operating Leases

The City leases office space for the City Hall Annex under an operating lease that began in March 2013 and expires on April 30, 2016. The City extended the lease through 2018. The City made twelve lease payments for the year ended June 30, 2016 totaling \$384,100 which is reported as general government expenditures in the general fund.

The future minimum lease payments for the City's operating lease total \$455,000, payable through 2018.

#### **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), state aid anticipation notes (SAANS) 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 year ended June 30, 2016, are as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2015	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2016
<b>Governmental Activities</b>							
SAAN	Municipal Purpose.....	1.00%	12/03/15	\$ 3,000,000	\$ -	\$ (3,000,000)	\$ -
BAN	Municipal Purpose.....	1.25%	12/03/15	4,440,153	-	(4,440,153)	-
BAN	Municipal Purpose.....	0.40%	12/03/15	1,405,299	-	(1,405,299)	-
SAAN	Municipal Purpose.....	1.08%	06/30/17	-	2,267,000	-	2,267,000
BAN	Municipal Purpose.....	1.50%	01/31/17	-	4,742,900	(4,742,000)	900
Sub-total governmental notes.....				<u>8,845,452</u>	<u>7,009,900</u>	<u>(13,587,452)</u>	<u>2,267,900</u>
<b>Business-type Activities</b>							
BAN	Municipal Purpose.....	1.00%	12/03/15	6,250,000	-	(6,250,000)	-
BAN	Municipal Purpose.....	1.50%	01/31/17	-	3,892,750	(3,892,750)	-
Sub-total business-type notes.....				<u>6,250,000</u>	<u>3,892,750</u>	<u>(10,142,750)</u>	<u>-</u>
Total notes payable.....				<u>\$ 15,095,452</u>	<u>\$ 10,902,650</u>	<u>\$ (23,730,202)</u>	<u>\$ 2,267,900</u>

Subsequent to year end the City issued \$17,227,000 in General Obligation Bonds which were used, in part, to retire \$8,364,750 in Bond Anticipation Notes outstanding as of June 30, 2016. Accordingly, \$8,364,750 of BAN's retired subsequent to year end with bond proceeds have been classified as long-term debt.

## NOTE 8 – LONG-TERM DEBT

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

Details related to the outstanding general obligation indebtedness at June 30, 2016, and the debt service requirements are reported in the following tables.



**Bonds Payable Schedule – Governmental Activities**

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2015	Issued	Redeemed	Outstanding at June 30, 2016
Municipal Purpose Bonds of 2007.....	2028	\$ 8,319,497	3.75-5.00%	\$ 4,905,000	\$ -	\$ (485,000)	\$ 4,420,000
Municipal Purpose Refunding Bonds of 2010.....	2020	8,113,000	2.00-5.00%	4,071,000	-	(820,000)	3,251,000
Municipal Purpose Bonds of 2010.....	2026	5,219,000	3.00-5.00%	3,120,000	-	(490,000)	2,630,000
Municipal Purpose Bonds of 2013.....	2043	15,143,598	2.63-4.00%	14,415,000	-	(495,000)	13,920,000
Municipal Purpose Bonds of 2014.....	2034	6,680,000	3.00-4.00%	6,395,000	-	(295,000)	6,100,000
Municipal Purpose Refunding Bonds of 2014.....	2025	2,509,500	3.00-4.00%	2,715,000	-	(340,000)	2,375,000
Municipal Purpose Bonds of 2015.....	2035	4,860,000	2.50-4.00%	5,980,000	-	(575,000)	5,405,000
Municipal Purpose Bonds of 2016.....	2036	5,731,361	2.50-4.00%	-	5,731,361	-	5,731,361
Municipal Purpose Bonds of 2017.....	2036	4,742,000	3.00-4.00%	-	4,742,000	-	4,742,000
Total Governmental bonds payable.....				41,601,000	10,473,361	(3,500,000)	48,574,361
Unamortized premiums on bonds.....				1,872,824	606,548	(318,462)	2,160,910
Total outstanding bonds payable reported in governmental activities.....				\$ 43,473,824	\$ 11,079,909	\$ (3,818,462)	50,735,271
Plus bonds issued subsequent to year end included in the future payments schedule.....							665,000
Less unamortized premiums on bonds.....							(2,160,910)
Total future payments of bonds reported in governmental activities.....							\$ 49,239,361

Debt service requirements for governmental bonds are as follows:

Year	Principal	Interest	Total
2017.....	\$ 4,279,361	\$ 1,638,627	\$ 5,917,988
2018.....	4,325,000	1,419,684	5,744,684
2019.....	4,230,000	1,284,827	5,514,827
2020.....	4,250,000	1,137,855	5,387,855
2021.....	2,805,000	1,005,580	3,810,580
2022.....	2,640,000	903,481	3,543,481
2023.....	2,675,000	804,004	3,479,004
2024.....	2,505,000	707,886	3,212,886
2025.....	2,525,000	620,818	3,145,818
2026.....	1,935,000	548,353	2,483,353
2027.....	1,800,000	492,199	2,292,199
2028.....	1,835,000	438,690	2,273,690
2029.....	1,340,000	393,787	1,733,787
2030.....	1,240,000	358,437	1,598,437
2031.....	1,175,000	324,746	1,499,746
2032.....	1,200,000	290,426	1,490,426
2033.....	1,215,000	255,152	1,470,152
2034.....	1,215,000	219,059	1,434,059
2035.....	910,000	189,170	1,099,170
2036.....	840,000	166,015	1,006,015
2037.....	575,000	144,348	719,348
2038.....	600,000	123,784	723,784
2039.....	620,000	102,044	722,044
2040.....	645,000	79,117	724,117
2041.....	660,000	55,473	715,473
2042.....	695,000	30,914	725,914
2043.....	505,000	9,154	514,154
Total.....	\$ 49,239,361	\$ 13,743,630	\$ 62,982,991

The Commonwealth has approved school construction assistance to the City. The assistance program, which is administered by the MSBA, provides resources for future debt service of general obligation school bonds outstanding. During 2016, \$733,000 of such assistance was received. Approximately \$2,931,000 will be received in future years of which \$317,000 represents reimbursement of long-term interest costs, and \$2,614,000 represents reimbursement of approved construction costs. Accordingly, a \$2,614,000 intergovernmental receivable and corresponding deferred inflow of resources have been reported in the governmental fund financial statements. The deferred inflow of resources has been eliminated in the conversion to the government-wide financial statements and reported as net position.

The MSBA has modified the method of funding for new projects in the school building assistance program. Under the new program, the assistance is paid to support the State's share of eligible construction costs as they are incurred, therefore eliminating the need for the City to fund the State's share through long-term debt. The Saltonstall and Collins School projects are being partially funded through this program. As of June 30, 2016, the City has recorded an intergovernmental receivable totaling \$3.3 million, which represents the State's 78.26% share of eligible construction costs incurred to date that have not yet been reimbursed.

### Bonds Payable Schedule – Water and Sewer Enterprise Fund

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2015	Issued	Redeemed	Outstanding at June 30, 2016
Water Project - MCWT.....	2027	\$ 2,330,656	2.00%	\$ 1,511,000	\$ -	\$ (112,532)	\$ 1,398,468
Water Project.....	2028	3,250,503	3.75-5.00%	2,090,000	-	(165,000)	1,925,000
Sewer Improvements.....	2030	1,690,000	3.00-5.00%	1,295,000	-	(95,000)	1,200,000
Water System Tanks and Improvements.....	2031	8,464,000	3.00-5.00%	6,300,000	-	(540,000)	5,760,000
Water System Improvements.....	2033	1,412,402	2.63-4.00%	1,305,000	-	(55,000)	1,250,000
Sewer Improvements.....	2033	1,435,000	2.63-4.00%	1,320,000	-	(60,000)	1,260,000
Sewer Improvements.....	2034	3,900,000	3.00-4.00%	3,765,000	-	(140,000)	3,625,000
Sewer Improvements.....	2035	2,300,000	2.50-4.00%	2,300,000	-	(115,000)	2,185,000
Sewer Improvements.....	2036	2,650,000	2.00-5.00%	-	2,650,000	-	2,650,000
Water Improvements.....	2025	3,600,000	2.00-5.00%	-	3,600,000	-	3,600,000
Sewer Improvements.....			3.00-4.00%	-	1,010,750	-	1,010,750
Water Improvements.....			3.00-4.00%	-	2,882,000	-	2,882,000
Total Water and Sewer bonds payable.....				19,886,000	10,142,750	(1,282,532)	28,746,218
Unamortized premiums on bonds.....				-	788,037	-	788,037
Total outstanding bonds payable reported in water and sewer.....				\$ 19,886,000	\$ 10,930,787	\$ (1,282,532)	\$ 29,534,255
Plus bonds issued subsequent to year end included in the future payments schedule.....							3,152,250
Less unamortized premiums on bonds .....							(788,037)
Total future payments on bonds reported in water and sewer funds.....							\$ 31,898,468

Debt service requirements for the water and sewer enterprise fund are as follows:

Year	Principal	Interest	Total
2017.....	\$ 2,224,805	\$ 1,009,626	\$ 3,234,431
2018.....	2,242,124	842,867	3,084,991
2019.....	2,249,490	775,950	3,025,440
2020.....	2,281,904	702,786	2,984,690
2021.....	2,304,367	626,174	2,930,541
2022.....	2,221,880	550,711	2,772,591
2023.....	2,254,443	476,799	2,731,242
2024.....	2,282,058	402,434	2,684,492
2025.....	2,324,726	329,558	2,654,284
2026.....	1,757,447	268,875	2,026,322
2027.....	1,480,224	222,917	1,703,141
2028.....	1,350,000	183,072	1,533,072
2029.....	1,205,000	147,213	1,352,213
2030.....	1,075,000	116,587	1,191,587
2031.....	1,020,000	89,766	1,109,766
2032.....	945,000	65,019	1,010,019
2033.....	920,000	42,070	962,070
2034.....	800,000	21,166	821,166
2035.....	535,000	7,722	542,722
2036.....	425,000	1,953	426,953
Total.....	\$ 31,898,468	\$ 6,883,265	\$ 38,781,733

#### Bonds Payable Schedule – Golf Course Enterprise Fund

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2015	Issued	Redeemed	Outstanding at June 30, 2016
Golf Course Clubhouse Refunding of 2010.....	2017	\$ 172,000	2.00-5.00%	\$ 49,000	\$ -	\$ (30,000)	\$ 19,000
Golf Course Equipment of 2006.....	2024	113,639	2.00-5.00%	-	113,639	-	113,639
Total Golf Course Enterprise bonds payable.....				\$ 49,000	\$ 113,639	\$ (30,000)	\$ 132,639

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bt service requirements for the golf course enterprise fund are as follows:

Year	Principal	Interest	Total
2017.....	\$ 37,639	\$ 6,705	\$ 44,344
2018.....	15,000	4,075	19,075
2019.....	15,000	3,550	18,550
2020.....	15,000	2,875	17,875
2021.....	15,000	2,125	17,125
2022.....	15,000	1,375	16,375
2023.....	10,000	750	10,750
2024.....	10,000	250	10,250
Total.....	\$ 132,639	\$ 21,705	\$ 154,344

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, 2016, the City had the following authorized and unissued debt:

Purpose	Amount
School Construction and Equipment.....	\$ 6,815,189
Water Systems Improvements.....	7,560,264
Capital Projects.....	30,252,391
Senior Center Construction.....	4,994,136
Sewer Improvements.....	8,650,000
Canal Street Improvements.....	1,550,000
Parking Improvements.....	700,000
Total.....	<u>\$ 60,521,980</u>

### Changes in Long-term Liabilities

During the year ended June 30, 2016, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
Long-term bonds.....	\$ 41,601,000	\$ 10,473,361	\$ (3,500,000)	\$ 48,574,361	\$ 4,279,361
Add: unamortized premium.....	1,872,824	606,548	(318,462)	2,160,910	366,096
Total bonds payable.....	43,473,824	11,079,909	(3,818,462)	50,735,271	4,645,457
Capital leases.....	698,595	1,805,846	(293,217)	2,211,224	456,704
Compensated absences.....	9,082,179	1,754,619	(1,893,650)	8,943,148	1,971,809
Landfill closure.....	1,340,000	910,000	-	2,250,000	200,000
Workers' compensation.....	854,030	680,225	(112,560)	1,421,695	112,306
Other postemployment benefits..	44,519,015	9,090,043	(4,159,253)	49,449,805	-
Net pension liability.....	94,427,247	8,921,692	(986,175)	102,362,764	-
Total governmental activity long-term liabilities.....	<u>\$ 194,394,890</u>	<u>\$ 34,242,334</u>	<u>\$ (11,263,317)</u>	<u>\$ 217,373,907</u>	<u>\$ 7,386,276</u>
<b>Business-Type Activities:</b>					
Capital leases.....	\$ 257,054	\$ 121,395	\$ (103,895)	\$ 274,554	\$ 101,947
Long-term bonds.....	19,935,000	11,044,426	(1,282,532)	29,696,894	-
Compensated absences.....	58,812	22,975	(22,556)	59,231	24,699
Other postemployment benefits..	1,287,685	268,679	(132,268)	1,424,096	-
Net pension liability.....	2,424,556	318,916	(68,549)	2,674,923	-
Total business-type activity long-term liabilities.....	<u>\$ 23,963,107</u>	<u>\$ 11,776,391</u>	<u>\$ (1,609,800)</u>	<u>\$ 34,129,698</u>	<u>\$ 126,646</u>

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

### **NOTE 9 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

The City classifies fund balances according to the constraints imposed on the use of the resources. There are two major types of fund balances, which are nonspendable and spendable.

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

Spendable fund balances are classified based on a hierarchy of spending constraints.

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

The City of Salem's spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds are designated for one purpose at the time of their creation. Therefore, any expenditure from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

Massachusetts General Law Ch.40 §5B allows for the establishment of Stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund along with any additions to or appropriations from the fund requires a two-thirds vote of the legislative body. At year end the balances of the General Stabilization Fund and the Retirement Stabilization Fund totaled \$5.5 million and \$578,000, respectively and are reported as unassigned fund balance within the general fund.

As of June 30, 2016, the governmental fund balances consisted of the following:

GOVERNMENTAL FUNDS							
	General	Community Preservation Fund	City Wharf Project Fund	City Grants	Capital Improvement Funds	Nonmajor Governmental Funds	Total Governmental Funds
FUND BALANCES							
Nonspendable:							
Permanent fund principal.....\$	- \$	- \$	- \$	- \$	- \$	2,176,969 \$	2,176,969
Restricted for:							
Community preservation fund.....	-	1,006,702	-	-	-	-	1,006,702
City grant funds.....	-	-	-	4,224,336	2,672,281	-	6,896,617
City revolving funds.....	-	-	-	-	-	671,196	671,196
School capital projects.....	-	-	-	-	-	3,852,294	3,852,294
School lunch.....	-	-	-	-	-	368,838	368,838
School revolving funds.....	-	-	-	-	-	333,070	333,070
School grant funds.....	-	-	-	-	-	1,711,129	1,711,129
Donations and gifts.....	-	-	-	-	-	762,962	762,962
Receipts reserved.....	-	-	-	-	-	1,008,742	1,008,742
Community development grants...	-	-	-	-	-	40,771	40,771
Highway grants.....	-	-	-	-	-	13,190	13,190
Other capital projects.....	-	-	-	-	-	131,152	131,152
Cemetery fund.....	-	-	-	-	-	2,360,311	2,360,311
Human services fund.....	-	-	-	-	-	1,325,645	1,325,645
Other permanent funds.....	-	-	-	-	-	505,916	505,916
Assigned to:							
General government.....	110,009	-	-	-	-	-	110,009
Public safety.....	85,645	-	-	-	-	-	85,645
Education.....	265,888	-	-	-	-	-	265,888
Public works.....	7,708	-	-	-	-	-	7,708
Human services.....	2,446	-	-	-	-	-	2,446
Culture and recreation.....	54,550	-	-	-	-	-	54,550
Short term interest.....	135,000	-	-	-	-	-	135,000
Unassigned.....	12,937,609	-	(23,344)	-	-	-	12,914,265
TOTAL FUND BALANCES.....\$	<u>13,598,855</u>	<u>\$ 1,006,702</u>	<u>\$ (23,344)</u>	<u>\$ 4,224,336</u>	<u>\$ 2,672,281</u>	<u>\$ 15,262,185</u>	<u>\$ 36,741,015</u>

## NOTE 10 – RISK FINANCING

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

The City participates in premium-based health care plans for its active employees and retirees through the State's Group Insurance Commission.

### *Workers' Compensation*

Workers' compensation claims incurred prior to July 1, 2008 are administered by the City and are funded on a pay-as-you-go basis from annual appropriations. The estimated future workers' compensation liability is based on history and injury type. At June 30, 2016, the amount of the liability for workers' compensation claims totaled \$1,412,695.

Changes in the reported liability since July 1, 2014, are as follows:

	Balance at Beginning of the Year	Current Year Claims and Changes in Estimate	Claim Payments	Balance at Year-End	Current Portion
Year 2015.....	\$ 875,589	\$ 101,438	\$ (122,997)	\$ 854,030	\$ 107,854
Year 2016.....	854,030	680,225	(112,560)	1,421,695	112,306

## NOTE 11 – PENSION PLAN

### *Plan Description*

The City is a member of the City of Salem Contributory Retirement System (System), a cost-sharing, multiple-employer defined benefit pension plan covering eligible employees of the member units. The System is administered by the City of Salem Retirement Board on behalf of all current employees and retirees except for current teachers and retired teachers. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan.

The City is a member of the Massachusetts Teachers' Retirement System (MTRS), a cost-sharing multiple-employer defined benefit pension plan. MTRS is managed by the Commonwealth of Massachusetts (Commonwealth) on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for 100% of the contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives and Quincy College. The MTRS is part of the Commonwealth's reporting entity and the audited financial report may be obtained by visiting <http://www.mass.gov/osc/publications-and-reports/financial-reports/>.

### *Special Funding Situation*

The Commonwealth is a nonemployer contributor and is required by statute to make 100% of all actuarially determined employer contributions on behalf of the City to the MTRS. Therefore, the City is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributor in MTRS. Since the City does not contribute directly to MTRS, there is no net pension liability to recognize. The total of the Commonwealth provided contributions have been allocated based on each employer's covered payroll to the total covered payroll of employers in MTRS as of the measurement date of June 30, 2015. The City's portion of the collective pension expense, contributed by the Commonwealth, of \$10,209,061 is reported in the general fund as intergovernmental revenue and pension benefits in the current year. The portion of the Commonwealth's collective net pension liability associated with the City is \$125,868,567 as of the measurement date.

### *Benefits Provided*

Both Systems provide retirement, disability, survivor and death benefits to members and beneficiaries. Massachusetts Contributory Retirement System benefits are, with certain minor exceptions, uniform from system to system. The Systems provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years (whether or not

consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification. Members become vested after ten years of creditable service.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

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 Board and are borne by the System. There were no changes in benefit terms that effected the measurement of the total pension liability at December 31, 2015.

At December 31, 2015, the System's membership consists of the following:

Active members.....	1,010
Inactive members.....	119
Retirees and beneficiaries currently receiving benefits.....	<u>565</u>
Total.....	<u><u>1,694</u></u>

#### *Contributions*

Chapter 32 of the MGL governs the contributions of plan members and member units. Active plan members are required to contribute to the System at rates ranging from 5% to 9% of gross regular compensation with an additional 2% contribution required for compensation exceeding \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. The member units are required to pay into the System a legislatively mandated actuarial determined contribution. The total member units' contribution for the year ended December 31, 2015 was \$12,181,169, 28.99% of covered payroll, actuarially determined as an amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The City's proportionate share of the required contribution equaled its actual contribution for the year ended December 31, 2015 and totaled \$10,238,659.

#### *Pension Liabilities*

The components of the net pension liability of the participating member units at June 30, 2016, were as follows:

Total pension liability.....	\$	262,648,642
The pension plan's fiduciary net position.....		<u>(138,598,253)</u>
The net pension liability.....	\$	<u><u>124,050,389</u></u>
The pension plan's fiduciary net position as a percentage of the total pension liability.....		52.77%

At June 30, 2016, the City reported a liability of \$105,037,697 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. Accordingly, update procedures were used to roll forward the total pension liability to the measurement date.



The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating members. At December 31, 2015, the City's proportion was 84.67%, which increased from its 84.01% proportion measured at December 31, 2014.

### *Pension Expense*

For the year ended June 30, 2016, the City recognized a pension expense of \$11,121,020. At June 30, 2016, the City reported deferred outflows of resources related to pensions of \$7,106,820, from the net difference between projected and actual investment earnings on pension plan investments and \$573,752 from the changes in proportion and differences between employer contributions and proportionate share of contributions. The City also reported deferred inflows of resources related to pensions of \$56,665, from the changes in proportion and differences between employer contributions and proportionate share of contributions.

The balances of deferred outflows and inflows at June 30, 2016 consist of the following:

<u>Deferred category</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Total</u>
Difference between projected and actual earnings.....	\$ 7,106,820	\$ -	\$ 7,106,820
Changes in proportion.....	<u>573,752</u>	<u>(56,665)</u>	<u>517,087</u>
Total Deferred Outflows/(Inflows) of Resources.....	<u>\$ 7,680,572</u>	<u>\$ (56,665)</u>	<u>\$ 7,623,907</u>

The City's deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017.....	\$ 1,980,110
2018.....	1,980,110
2019.....	1,980,110
2020.....	<u>1,683,577</u>
Total.....	<u>\$ 7,623,907</u>

*Actuarial Assumptions*

The total pension liability in the January 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2015:

Valuation date.....	January 1, 2014
Actuarial cost method.....	Entry Age Normal Cost Method.
Amortization method.....	Increasing at 4.5% per year for 2002 and 2003 ERI and remaining unfunded liability and level dollar amortization for 2010 ERI.
Remaining amortization period.....	As of July 1, 2014, 7 years remaining on 2010 ERI, 16 years remaining on the 2002 and 2003 ERI and the remaining unfunded liability
Asset valuation method.....	The difference between the expected return on an actuarial basis and actual investment return on a market value basis is recognized over a five-year period.
Inflation rate.....	4.00%
Projected salary increases.....	Varies by length of service with ultimate rates of 4.25% for Group 1, 4.50% for Group 2 and 4.75% for Group 4
Cost of living adjustments.....	3.00% for first \$12,000 of retirement income
Rates of retirement.....	Varies based upon age for public employees, police and fire employees, hazardous occupation employees, and officers and inspectors of the State Police.
Rates of disability.....	For general employees, it was assumed that 45% of all disabilities are ordinary (55% are service connected). For police and fire employees, 10% of all disabilities are assumed to be ordinary (90% are service connected).
Mortality Rates:	
Pre-Retirement.....	RP-2000 Employee Mortality Table projected generationally with Scale AA from 2010.
Healthy Retiree.....	RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale AA from 2010.
Disabled Retiree.....	RP-2000 Mortality Table set forward three years for males only projected generationally with Scale AA from 2010.
Investment rate of return/Discount rate.....	7.75%, net of pension plan investment expense, including inflation

*Investment policy*

The pension plan's policy in regard to the allocation of invested assets is established by PRIT. Plan assets are managed on a total return basis with a long-term objective of achieving a fully funded status for the benefits provided through the pension plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of January 1, 2015, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equities.....	18.7%	6.49%
International developed markets equities.....	16.9%	7.16%
International emerging markets equities.....	6.8%	9.46%
Core fixed income.....	12.9%	1.68%
High-yield fixed income.....	8.3%	4.76%
Real estate.....	10.9%	4.37%
Commodities.....	3.1%	4.13%
Hedge Fund, GTAA, risk parity.....	9.0%	3.60%
Private equity.....	11.4%	11.04%
Portable Alpha.....	0.1%	0.00%
Portfolio Completion Strategies.....	1.0%	0.00%
Cash.....	0.9%	1.11%
	100.00%	

*Rate of return:*

For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was .51%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*Discount rate:*

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the net position liability to changes in the discount rate:*

The following presents the net position liability, calculated using the discount rate of 7.75%, as well as what the net position liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount (7.75%)	1% Increase (8.75%)
The City's proportionate share of the net pension liability....	\$ <u>128,490,473</u>	\$ <u>105,037,687</u>	\$ <u>85,017,820</u>
The Retirement System's total net pension liability.....	\$ <u>151,748,325</u>	\$ <u>124,050,389</u>	\$ <u>100,406,759</u>

**NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

*Plan Description* – The City of Salem maintains a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the City’s participation in the Group Insurance Commission of the Commonwealth of Massachusetts (GIC), which covers both active and retired members. Chapter 32b of the MGL assigns authority to establish and amend benefit provisions of the plan. The Retiree Health Plan does not issue a publicly available financial report. The employer’s share for life insurance is 65% while the retiree is responsible for 35%. Regarding health insurance, these rates are dependent upon the individual’s date of retirement. The rates range from 10% to 35% for the retiree’s co-payment of the total premium, and 65% to 90% for the City.

As of December 31, 2013, the plan’s membership consisted of:

Active participants.....	861
Retired participants.....	<u>944</u>
Total participants.....	<u>1,805</u>

*Funding Policy*

Contribution requirements are also negotiated between the City and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The City contributes 70% of the cost of current-year premiums for retirees in active plans, 65% for those in senior plans and 90% for retired teachers. The City contributes 50% for surviving spouses. Plan members receiving benefits contribute the remainder of their premium costs. For 2016, the City contributed \$4.6 million to the plan. Administrative costs of the Plan are assumed to be included in the fully insured premium rates.

The Commonwealth of Massachusetts passed special legislation that has allowed the City to establish the Other Postemployment Benefits Trust fund which allows the City to set aside amounts to begin pre-funding its OPEB liabilities. During 2016, the City pre-funded future OPEB liabilities in the amount of \$162,488.

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

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

Annual required contribution.....	\$ 8,874,011
Interest on net OPEB obligation.....	2,176,649
Adjustments to annual required contribution.....	(1,691,938)
Annual OPEB cost (expense).....	<u>9,358,722</u>
Contributions made (including retired teachers).....	<u>(4,607,168)</u>
Increase in net OPEB obligation.....	4,751,554
Net OPEB obligation-beginning of year.....	<u>45,806,700</u>
Net OPEB obligation-end of year.....	<u>\$ 50,558,254</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for years 2014, 2015 and 2016 are as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2016	\$ 9,358,722	49%	\$ 50,558,254
6/30/2015	11,679,191	48%	45,806,700
6/30/2014	11,113,472	48%	39,523,905

*Funded Status and Funding Progress* – As of December 31, 2013, the most recent actuarial valuation date, the actuarial accrued liability for benefits totaled \$110 million, of which \$803,651 was funded, resulting in a funded ratio of 1%. The annual covered payroll was \$65.1 million and the ratio of UAAL to covered payroll was 167.2%.

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

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

In the December 31, 2013 actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 4.75% investment return assumption, which is based on the expected yield on the assets of the City, calculated based on the funded level of the plan at the valuation date, and an annual medical/drug cost trend rate of 6.5% initially, graded to 5% over 10 years. Both rates included a 4.0% inflation assumption. The UAAL is being amortized over an open 30 year period using a level percentage of projected payroll with amortization payments increasing at 4% per year.

**NOTE 13 – MAJOR TAXPAYER**

The Salem Harbor Power Station is the City's largest taxpayer. The power plant in August of 2012 changed ownership from Dominion Energy to Footprint Power LLC.

As of September 2016, Footprint Power has nearly completed the demolition of all existing structures and undertaken any necessary environmental remediation. Footprint has begun constructing a state-of-the-art 630 megawatt gas-fired plant on a portion of the site and will open the remaining two-thirds of the 63 acre waterfront property to private and public development opportunities.

From a revenue perspective, at the end of FY2011, the City's tax agreement with Dominion expired. Prior to this date, the City received a total payment from Dominion Energy in the amount of \$4.75 million for FY2011, \$3 million in tax dollars within the tax levy and \$1.75 million dollars designated as a "host fee" accounted for as miscellaneous non-recurring revenues.

In FY2011, Dominion announced major operational changes shutting down two of their power generating units due to market conditions and regulatory challenges at the state level. Due to the implementation of state regulations impacting its operations, during the FY2012 budget process, the Massachusetts Legislature adopted a proposal to ensure that Salem taxpayers will not be overly burdened by lost revenues from the power plant through 2017. Chapter 68 of the Acts of 2011, Section 33 states that "...the municipality shall be entitled to reimbursement for the difference between the amount called for....prior to the full or partial decommissioning or the change in operating status of the facility." This legislation postpones the financial impact of the loss of a major taxpayer. More importantly, it allows the City to work toward replacing the lost revenues and planning for an appropriate reuse of the site.

As of December 2014, the City has negotiated, and the City Council approved, a 18 year PILOT agreement with Footprint Power LLC. This agreement will utilize the "hold harmless agreement" of \$4.75 million from the State during construction through 2019, with payments increasing steadily as the plan becomes up and running. A graduated escalation factor will result in the City receiving over \$99,242,000 for the duration of the contract, or \$5.5 million a year; a 16% increase over the current tax level collected. In addition to the negotiated PILOT agreement, the City was able to draft and finalize a community benefits agreement which will provide the City and School District with over \$4.4 million in additional funding.

**NOTE 14 – LANDFILL CLOSURE**

State and federal laws and regulations require the City to construct a final capping system on its inactive landfill site, the Salem Transfer Station, when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The City has stopped accepting waste at the site and the site is closed. The City is the owner and permittee of the Salem Transfer Station site. During 2016, the City discontinued its relationship with the long-time operator of the site and has approved a final plan for the City to cap the site and to construct a new transfer station on the site. As a result, the City has recorded a liability of \$2.25 million in the entity-wide financial statements for the total estimated post closure costs. Actual costs may be higher due to inflation, changes in technology, or changes in applicable laws, regulations or agreements.

**NOTE 15 – COMMITMENTS**

In fiscal year 2016 the City entered into new contracts totaling approximately \$7.5 million. This amount includes a \$1.7 million contract for the replacement of utilities on Washington and Dodge Streets, \$1.5 million for dredging and port expansion, and \$500,000 for the demolition and abatement of the former municipal incinerator facility. Additionally, the City has entered the (\$1.8 million) second year of a 10 year, \$21.5 million, contract for the collection and transportation of solid waste and recyclable material.

In fiscal year 2015, the City entered into an agreement with Alternative Therapies Group, Inc. (ATG), a Massachusetts not for profit Corporation, on April 14<sup>th</sup> 2014. Alternative Therapies Group, Inc. wanted to locate a registered marijuana dispensary in the City.

Per the agreement, in the first two years ATG shall pay the City annually a sum equal to 1.25% of the total gross annual sales. Such payments shall be made annually at the end of the first 12 months of operations and the end of the first 24 months of operations. In the third year of operations and for all subsequent years, unless renegotiated, ATG shall pay the City annually a sum of 2.0% of the total gross annual sales. The City received its first payment in fiscal year 2016, totaling \$82,000.

**NOTE 16 – 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 *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of the liability, if any, at June 30, 2016, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2016.

**NOTE 17 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 13, 2016, which is the date the financial statements were available to be issued.

**NOTE 18 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During 2016, the following GASB pronouncements were implemented:

- GASB Statement #72, *Fair Value Measurement and Application*. Notes to the basic financial statements were changed to provide additional disclosure on fair value measurement.
- GASB Statement #73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This pronouncement did not impact the basic financial statements.

- GASB Statement #76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This pronouncement did not impact the basic financial statements.
- GASB Statement #79, *Certain External Investment Pools and Pool Participants*. The basic financial statements and related notes were updated to be in compliance with this pronouncement.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in 2017.
- The GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in 2018.
- The GASB issued Statement #77, *Tax Abatement Disclosures*, which is required to be implemented in 2017.
- The GASB issued Statement #78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which is required to be implemented in 2017.
- The GASB issued Statement #80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement #14*, which is required to be implemented in 2017.
- The GASB issued Statement #81, *Irrevocable Split-Interest Agreements*, which is required to be implemented in 2018.
- The GASB issued Statement #82, *Pension Issues – an amendment of GASB Statements #67, #68, and #73*, which is required to be implemented in 2018.

Management is currently assessing the impact the implementation of these pronouncements will have on the basic financial statements.



## ***Required Supplementary Information***

# ***General Fund Budgetary Comparison Schedule***

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

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

YEAR ENDED JUNE 30, 2016

	Budgeted Amounts							
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget	
REVENUES:								
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 85,237,766	\$ 85,237,766	\$ 85,237,766	\$ 85,014,692	\$ -	\$ (223,074)	
Tax liens.....	-	-	-	-	534,521	-	534,521	
Motor vehicle and other excise taxes.....	-	3,440,000	3,440,000	3,440,000	4,057,235	-	617,235	
Hotel/motel tax and meals taxes.....	-	1,388,000	1,388,000	1,388,000	1,541,901	-	153,901	
Charges for services.....	-	1,750,000	1,750,000	1,750,000	1,727,188	-	(22,812)	
Penalties and interest on taxes.....	-	400,000	400,000	400,000	493,211	-	93,211	
Payments in lieu of taxes.....	-	1,200,000	1,200,000	1,200,000	1,322,806	-	122,806	
Licenses and permits.....	-	480,000	480,000	480,000	535,226	-	55,226	
Fines and forfeitures.....	-	1,100,000	1,100,000	1,100,000	882,008	-	(217,992)	
Intergovernmental.....	-	30,174,988	30,174,988	30,174,988	30,974,372	-	799,384	
Departmental and other.....	-	3,100,000	3,100,000	3,100,000	2,985,148	-	(114,852)	
Investment income.....	-	150,000	150,000	150,000	215,624	-	65,624	
TOTAL REVENUES.....	-	128,420,754	128,420,754	128,420,754	130,283,932	-	1,863,178	
EXPENDITURES:								
Current:								
General government								
City Council								
Personnel.....	-	130,700	130,700	130,701	130,700	-	1	
Non - Personnel.....	-	32,127	32,127	40,126	39,827	-	299	
Total.....	-	162,827	162,827	170,827	170,527	-	300	
Mayor								
Personnel.....	-	357,548	357,548	369,548	367,780	-	1,768	
Non - Personnel.....	10,800	160,000	170,800	158,800	151,954	-	6,846	
Total.....	10,800	517,548	528,348	528,348	519,734	-	8,614	
Finance/Auditing								
Personnel.....	8,900	289,192	298,092	298,092	279,118	-	18,974	
Non - Personnel.....	-	46,820	46,820	46,820	23,053	22,326	1,441	
Total.....	8,900	336,012	344,912	344,912	302,171	22,326	20,415	
Purchasing								
Personnel.....	-	110,895	110,895	110,895	103,032	-	7,863	
Non - Personnel.....	-	19,350	19,350	19,350	18,331	-	1,019	
Fixed Costs.....	-	54,872	54,872	54,872	53,085	-	1,787	
Total.....	-	185,117	185,117	185,117	174,448	-	10,669	
Assessors								
Personnel.....	-	293,102	293,102	293,102	291,860	-	1,242	
Non - Personnel.....	6	41,900	41,906	41,906	30,536	2,000	9,370	
Total.....	6	335,002	335,008	335,008	322,396	2,000	10,612	
Treasurer								
Personnel.....	-	233,135	233,135	233,135	231,547	-	1,588	
Non - Personnel.....	-	101,945	101,945	101,945	95,013	-	6,932	
Total.....	-	335,080	335,080	335,080	326,560	-	8,520	
Collector								
Personnel.....	-	219,517	219,517	219,517	214,720	-	4,797	
Non - Personnel.....	-	8,500	8,500	8,500	7,332	-	1,168	
Total.....	-	228,017	228,017	228,017	222,052	-	5,965	
Solicitor								
Personnel.....	-	266,058	266,058	266,058	265,537	-	521	
Non - Personnel.....	-	64,400	64,400	64,400	56,591	2,933	4,876	
Total.....	-	330,458	330,458	330,458	322,128	2,933	5,397	

(continued)

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

YEAR ENDED JUNE 30, 2016

	Budgeted Amounts				Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget			
Human Resources							
Personnel.....	-	422,311	422,311	722,311	582,646	-	139,665
Non - Personnel.....	-	31,450	31,450	31,450	31,417	-	33
Total.....	-	453,761	453,761	753,761	614,063	-	139,698
Data Processing							
Personnel.....	-	278,792	278,792	278,792	254,347	-	24,445
Non - Personnel.....	6,850	21,975	28,825	28,825	11,035	-	17,790
Fixed Costs.....	-	393,005	393,005	393,005	303,988	55,000	34,017
Total.....	6,850	693,772	700,622	700,622	569,370	55,000	76,252
City Clerk Record Maintenance							
Personnel.....	-	276,506	276,506	276,506	267,264	-	9,242
Non - Personnel.....	-	8,400	8,400	8,400	(39,735)	-	48,135
Total.....	-	284,906	284,906	284,906	227,529	-	57,377
Elections & Registrations							
Personnel.....	-	106,893	106,893	106,893	105,031	-	1,862
Non - Personnel.....	5,556	71,425	76,981	76,981	68,247	-	8,734
Total.....	5,556	178,318	183,874	183,874	173,278	-	10,596
Conservation Commission							
Personnel.....	-	29,457	29,457	29,457	28,663	-	794
Non - Personnel.....	-	500	500	500	424	-	76
Total.....	-	29,957	29,957	29,957	29,087	-	870
Subdivision, Planning, and Zoning Board							
Personnel.....	-	29,717	29,717	27,717	22,267	-	5,450
Non - Personnel.....	-	2,550	2,550	2,550	2,423	-	127
Total.....	-	32,267	32,267	30,267	24,690	-	5,577
Board of Appeals							
Non - Personnel.....	-	400	400	400	382	-	18
Planning Department							
Personnel.....	-	401,521	401,521	403,521	400,282	-	3,239
Non - Personnel.....	26,566	45,695	72,261	113,411	86,196	24,000	3,215
Total.....	26,566	447,216	473,782	516,932	486,478	24,000	6,454
Public Property/Building Maintenance							
Fixed Costs.....	-	691,960	691,960	691,960	647,791	-	44,169
Market and Tourism.....	-	244,775	244,775	244,775	239,482	3,750	1,543
Total General Government.....	58,678	5,487,393	5,546,071	5,895,221	5,372,166	110,009	413,046

(continued)

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

YEAR ENDED JUNE 30, 2016

	Budgeted Amounts				Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget			
Public safety							
Police							
Personnel.....	-	8,804,639	8,804,639	9,071,964	8,863,890	-	208,074
Non - Personnel.....	-	584,820	584,820	666,820	589,528	24,844	52,448
Total.....	-	9,389,459	9,389,459	9,738,784	9,453,418	24,844	260,522
Fire							
Personnel.....	-	8,213,583	8,213,583	8,213,583	8,046,119	-	167,464
Non - Personnel.....	-	337,078	337,078	337,078	291,753	18,153	27,172
Total.....	-	8,550,661	8,550,661	8,550,661	8,337,872	18,153	194,636
Building, Plumbing, Gas Inspections							
Personnel.....	-	384,786	384,786	393,648	392,633	-	1,015
Non - Personnel.....	-	25,650	25,650	16,788	15,341	-	1,447
Total.....	-	410,436	410,436	410,436	407,974	-	2,462
Electrical Inspection and Maintenance							
Personnel.....	-	350,055	350,055	350,055	346,845	-	3,210
Non - Personnel.....	-	516,500	516,500	516,500	382,355	36,675	97,470
Total.....	-	866,555	866,555	866,555	729,200	36,675	100,680
Harbormaster							
Personnel.....	-	225,343	225,343	225,343	205,093	-	20,250
Non - Personnel.....	4,467	49,000	53,467	53,467	38,512	5,973	8,982
Total.....	4,467	274,343	278,810	278,810	243,605	5,973	29,232
Total Public Safety.....	4,467	19,491,454	19,495,921	19,845,246	19,172,069	85,645	587,532
Education							
School.....	463,805	53,145,269	53,609,074	53,780,073	53,153,347	265,888	360,838
NSRS/Charter/Choice.....	-	2,561,373	2,561,373	2,561,373	2,560,157	-	1,216
Total Education.....	463,805	55,706,642	56,170,447	56,341,446	55,713,504	265,888	362,054
Public Works							
Public Services							
Personnel.....	-	1,721,065	1,721,065	1,716,065	1,716,064	-	1
Non - Personnel.....	8,737	667,510	676,247	767,312	758,731	-	8,581
Total.....	8,737	2,388,575	2,397,312	2,483,377	2,474,795	-	8,582
Engineering							
Personnel.....	-	82,701	82,701	82,701	76,234	-	6,467
Non - Personnel.....	-	6,500	6,500	6,500	6,088	-	412
Total.....	-	89,201	89,201	89,201	82,322	-	6,879
Snow and Ice							
Personnel.....	-	50,000	50,000	50,000	51,894	-	(1,894)
Non - Personnel.....	-	382,335	382,335	382,335	681,542	-	(299,207)
Total.....	-	432,335	432,335	432,335	733,436	-	(301,101)
Parking Garage							
Personnel.....	-	688,754	688,754	688,754	600,771	-	87,983
Non - Personnel.....	4,630	217,572	222,202	222,202	176,911	7,708	37,583
Total.....	4,630	906,326	910,956	910,956	777,682	7,708	125,566
Total Public Works.....	13,367	3,816,437	3,829,804	3,915,869	4,068,235	7,708	(160,074)

(continued)

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

YEAR ENDED JUNE 30, 2016

	Budgeted Amounts				Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget			
Health and Human Services							
Board of Health							
Personnel.....	-	380,268	380,268	380,268	358,417	-	21,851
Non - Personnel.....	-	18,300	18,300	18,300	15,489	-	2,811
Total.....	-	398,568	398,568	398,568	373,906	-	24,662
Council on Aging							
Personnel.....	-	326,391	326,391	317,341	283,161	-	34,180
Non - Personnel.....	-	37,800	37,800	46,850	14,575	2,125	30,150
Total.....	-	364,191	364,191	364,191	297,736	2,125	64,330
Veterans Services							
Personnel.....	-	83,066	83,066	83,066	82,317	-	749
Non - Personnel.....	162	483,406	483,568	508,568	507,150	321	1,097
Total.....	162	566,472	566,634	591,634	589,467	321	1,846
Total Health and Human Services.....	162	1,329,231	1,329,393	1,354,393	1,261,109	2,446	90,838
Culture and Recreation							
Library							
Personnel.....	-	954,398	954,398	954,398	921,727	-	32,671
Non - Personnel.....	-	287,293	287,293	287,293	274,077	9,300	3,916
Total.....	-	1,241,691	1,241,691	1,241,691	1,195,804	9,300	36,587
Parks and Recreation							
Personnel.....	-	267,101	267,101	259,023	254,376	-	4,647
Non - Personnel.....	3,228	227,210	230,438	237,317	234,387	250	2,680
Total.....	3,228	494,311	497,539	496,340	488,763	250	7,327
Golf Course							
Personnel.....	-	269,703	269,703	276,303	266,925	-	9,378
Non - Personnel.....	-	174,880	174,880	267,258	214,287	45,000	7,971
Total.....	-	444,583	444,583	543,561	481,212	45,000	17,349
Witch House							
Personnel.....	-	102,300	102,300	102,300	102,146	-	154
Non - Personnel.....	6,963	66,780	73,743	88,443	79,093	-	9,350
Total.....	6,963	169,080	176,043	190,743	181,239	-	9,504
Historical Commission							
Personnel.....	-	8,670	8,670	8,670	8,539	-	131
Non - Personnel.....	-	1,000	1,000	1,000	668	-	332
Total.....	-	9,670	9,670	9,670	9,207	-	463
Winter Island							
Personnel.....	-	137,061	137,061	147,355	147,353	-	2
Non - Personnel.....	3,504	44,300	47,804	43,087	39,583	-	3,504
Total.....	3,504	181,361	184,865	190,442	186,936	-	3,506
Pioneer Village							
Non - Personnel.....	4,706	18,900	23,606	23,606	18,775	-	4,831
Total Culture and Recreation.....	18,401	2,559,596	2,577,997	2,696,053	2,561,936	54,550	79,567

(continued)

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

YEAR ENDED JUNE 30, 2016

	Budgeted Amounts						
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
Debt service:							
Principal.....	-	3,530,000	3,530,000	3,530,000	3,530,000	-	-
Interest.....	-	1,427,699	1,427,699	1,427,699	1,427,694	-	5
Short Term Interest.....	-	196,776	196,776	346,776	210,104	135,000	1,672
Capital Lease Payment.....	-	411,980	411,980	261,980	249,106	-	12,874
Total.....	-	5,566,455	5,566,455	5,566,455	5,416,904	135,000	14,551
State and county charges.....	-	7,113,027	7,113,027	7,113,027	7,061,663	-	51,364
Pension benefits							
Contributory Retirement.....	-	10,071,175	10,071,175	9,967,087	9,899,531	-	67,556
Non-Contributory Retirement.....	-	50,773	50,773	50,773	43,302	-	7,471
Total.....	-	10,121,948	10,121,948	10,017,860	9,942,833	-	75,027
Workmen's Compensation.....	-	327,518	327,518	327,518	310,384	-	17,134
Unemployment Compensation.....	-	450,000	450,000	450,000	431,186	-	18,814
Group Insurance.....	-	12,355,286	12,355,286	12,517,774	11,696,964	-	820,810
Medicare.....	-	987,000	987,000	1,091,088	1,091,087	-	1
Municipal Insurance.....	-	298,001	298,001	298,001	294,873	-	3,128
TOTAL EXPENDITURES.....	558,880	125,609,988	126,168,868	127,429,951	124,394,913	661,246	2,373,792
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(558,880)	2,810,766	2,251,886	990,803	5,889,019	(661,246)	4,236,970
OTHER FINANCING SOURCES (USES):							
Premium from issuance of bonds and notes.....	-	-	-	-	606,548	-	606,548
Transfers in.....	-	2,518,001	2,518,001	2,722,123	2,736,608	-	14,485
Transfers out.....	-	(5,962,239)	(5,962,239)	(8,091,146)	(8,091,146)	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	-	(3,444,238)	(3,444,238)	(5,369,023)	(4,747,990)	-	621,033
NET CHANGE IN FUND BALANCE.....	(558,880)	(633,472)	(1,192,352)	(4,378,220)	1,141,029	(661,246)	4,858,003
BUDGETARY FUND BALANCE, Beginning of year.....	-	6,782,270	6,782,270	6,782,270	6,782,270	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ (558,880)	\$ 6,148,798	\$ 5,589,918	\$ 2,404,050	\$ 7,923,299	\$ (661,246)	\$ 4,858,003

(concluded)

See notes to required supplementary information.

# ***Pension Plan Schedules – Retirement System***

The Pension Plan's Schedule of Changes in the Net Pension Liability presents multi-year trend information on the net pension liability and related ratios.

The Pension Plan's Schedule of Contributions presents multi-year trend information on the required and actual contributions to the pension plan and related ratios.

The Pension Plan's Schedule of Investment Returns presents multi-year trend information on the money-weighted investment return on retirement assets, net of investment expense.

These schedules are intended to present information for ten years. Until a ten year trend is compiled, information is presented for those years for which information is available.



**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY  
AND RELATED RATIOS  
SALEM CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2014	December 31, 2015
<b>Total pension liability:</b>		
Service cost.....	\$ 5,854,030	\$ 6,097,323
Interest.....	18,557,934	19,386,667
Differences between expected and actual experience.....	-	-
Changes in assumptions.....	-	-
Changes in benefit terms.....	-	-
Benefit payments, including refunds of employee contributions.....	(14,146,676)	(13,777,134)
Net change in total pension liability.....	10,265,288	11,706,856
Total pension liability, beginning.....	240,676,498	250,941,786
Total pension liability, ending (a).....	\$ 250,941,786	\$ 262,648,642
<b>Plan fiduciary net position:</b>		
Member contributions.....	\$ 3,939,454	\$ 4,121,728
Employer contributions.....	11,942,341	12,181,169
Net investment income (loss).....	9,022,647	659,962
Retirement benefits and refunds.....	(14,146,676)	(13,777,134)
Administrative expenses and depreciation.....	(242,294)	(238,374)
Net increase (decrease) in fiduciary net position.....	10,515,472	2,947,351
Fiduciary net position at beginning of year.....	123,879,403	135,650,902
Adjustment to include members transferred from Essex Agricultural and Technical School (c).....	1,256,027	-
Fiduciary net position at end of year (b).....	\$ 135,650,902	\$ 138,598,253
<b>Net pension liability - ending (a) - (b).....</b>	<b>\$ 115,290,884</b>	<b>\$ 124,050,389</b>
Plan fiduciary net position as a percentage of the total pension liability.....	54.06%	52.77%
Covered-employee payroll.....	\$ 40,399,678	\$ 42,015,665
Net pension liability as a percentage of covered-employee payroll.....	285.38%	295.25%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those years for  
which information is available.

(c) Essex Agricultural and Technical School merged with Northshore Regional Vocational Technical School in 2014. As a result of this merger, 39 active and inactive members of Essex Agricultural and Technical School were transferred from Essex Regional Retirement System to Salem Contributory Retirement System and the annuity savings fund balances of those members, totaling \$1,256,027, were also transferred. The 2014 total pension liability and fiduciary net position have been amended to include the liabilities and assets of these members that were transferred subsequent to year end.

See notes to required supplementary information.

**SCHEDULE OF CONTRIBUTIONS**  
**SALEM CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2014	December 31, 2015
Actuarially determined contribution.....	\$ 11,942,341	\$ 12,013,685
Contributions in relation to the actuarially determined contribution.....	<u>(11,942,341)</u>	<u>(12,181,169)</u>
Contribution deficiency (excess).....	<u>\$ -</u>	<u>\$ (167,484)</u>
Covered-employee payroll.....	\$ 40,399,678	\$ 42,015,665
Contributions as a percentage of covered- employee payroll.....	29.56%	28.99%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those  
years for which information is available.

See notes to required supplementary information.

**SCHEDULE OF INVESTMENT RETURNS**  
**SALEM CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2014	December 31, 2015
Annual money-weighted rate of return, net of investment expense.....	7.58%	0.51%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those  
years for which information is available.

The annual money-weighted rate of return has been calculated by  
the Pension Reserves Investment Management Board (PRIM).

See notes to required supplementary information.

## ***Pension Plan Schedules – City***

The Schedule of the City's Proportionate Share of the Net Pension Liability presents multi-year trend information on the City's net pension liability and related ratios.

The Schedule of City Contributions presents multi-year trend information on the City's required and actual contributions to the pension plan and related ratios.

The Schedule of the Special Funding Amounts of the Net Pension Liability for the Massachusetts Teachers Contributory Retirement System presents multi-year trend information on the liability and expense assumed by the Commonwealth of Massachusetts on behalf of the City along with related ratios.

These schedules are intended to present information for ten years. Until a ten year trend is compiled, information is presented for those years for which information is available.

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
SALEM CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2014	December 31, 2015
City's proportion of the net pension liability (asset).....	84.01%	84.67%
City's proportionate share of the net pension liability (asset)..... \$	96,851,803	\$ 105,037,687
City's covered employee payroll..... \$	32,603,305	\$ 33,907,437
Net pension liability as a percentage of covered-employee payroll.....	297.06%	309.78%
Plan fiduciary net position as a percentage of the total pension liability.....	54.06%	52.77%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those years for  
which information is available.

See notes to required supplementary information.

**SCHEDULE OF CITY CONTRIBUTIONS**  
**SALEM CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2014	December 31, 2015
Actuarially determined contribution.....	\$ 10,121,621	\$ 10,071,175
Contributions in relation to the actuarially determined contribution.....	<u>(10,121,621)</u>	<u>(10,238,659)</u>
Contribution deficiency (excess).....	<u>\$ -</u>	<u>\$ (167,484)</u>
Covered-employee payroll.....	\$ 32,603,305	\$ 33,907,437
Contributions as a percentage of covered- employee payroll.....	31.04%	30.20%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those  
years for which information is available.

See notes to required supplementary information.

**SCHEDULE OF THE SPECIAL FUNDING AMOUNTS  
OF THE NET PENSION LIABILITY  
MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM**

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Since the City does not contribute directly to MTRS, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the City; the portion of the collective pension expense as both a revenue and pension expense recognized by the City; and the Plan's fiduciary net position as a percentage of the total liability.

<u>Year</u>	<u>Commonwealth's 100% Share of the Net Pension Liability Associated with the City</u>	<u>City's Expense and Revenue Recognized for the Commonwealth's Support</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Liability</u>
2016.....	\$ 125,868,567	\$ 10,209,061	61.43%
2015.....	97,197,542	6,752,780	61.64%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

# ***Other Postemployment Benefit Plan Schedules***

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

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

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



**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
12/31/2013	\$ 803,651	\$ 109,605,701	\$ 108,802,050	1%	\$ 65,077,393	167.2%
12/31/2011	-	145,033,856	145,033,856	0%	57,371,799	252.8%
12/31/2009	-	171,447,034	171,447,034	0%	52,107,612	329.0%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution (ARC)	Actual Contributions Made	Percentage of the ARC Contributed
2016	\$ 8,874,011	\$ 4,607,168	52%
2015	11,311,746	5,396,396	48%
2014	10,799,677	5,342,584	49%
2013	10,003,723	4,681,685	47%
2012	9,555,726	4,419,491	46%
2011	11,374,693	5,916,957	52%

See notes to required supplementary information.

**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**ACTUARIAL METHODS AND ASSUMPTIONS**

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Actuarial Methods:

Valuation date.....	December 31, 2013
Actuarial cost method.....	Projected Unit Credit
Amortization method.....	Payments increasing at 4.0% per year as a level percentage of projected payroll
Remaining amortization period.....	30 years as of December 31, 2013, open

Actuarial Assumptions:

Investment rate of return.....	4.75%, pay-as-you-go scenario
Medical/drug cost trend rate.....	6.5% decreasing to 6.0% for 8 years then decreasing by 0.5% for 2 years to an ultimate level of 5.0% per year

Plan Membership:

Current retirees, beneficiaries, and dependents.....	944
Current active members.....	<u>861</u>
Total.....	<u><u>1,805</u></u>

See notes to required supplementary information.

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

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

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

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

Under recent legislation, the City Council on the recommendation of the Mayor may transfer during May and June, and the first fifteen days of July, 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 year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior year be carried forward and made available for spending in the current year. These carry forwards are included as part of the subsequent 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 2016 approved budget authorized approximately \$132.1 million in appropriations and other amounts to be raised. During the year, increases to the original budget were approved totaling approximately \$3.4 million. The most notable components of this increase include an additional \$3.2 million in available funds (free cash) appropriated to fund stabilization reserves, capital improvements, other postemployment benefits trust, pension reserves and various additional appropriations.

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 year ended June 30, 2016, is presented below:

Net change in fund balance - budgetary basis.....	\$ 1,141,029
<u>Perspective differences:</u>	
Reclassification of enterprise fund expenditures budgeted in the general fund.....	451,212
Reclassification of enterprise fund transfers budgeted in the general fund.....	(451,212)
Activity of the Salem Community Charter School.....	(153,037)
Activity of the Bentley Charter School.....	203,334
Activity of the stabilization funds recorded in the general fund for GAAP.....	206,399
<u>Basis of accounting differences:</u>	
Net change in revenues in recording 60 day receipts.....	27,517
Net change in revenues in recording tax refunds payable.....	(300,551)
Recognition of revenue for on-behalf payments.....	10,209,061
Recognition of expenditures for on-behalf payments.....	(10,209,061)
Net difference in recognition of expenditures.....	<u>344,024</u>
Net change in fund balances - GAAP basis.....	\$ <u><u>1,468,715</u></u>

**3. Appropriation Deficits**

During 2016, expenditures exceeded budgeted appropriations for snow and ice removal. This over expenditure is allowable under Massachusetts General Law. The City will fund this deficit in the next fiscal year.

**NOTE B – PENSION PLAN*****Pension Plan Schedules – Retirement System*****A. Schedule of Changes in the Net Pension Liability and Related Ratios**

The Schedule of Changes in the Net Pension Liability and Related Ratios includes the detailed changes in the System's total pension liability, changes in the System's net position, and the ending net pension liability. It also demonstrates the plan's net position as a percentage of the total pension liability and the net pension liability as a percentage of covered payroll.

Since the System performs an actuarial valuation bi-annually, there are no reported amounts for the changes in benefit terms, differences between expected and actual experience and changes in assumptions as of December 31, 2015.

**B. Schedule of Contributions**

Governmental employers are required to pay an annual appropriation as established by PERAC. The appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount

to amortize the actuarially determined unfunded liability to zero in accordance with the system's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The appropriations are payable on July 1 and January 1. Employers may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual employer contributions may be less than the "total appropriation". The appropriations are allocated amongst employers based on an actuarial valuation.

### C. Schedule of Investment Return

The money weighted rate of return is calculated as the internal rate of return on pension plan investments, net of pension plan investment expense. A money weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested. Inputs to the money weighted rate of return calculation are determined monthly.

### ***Pension Plan Schedules - City***

#### A. Schedule of the City's Proportionate Share of the Net Pension Liability

The Schedule of the City's Proportionate Share of the Net Pension Liability details the allocated percentage of the net pension liability (asset), the proportionate share of the net pension liability, and the covered employee payroll. It also demonstrates the net position as a percentage of the pension liability and the net pension liability as a percentage of covered payroll.

#### B. Schedule of City's Contributions

Governmental employers are required to pay an annual appropriation as established by PERAC. The appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the system's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The appropriations are payable on July 1 and January 1. The City may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual contributions may be less than the "total appropriation".

#### C. Schedule of the Special Funding Amounts of the Net Pension Liabilities

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Since the City does not contribute directly to MTRS, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the City; the portion of the collective pension expense as both revenue and pension expense recognized by the City; and the Plan's fiduciary net position as a percentage of the total liability.

#### D. Changes in Assumptions

None

#### E. Changes in Plan Provisions

None

**NOTE C – OTHER POSTEMPLOYMENT BENEFITS**

The City administers a single-employer defined benefit healthcare plan (“The Retiree Health Plan”). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the City’s participation in the Group Insurance Commission of the Commonwealth of Massachusetts (GIC) which covers both active and retired members.

The City currently finances its other postemployment benefits (OPEB) on a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 1%. In accordance with Governmental Accounting Standards, the City has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

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

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

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

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

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## ***Combining and Individual Fund 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.

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

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

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

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

## ***Capital Project Funds***

*School Capital Projects*- This fund is used to account for school capital projects.

*Other Funds* – This fund is used to account for various capital projects not reported as major funds.

## ***Permanent Funds***

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support governmental programs.

*Cemetery Fund* – This fund is used to account for cemetery perpetual care contributions and expenditures.

*Human Service Fund* – This fund is used to account for various contributions associated with human service activities.

*Other Funds* – This fund is used to account for various contributions associated with governmental programs.

**NONMAJOR GOVERNMENTAL FUNDS**  
COMBINING BALANCE SHEET

JUNE 30, 2016

	Special Revenue Funds				
	School Grants	Community Development Grants	School Lunch	Highway Grants	Donations and Gifts
<b>ASSETS</b>					
Cash and cash equivalents.....	\$ 1,944,546	\$ -	\$ 386,079	\$ -	\$ 358,540
Investments.....	-	-	-	-	410,600
Receivables, net of uncollectibles:					
Departmental and other.....	-	-	-	-	-
Intergovernmental.....	-	65,931	-	482,385	-
Loans.....	-	203,616	-	-	-
<b>TOTAL ASSETS.....</b>	<b>\$ 1,944,546</b>	<b>\$ 269,547</b>	<b>\$ 386,079</b>	<b>\$ 482,385</b>	<b>\$ 769,140</b>
<b>LIABILITIES</b>					
Warrants payable.....	\$ 89,896	\$ -	\$ -	\$ -	\$ -
Accrued payroll.....	143,521	4,143	17,241	-	6,178
Due to other funds.....	-	21,017	-	52,669	-
<b>TOTAL LIABILITIES.....</b>	<b>233,417</b>	<b>25,160</b>	<b>17,241</b>	<b>52,669</b>	<b>6,178</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue.....	-	203,616	-	416,526	-
<b>FUND BALANCES</b>					
Nonspendable.....	-	-	-	-	-
Restricted.....	1,711,129	40,771	368,838	13,190	762,962
<b>TOTAL FUND BALANCES.....</b>	<b>1,711,129</b>	<b>40,771</b>	<b>368,838</b>	<b>13,190</b>	<b>762,962</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....</b>	<b>\$ 1,944,546</b>	<b>\$ 269,547</b>	<b>\$ 386,079</b>	<b>\$ 482,385</b>	<b>\$ 769,140</b>

(Continued)

**NONMAJOR GOVERNMENTAL FUNDS**  
COMBINING BALANCE SHEET

JUNE 30, 2016

	Special Revenue Funds			
	Receipts Reserved	City Revolving Accounts	School Revolving Accounts	Subtotal
<b>ASSETS</b>				
Cash and cash equivalents.....	\$ 1,008,742	\$ 671,328	\$ 340,249	\$ 4,709,484
Investments.....	-	-	-	410,600
Receivables, net of uncollectibles:				
Departmental and other.....	122,689	-	-	122,689
Intergovernmental.....	-	-	-	548,316
Loans.....	-	134,192	-	337,808
<b>TOTAL ASSETS.....</b>	<b>\$ 1,131,431</b>	<b>\$ 805,520</b>	<b>\$ 340,249</b>	<b>\$ 6,128,897</b>
<b>LIABILITIES</b>				
Warrants payable.....	\$ -	\$ -	\$ -	\$ 89,896
Accrued payroll.....	-	132	7,179	178,394
Due to other funds.....	-	-	-	73,686
<b>TOTAL LIABILITIES.....</b>	<b>-</b>	<b>132</b>	<b>7,179</b>	<b>341,976</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue.....	122,689	134,192	-	877,023
<b>FUND BALANCES</b>				
Nonspendable.....	-	-	-	-
Restricted.....	1,008,742	671,196	333,070	4,909,898
<b>TOTAL FUND BALANCES.....</b>	<b>1,008,742</b>	<b>671,196</b>	<b>333,070</b>	<b>4,909,898</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....</b>	<b>\$ 1,131,431</b>	<b>\$ 805,520</b>	<b>\$ 340,249</b>	<b>\$ 6,128,897</b>

Capital Project Funds			Permanent Funds				Total Nonmajor Governmental Funds
School Capital Projects	Other	Subtotal	Cemetery	Human Service	Other	Subtotal	
\$ 546,579	\$ 131,152	\$ 677,731	\$ 516,854	\$ 178,577	\$ 226,765	\$ 922,196	\$ 6,309,411
-	-	-	2,985,580	1,368,242	1,092,823	5,446,645	5,857,245
-	-	-	-	-	-	-	122,689
3,305,715	-	3,305,715	-	-	-	-	3,854,031
-	-	-	-	-	-	-	337,808
<u>\$ 3,852,294</u>	<u>\$ 131,152</u>	<u>\$ 3,983,446</u>	<u>\$ 3,502,434</u>	<u>\$ 1,546,819</u>	<u>\$ 1,319,588</u>	<u>\$ 6,368,841</u>	<u>\$ 16,481,184</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 89,896
-	-	-	-	-	-	-	178,394
-	-	-	-	-	-	-	73,686
-	-	-	-	-	-	-	341,976
-	-	-	-	-	-	-	877,023
-	-	-	1,142,123	221,174	813,672	2,176,969	2,176,969
3,852,294	131,152	3,983,446	2,360,311	1,325,645	505,916	4,191,872	13,085,216
<u>3,852,294</u>	<u>131,152</u>	<u>3,983,446</u>	<u>3,502,434</u>	<u>1,546,819</u>	<u>1,319,588</u>	<u>6,368,841</u>	<u>15,262,185</u>
<u>\$ 3,852,294</u>	<u>\$ 131,152</u>	<u>\$ 3,983,446</u>	<u>\$ 3,502,434</u>	<u>\$ 1,546,819</u>	<u>\$ 1,319,588</u>	<u>\$ 6,368,841</u>	<u>\$ 16,481,184</u>

(Concluded)

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

YEAR ENDED JUNE 30, 2016

	Special Revenue Funds				
	School Grants	Community Development Grants	School Lunch	Highway Grants	Donations and Gifts
<b>REVENUES:</b>					
Charges for services.....	\$ 315,240	\$ -	\$ -	\$ -	\$ -
Penalties and interest on taxes.....	-	-	-	-	-
Intergovernmental.....	7,437,516	815,358	2,090,715	1,197,901	-
Departmental and other.....	161,437	137,133	-	-	3,678
Contributions.....	29,050	-	-	-	113,011
Investment income.....	-	288	-	-	3,895
<b>TOTAL REVENUES.....</b>	<b>7,943,243</b>	<b>952,779</b>	<b>2,090,715</b>	<b>1,197,901</b>	<b>120,584</b>
<b>EXPENDITURES:</b>					
Current:					
General government.....	-	-	-	-	7,934
Public safety.....	-	-	-	-	7,070
Education.....	7,858,500	-	1,935,888	-	380,157
Public works.....	-	-	-	1,184,711	144,234
Community development.....	-	955,884	-	-	-
Health and human services.....	-	-	-	-	11,527
Culture and recreation.....	-	-	-	-	11,779
<b>TOTAL EXPENDITURES.....</b>	<b>7,858,500</b>	<b>955,884</b>	<b>1,935,888</b>	<b>1,184,711</b>	<b>562,701</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>84,743</b>	<b>(3,105)</b>	<b>154,827</b>	<b>13,190</b>	<b>(442,117)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Issuance of bonds and notes.....	-	-	-	-	-
Transfers in.....	61,732	-	-	-	28,398
Transfers out.....	(61,732)	-	-	-	(18,698)
<b>TOTAL OTHER FINANCING SOURCES (USES)....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,700</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>84,743</b>	<b>(3,105)</b>	<b>154,827</b>	<b>13,190</b>	<b>(432,417)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>1,626,386</b>	<b>43,876</b>	<b>214,011</b>	<b>-</b>	<b>1,195,379</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 1,711,129</b>	<b>\$ 40,771</b>	<b>\$ 368,838</b>	<b>\$ 13,190</b>	<b>\$ 762,962</b>

Special Revenue Funds				Capital Project Funds		
Receipts Reserved	City Revolving Accounts	School Revolving Accounts	Subtotal	School Capital Projects	Other	Subtotal
\$ -	\$ -	\$ -	\$ 315,240	\$ -	\$ -	\$ -
2,785	-	-	2,785	-	-	-
30,000	35,535	-	11,607,025	970,922	-	970,922
848,945	528,065	1,016,326	2,695,584	-	1,202,654	1,202,654
-	5,160	-	147,221	-	-	-
-	301	120	4,604	-	-	-
881,730	569,061	1,016,446	14,772,459	970,922	1,202,654	2,173,576
49,074	134,717	-	191,725	-	-	-
-	6,129	-	13,199	-	-	-
-	-	921,428	11,095,973	561,552	-	561,552
28,171	29,323	-	1,386,439	-	1,173,434	1,173,434
-	75,718	-	1,031,602	-	-	-
-	59,953	-	71,480	-	-	-
10,000	268,904	-	290,683	-	-	-
87,245	574,744	921,428	14,081,101	561,552	1,173,434	1,734,986
794,485	(5,683)	95,018	691,358	409,370	29,220	438,590
-	-	-	-	3,997,532	-	3,997,532
-	300	-	90,430	-	-	-
(563,072)	-	-	(643,502)	-	-	-
(563,072)	300	-	(553,072)	3,997,532	-	3,997,532
231,413	(5,383)	95,018	138,286	4,406,902	29,220	4,436,122
777,329	676,579	238,052	4,771,612	(554,608)	101,932	(452,676)
\$ 1,008,742	\$ 671,196	\$ 333,070	\$ 4,909,898	\$ 3,852,294	\$ 131,152	\$ 3,983,446

(Continued)

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

YEAR ENDED JUNE 30, 2016

	Permanent Funds				Total Nonmajor Governmental Funds
	Cemetery	Human Service	Other	Subtotal	
<b>REVENUES:</b>					
Charges for services.....	\$ -	\$ -	\$ -	\$ -	\$ 315,240
Penalties and interest on taxes.....	-	-	-	-	2,785
Intergovernmental.....	-	-	-	-	12,577,947
Departmental and other.....	-	-	-	-	3,898,238
Contributions.....	39,975	-	33,997	73,972	221,193
Investment income.....	7,032	(11,093)	(95)	(4,156)	448
<b>TOTAL REVENUES.....</b>	<b>47,007</b>	<b>(11,093)</b>	<b>33,902</b>	<b>69,816</b>	<b>17,015,851</b>
<b>EXPENDITURES:</b>					
Current:					
General government.....	-	-	-	-	191,725
Public safety.....	-	-	24,266	24,266	37,465
Education.....	-	-	-	-	11,657,525
Public works.....	105,771	-	44,359	150,130	2,710,003
Community development.....	-	-	-	-	1,031,602
Health and human services.....	-	60,690	-	60,690	132,170
Culture and recreation.....	-	-	-	-	290,683
<b>TOTAL EXPENDITURES.....</b>	<b>105,771</b>	<b>60,690</b>	<b>68,625</b>	<b>235,086</b>	<b>16,051,173</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(58,764)</b>	<b>(71,783)</b>	<b>(34,723)</b>	<b>(165,270)</b>	<b>964,678</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Issuance of bonds and notes.....	-	-	-	-	3,997,532
Transfers in.....	-	-	-	-	90,430
Transfers out.....	-	-	-	-	(643,502)
<b>TOTAL OTHER FINANCING SOURCES (USES)....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,444,460</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>(58,764)</b>	<b>(71,783)</b>	<b>(34,723)</b>	<b>(165,270)</b>	<b>4,409,138</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>3,561,198</b>	<b>1,618,602</b>	<b>1,354,311</b>	<b>6,534,111</b>	<b>10,853,047</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 3,502,434</b>	<b>\$ 1,546,819</b>	<b>\$ 1,319,588</b>	<b>\$ 6,368,841</b>	<b>\$ 15,262,185</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 is administered by the City's Board of Trust Fund Commissioners.

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



**PRIVATE PURPOSE TRUST FUNDS**  
COMBINING STATEMENT OF NET POSITION

JUNE 30, 2016

Private Purpose Trust Funds			
	Trust Fund Commissioners	Scholarship Funds	Total
<b>ASSETS</b>			
Cash and cash equivalents..... \$	145,841	\$ 118,658	\$ 264,499
Corporate bonds.....	1,101,189	-	1,101,189
<b>TOTAL ASSETS.....</b>	<b>1,247,030</b>	<b>118,658</b>	<b>1,365,688</b>
<b>NET POSITION</b>			
Held in trust for other purposes..... \$	1,247,030	\$ 118,658	\$ 1,365,688

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

YEAR ENDED JUNE 30, 2016

	Private Purpose Trust Funds		
	Trust Fund Commissioners	Scholarship Funds	Total
<b>ADDITIONS:</b>			
Contributions:			
Private donations.....	\$ 5,064	\$ 20,051	\$ 25,115
Net investment income:			
Net change in fair value of investments.....	(9,076)	-	(9,076)
Interest.....	81	5,332	5,413
Total Net Investment Income.....	(8,995)	5,332	(3,663)
TOTAL ADDITIONS.....	(3,931)	25,383	21,452
<b>DEDUCTIONS:</b>			
Educational scholarships.....	10,300	17,925	28,225
Housing subsidies.....	45,956	-	45,956
TOTAL DEDUCTIONS.....	56,256	17,925	74,181
CHANGE IN NET POSITION.....	(60,187)	7,458	(52,729)
NET POSITION AT BEGINNING OF YEAR.....	1,307,217	111,200	1,418,417
NET POSITION AT END OF YEAR.....	\$ 1,247,030	\$ 118,658	\$ 1,365,688

# ***Agency Fund***

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

**AGENCY FUND**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**

YEAR ENDED JUNE 30, 2016

	Beginning of Year	Additions	Deletions	End of Year
<b>ASSETS</b>				
CURRENT:				
Cash and cash equivalents.....	\$ 1,077,503	\$ 61,582,256	\$ (62,047,552)	\$ 612,207
<b>LIABILITIES</b>				
Liabilities due depositors.....	\$ 1,077,503	\$ 61,582,256	\$ (62,047,552)	\$ 612,207

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# Statistical Section

## Winter Island



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



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

# ***Statistical Section***

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

## ***Financial Trends***

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

## ***Revenue Capacity***

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

## ***Debt Capacity***

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

## ***Demographic and Economic Information***

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

## ***Operating Information***

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

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

# **Net Position By Component**

## **Last Ten Years**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Governmental activities</b>										
Net investment in capital assets.....	\$ 132,787,853	\$ 139,683,360	\$ 147,373,757	\$ 147,313,749	\$ 144,887,020	\$ 147,692,495	\$ 169,750,602	\$ 170,092,864	\$ 172,084,606	\$ 171,154,357
Restricted.....	8,868,048	6,948,839	6,968,580	6,892,267	10,562,103	11,197,635	12,499,976	14,383,949	12,047,560	9,234,701
Unrestricted.....	(2,189,821)	(6,668,493)	(13,473,169)	(17,907,226)	(17,992,385)	(21,617,069)	(22,562,824)	(116,481,627)	(125,845,138)	(126,419,624)
<b>Total governmental activities net position..</b>	<b>\$ 139,466,080</b>	<b>\$ 139,963,706</b>	<b>\$ 140,869,168</b>	<b>\$ 136,298,790</b>	<b>\$ 137,456,738</b>	<b>\$ 137,273,061</b>	<b>\$ 159,687,754</b>	<b>\$ 67,995,186</b>	<b>\$ 58,287,028</b>	<b>\$ 53,969,434</b>
<b>Business-type activities</b>										
Net investment in capital assets.....	9,138,929	8,836,475	6,939,001	8,245,799	8,248,186	8,605,165	9,562,558	8,511,138	8,744,920	8,280,350
Unrestricted.....	5,609,406	5,647,967	6,371,380	3,920,927	4,366,232	4,085,318	4,857,190	6,184,586	3,008,694	3,573,341
<b>Total business-type activities net position. \$</b>	<b>14,748,335</b>	<b>14,484,442</b>	<b>13,310,381</b>	<b>12,166,726</b>	<b>12,614,418</b>	<b>12,690,483</b>	<b>14,419,748</b>	<b>14,695,724</b>	<b>11,753,614</b>	<b>11,853,691</b>
<b>Primary government</b>										
Net investment in capital assets.....	141,926,782	148,519,835	154,312,758	155,559,548	153,135,206	156,297,660	179,313,160	178,604,002	180,829,526	179,434,707
Restricted.....	8,868,048	6,948,839	6,968,580	6,892,267	10,562,103	11,197,635	12,499,976	14,383,949	12,047,560	9,234,701
Unrestricted.....	3,419,585	(1,020,526)	(7,101,789)	(13,986,299)	(13,626,153)	(17,531,751)	(17,705,634)	(110,297,041)	(122,836,444)	(122,846,283)
<b>Total primary government net position.....</b>	<b>\$ 154,214,415</b>	<b>\$ 154,448,148</b>	<b>\$ 154,179,549</b>	<b>\$ 148,465,516</b>	<b>\$ 150,071,156</b>	<b>\$ 149,963,544</b>	<b>\$ 174,107,502</b>	<b>\$ 82,690,910</b>	<b>\$ 70,040,642</b>	<b>\$ 65,823,125</b>

GASB 68 was implemented in 2015 and the net pension liability was recorded which changed the 2014 net position for the first time.



**Changes in Net Position**

**Last Ten Years**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Expenses</b>										
Governmental activities:										
General government.....	\$ 9,641,318	\$ 10,598,174	\$ 10,914,012	\$ 10,865,152	\$ 11,702,186	\$ 11,904,711	\$ 10,574,021	\$ 10,080,121	\$ 12,503,170	\$ 11,788,264
Public safety.....	24,433,343	28,262,847	27,421,538	26,755,783	27,989,181	26,551,919	27,832,445	29,879,444	29,652,698	29,707,698
Education.....	75,513,149	75,874,227	79,410,738	83,743,843	86,938,434	91,261,655	95,924,303	100,837,487	100,997,380	105,955,199
Public works.....	9,229,479	6,846,006	6,705,986	6,820,639	8,894,659	5,952,380	8,848,271	9,092,995	11,878,911	12,627,503
Community development.....	1,804,554	1,567,381	2,093,618	3,226,360	1,845,141	1,530,786	1,347,731	1,304,481	1,569,281	1,033,601
Health and human services.....	4,675,688	5,904,063	6,226,498	6,622,114	5,930,089	6,001,130	6,140,975	5,788,579	6,850,201	6,793,390
Community preservation.....	(B)	(B)	(B)	(B)	(B)	(B)	(B)	5,350	356,518	80,610
Culture and recreation.....	2,448,265	3,293,415	3,228,906	3,169,224	2,997,090	3,219,315	3,429,452	3,589,253	3,277,578	3,585,339
Interest.....	2,604,390	2,503,461	2,396,187	1,888,315	1,582,033	1,544,887	1,277,709	1,328,888	1,349,443	1,313,435
Total government activities expenses.....	130,350,186	134,849,574	138,397,483	143,091,430	147,878,813	147,966,783	155,374,907	161,906,598	168,435,180	172,885,039
Business-type activities:										
Water and sewer services.....	9,174,602	9,790,421	11,488,868	11,796,038	10,752,161	10,921,100	11,169,816	11,241,391	12,386,557	11,694,630
Golf course.....	363,651	386,099	278,007	399,023	363,625	438,613	465,210	466,834	472,708	531,307
Parking.....	792,903	936,826	905,834	844,615	991,722	1,042,610	1,052,780	968,159	(C)	(C)
Trash.....	(A)	3,230,500	2,558,263	2,573,421	2,617,948	2,744,963	2,648,564	2,373,876	2,448,400	2,762,022
Total business type activities expenses.....	10,331,156	14,343,846	15,230,972	15,613,097	14,725,456	15,147,286	15,336,370	15,050,260	15,307,665	14,987,959
Total primary government expenses.....	\$ 140,681,342	\$ 149,193,420	\$ 153,628,455	\$ 158,704,527	\$ 162,604,269	\$ 163,114,069	\$ 170,711,277	\$ 176,956,858	\$ 183,742,845	\$ 187,872,998
<b>Program Revenues</b>										
Governmental activities:										
Education charges for services.....	\$ 1,659,544	\$ 1,586,525	\$ 1,473,880	\$ 1,370,250	\$ 1,277,950	\$ 1,271,626	\$ 1,171,221	\$ 1,275,125	\$ 1,036,778	\$ 1,224,683
Public Safety charges for services.....	2,217,287	2,378,961	2,456,341	2,074,324	2,115,452	2,212,295	2,780,253	2,237,189	2,712,983	2,289,056
Other charges for services.....	2,561,814	1,602,847	1,693,333	1,824,040	1,744,351	1,872,305	2,264,412	2,345,324	4,762,457	4,971,335
Operating grants and contributions.....	37,957,703	41,168,760	43,744,124	46,352,034	51,358,511	47,872,700	49,028,512	50,489,073	46,826,741	52,223,253
Capital grant and contributions.....	30,118,572	9,615,336	8,762,642	4,135,374	5,197,515	5,699,571	30,643,446	8,496,589	5,050,922	7,213,351
Total government activities program revenues.....	74,514,920	56,352,429	58,130,320	55,756,022	61,693,779	58,928,497	85,887,844	64,843,300	60,389,881	67,921,678
Business-type activities:										
Charges for services - Water and Sewer.....	11,516,213	10,874,482	11,753,147	12,122,111	12,810,031	12,609,726	13,692,023	13,086,639	13,288,556	13,043,867
Charges for services - Golf.....	546,841	570,142	547,301	589,345	548,805	648,916	697,232	705,341	724,052	805,227
Charges for services - Parking.....	1,713,649	1,651,032	1,694,708	2,038,235	2,333,478	2,274,470	2,580,262	2,510,838	(C)	(C)
Charges for services - Trash.....	(A)	908,577	720,193	740,511	692,089	675,916	684,262	678,607	689,982	838,882
Capital grants and contributions.....	-	49,707	43,796	41,820	39,804	-	-	2,887,131	102,518	-
Total business-type activities program revenues.....	13,776,703	14,053,940	14,759,145	15,532,022	16,424,207	16,209,028	17,653,779	19,868,556	14,805,108	14,687,976
Total primary government program revenues.....	\$ 88,291,623	\$ 70,406,369	\$ 72,889,465	\$ 71,288,044	\$ 78,117,986	\$ 75,137,525	\$ 103,541,623	\$ 84,711,856	\$ 75,194,989	\$ 82,609,654
<b>Net (Expense)/Revenue</b>										
Governmental activities.....	\$ (55,835,266)	\$ (78,497,145)	\$ (80,267,163)	\$ (87,335,408)	\$ (86,185,034)	\$ (89,038,286)	\$ (69,487,063)	\$ (97,063,298)	\$ (108,045,299)	\$ (104,963,361)
Business-type activities.....	3,445,547	(289,906)	(471,827)	(81,075)	1,698,751	1,061,742	2,317,409	4,818,296	(502,557)	(299,983)
Total primary government net expense.....	\$ (52,389,719)	\$ (78,787,051)	\$ (80,738,990)	\$ (87,416,483)	\$ (84,486,283)	\$ (87,976,544)	\$ (67,169,654)	\$ (92,245,002)	\$ (108,547,856)	\$ (105,263,344)
<b>General Revenues and other Changes in Net Position</b>										
Governmental activities:										
Real estate and personal property taxes,										
net of tax refunds payable.....	\$ 60,991,003	\$ 63,230,976	\$ 66,672,653	\$ 69,067,349	\$ 71,828,412	\$ 72,073,381	\$ 76,770,134	\$ 79,012,963	\$ 82,444,144	\$ 84,802,453
Community Preservation Taxes.....	(B)	(B)	(B)	(B)	(B)	(B)	(B)	486,797	535,637	561,424
Tax liens.....	182,650	752,178	527,492	234,353	510,973	795,443	589,138	563,353	708,963	523,414
Motor vehicle and other excise taxes.....	3,357,765	3,286,119	2,978,961	3,092,527	3,181,247	3,131,334	3,052,229	3,890,099	3,929,230	4,194,711
Hotel/motel tax.....	282,324	373,655	324,622	294,214	955,092	1,161,007	1,224,849	1,319,418	1,362,357	1,541,901
Penalties and interest on taxes.....	266,246	353,952	412,572	437,361	438,487	490,242	399,311	457,958	443,444	497,484
Payments in lieu of taxes.....	1,235,083	1,229,435	1,320,945	1,307,078	1,319,079	1,440,186	1,462,692	1,321,060	1,043,782	1,322,806
Grants and contributions not restricted to										
specific programs.....	8,971,625	9,163,777	8,064,486	6,583,118	6,404,395	8,220,908	6,610,413	6,775,827	7,182,509	6,881,968
Unrestricted investment income.....	965,694	462,275	(35,188)	435,769	1,095,518	103,015	828,974	1,377,835	554,360	459,322
Miscellaneous.....	248,905	168,417	203,848	250,681	358,720	453,416	375,872	344,538	122,979	260,344
Transfers.....	2,437,695	(26,013)	702,234	1,062,580	1,251,059	985,677	588,144	1,653,218	9,736	(400,060)
Total governmental activities	78,938,990	78,994,771	81,172,625	82,765,030	87,342,982	88,854,609	91,901,756	97,203,066	98,337,141	100,645,767
Business-type activities:										
Transfers.....	(2,437,695)	26,013	(702,234)	(1,062,580)	(1,251,059)	(985,677)	(588,144)	(1,653,218)	(9,736)	400,060
Total primary government.....	\$ 76,501,295	\$ 79,020,784	\$ 80,470,391	\$ 81,702,450	\$ 86,091,923	\$ 87,868,932	\$ 91,313,612	\$ 95,549,848	\$ 98,327,405	\$ 101,045,827
<b>Changes in Net Position</b>										
Governmental activities.....	\$ 23,103,724	\$ 497,626	\$ 905,462	\$ (4,570,378)	\$ 1,157,948	\$ (183,677)	\$ 22,414,693	\$ 139,768	\$ (9,708,158)	\$ (3,917,534)
Business-type activities.....	1,007,852	(263,893)	(1,174,061)	(1,143,655)	447,692	76,065	1,729,265	3,165,078	(512,293)	100,077
Total primary government.....	\$ 24,111,576	\$ 233,733	\$ (268,599)	\$ (5,714,033)	\$ 1,605,640	\$ (107,612)	\$ 24,143,958	\$ 3,304,846	\$ (10,220,451)	\$ (3,817,457)

(A) In 2007 the City reported Trash in the governmental funds.

(B) In 2014 the City approved and established the Community Preservation Fund.

(C) In 2015 the City reclassified the parking fund to a governmental activity.

**Fund Balances, Governmental Funds**

**Last Ten Years**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Fund										
Reserved.....	\$ 69,631	\$ 220,608	\$ 372,027	\$ 421,825	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved.....	(1,151,199)	1,321,397	749,849	1,211,094	-	-	-	-	-	-
Assigned.....	-	-	-	-	589,894	985,737	1,059,667	1,002,935	558,880	661,246
Unassigned.....	-	-	-	-	8,405,585	9,550,262	11,663,494	11,998,002	11,159,068	12,937,609
Total general fund.....	<u>\$ (1,081,568)</u>	<u>\$ 1,542,005</u>	<u>\$ 1,121,876</u>	<u>\$ 1,632,919</u>	<u>\$ 8,995,479</u>	<u>\$ 10,535,999</u>	<u>\$ 12,723,161</u>	<u>\$ 13,000,937</u>	<u>\$ 11,717,948</u>	<u>\$ 13,598,855</u>
All Other Governmental Funds										
Reserved.....	\$ 1,629,202	\$ 1,650,597	\$ 1,688,851	\$ 1,689,176	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds.....	5,477,136	3,768,323	5,602,931	5,819,702	-	-	-	-	-	-
Capital projects funds.....	(197,270)	2,806,105	(537,848)	3,969,207	-	-	-	-	-	-
Permanent funds.....	3,556,455	3,291,512	2,678,043	2,783,655	-	-	-	-	-	-
Nonspendable.....	-	-	-	-	1,707,276	2,074,097	2,074,989	2,074,987	2,151,087	2,176,969
Restricted.....	-	-	-	-	11,329,632	14,344,418	12,942,168	15,563,265	12,440,090	20,988,535
Unassigned.....	-	-	-	-	(665,295)	(4,101,228)	(623,622)	(2,089,648)	(1,002,367)	(23,344)
Total all other governmental funds....	<u>\$ 10,465,523</u>	<u>\$ 11,516,537</u>	<u>\$ 9,431,977</u>	<u>\$ 14,261,740</u>	<u>\$ 12,371,613</u>	<u>\$ 12,317,287</u>	<u>\$ 14,393,535</u>	<u>\$ 15,548,604</u>	<u>\$ 13,588,810</u>	<u>\$ 23,142,160</u>

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

**Changes in Fund Balances, Governmental Funds**

	Last Ten Years									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Revenues:</b>										
Real estate and personal property taxes, net of tax refunds.....	\$ 60,638,180	\$ 63,376,714	\$ 66,717,968	\$ 68,747,759	\$ 71,754,816	\$ 72,202,064	\$ 77,018,965	\$ 79,449,354	\$ 82,905,745	\$ 85,828,099
Motor vehicle and other excise taxes.....	3,215,438	3,427,889	3,154,642	3,007,759	3,180,552	3,203,122	3,113,058	3,799,179	3,945,343	4,057,235
Intergovernmental.....	38,496,892	39,569,976	42,962,129	44,150,857	51,562,915	50,048,535	84,640,597	49,698,445	49,811,556	51,544,933
Departmental and other.....	9,017,710	10,086,572	9,382,460	8,511,803	9,656,996	10,366,488	12,049,109	11,097,377	13,036,554	14,259,338
Investment income.....	925,771	462,585	(32,923)	436,686	1,096,747	129,773	828,974	1,377,835	554,360	459,322
Commonwealth school construction grants.....	35,025,316	17,324,905	13,130,784	7,095,272	4,310,837	4,310,837	4,310,837	3,695,128	3,171,572	3,171,572
On-behalf pension payments by the Commonwealth (A).....	7,044,987	7,511,889	8,277,958	8,602,216	9,290,000	9,695,000	10,522,000	10,808,000	6,752,780	10,209,061
<b>Total Revenue.....</b>	<b>154,364,294</b>	<b>141,760,530</b>	<b>143,593,018</b>	<b>140,552,352</b>	<b>150,852,863</b>	<b>149,955,819</b>	<b>192,483,540</b>	<b>159,925,318</b>	<b>160,177,910</b>	<b>169,529,560</b>
<b>Expenditures:</b>										
General government.....	4,733,168	4,512,126	5,284,403	5,062,768	5,678,376	6,039,335	6,351,699	6,218,639	8,285,799	7,404,363
Public safety.....	14,969,952	15,945,719	16,452,689	16,147,666	17,129,546	17,807,607	18,207,275	19,627,830	19,936,450	19,682,270
Education.....	47,719,326	47,293,548	48,101,995	49,491,944	51,429,439	50,076,848	53,168,217	54,548,503	63,150,832	60,044,184
Public works.....	6,137,334	3,338,981	3,718,860	3,255,769	3,573,118	2,831,181	5,338,674	5,230,942	7,137,934	7,530,669
Community development.....	1,804,554	1,567,381	2,402,149	3,413,203	1,933,227	1,757,053	1,322,586	1,629,209	1,544,509	1,033,601
Health and human services.....	4,730,161	5,306,444	5,339,094	6,158,089	5,927,137	5,538,621	5,580,162	5,446,188	6,424,227	6,341,080
Community Preservation.....	-	-	-	-	-	-	- (B)	5,350 (B)	356,518	506,415
Culture and recreation.....	1,865,609	2,135,563	2,395,536	2,320,698	2,152,872	3,367,206	2,468,723	2,368,401	2,264,401	2,347,889
Pension benefits.....	14,375,924	15,180,985	16,206,240	16,770,835	17,707,823	18,538,274	19,771,148	20,402,625	16,923,249	20,151,894
Massachusetts teachers' retirement (A).....	7,044,987	7,511,889	8,277,958	8,602,216	9,290,000	9,695,000	10,522,000	10,808,000	6,752,780	10,209,061
Employee benefits.....	10,889,249	11,570,087	11,805,651	11,077,682	11,751,691	13,122,992	13,326,634	14,255,543	13,490,299	13,529,621
State and county charges.....	5,589,986	5,933,670	6,302,025	6,655,890	6,445,380	6,390,908	5,141,397	5,776,828	6,015,427	7,061,663
Capital outlay.....	38,018,740	12,930,767	13,552,655	4,654,814	6,194,898	11,752,488	38,287,997	16,665,809	13,273,983	10,251,982
Debt service										
Principal.....	4,310,000	6,620,000	4,559,497	5,385,000	7,550,000	4,717,000 (C)	19,454,000	3,073,598	2,935,000	3,500,000
Interest.....	2,513,575	2,622,389	2,568,643	2,087,028	1,851,117	1,761,551	1,816,117	1,536,769	1,558,748	1,640,859
<b>Total Expenditures.....</b>	<b>164,702,565</b>	<b>142,469,549</b>	<b>146,967,395</b>	<b>141,083,602</b>	<b>148,614,624</b>	<b>153,396,064</b>	<b>200,756,629</b>	<b>167,594,234</b>	<b>170,050,156</b>	<b>171,235,551</b>
<b>Excess of revenues over (under) expenditures.....</b>	<b>(10,338,271)</b>	<b>(709,019)</b>	<b>(3,374,377)</b>	<b>(531,250)</b>	<b>2,238,239</b>	<b>(3,440,245)</b>	<b>(8,273,089)</b>	<b>(7,668,916)</b>	<b>(9,872,246)</b>	<b>(1,705,991)</b>
<b>Other Financing Sources (Uses)</b>										
Issuance of debt.....	8,319,497	3,930,000	-	4,589,000	630,000	3,900,938	11,242,660	6,680,000	5,980,000	10,473,361
Premium from issuance of bonds.....	85,169	84,840	-	575,986	1,167,420	1,059	191,693	421,355	700,157	606,548
Issuance of refunding bonds.....	-	-	3,785,000	11,043,000	4,589,000	-	-	2,509,500	-	-
Premium from issuance of refunding bonds.....	-	-	-	-	-	-	-	262,818	-	-
Payments to refunded bond escrow agent.....	-	-	-	(8,512,000)	-	-	-	(2,709,130)	-	-
Refunding bonds redeemed.....	-	-	(3,785,000)	(2,930,000)	(4,589,000)	-	-	-	-	-
Capital lease financing.....	378,169	394,779	167,454	43,500	185,715	38,765	514,002	284,000	351,762	1,805,846
Transfers in.....	3,558,845	4,508,229	5,228,530	6,160,597	5,137,447	5,184,894	5,343,327	6,718,284	3,699,383	4,779,568
Transfers out.....	(1,121,150)	(4,534,242)	(4,526,296)	(5,098,017)	(3,886,388)	(4,199,217)	(4,755,183)	(5,065,066)	(3,689,647)	(5,179,628)
<b>Total other financing sources (uses).....</b>	<b>11,220,530</b>	<b>4,383,606</b>	<b>869,688</b>	<b>5,872,066</b>	<b>3,234,194</b>	<b>4,926,439</b>	<b>12,536,499</b>	<b>9,101,761</b>	<b>7,041,655</b>	<b>12,485,695</b>
<b>Net change in fund balance.....</b>	<b>\$ 882,259</b>	<b>\$ 3,674,587</b>	<b>\$ (2,504,689)</b>	<b>\$ 5,340,816</b>	<b>\$ 5,472,433</b>	<b>\$ 1,486,194</b>	<b>\$ 4,263,410</b>	<b>\$ 1,432,845</b>	<b>\$ (2,830,591)</b>	<b>\$ 10,779,704</b>
Debt service as a percentage of noncapital expenditures.....	5.39%	7.13%	5.34%	5.48%	6.60%	4.57%	13.09% (C)	3.05%	2.87%	3.19%

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

(B) In 2014 the City approved and established the Community Preservation Fund.

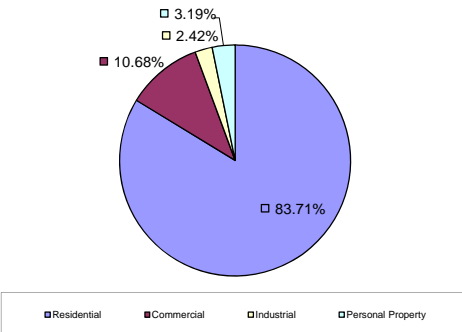
(C) The City received a \$15.8 million grant from the Commonwealth to pay down \$15.6 million in school debt issued in 2013.

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

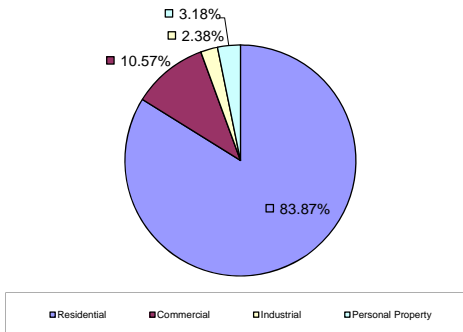
## Last Ten Years

Year	Assessed and Actual Values and Tax Rates									
		Residential Value	Residential Tax Rate	Commercial Value	Industrial Value	Personal Property	Total Commercial Value	Commercial Tax Rate	Total Direct Rate	Total City Value
2007	(1)	\$ 4,137,021,751	\$ 10.77	\$ 435,740,235	\$ 150,255,420	\$ 255,302,680	\$ 841,298,335	\$ 20.48	\$ 12.41	\$ 4,978,320,086
2008		4,008,575,509	11.67	449,128,612	134,872,400	212,904,820	796,905,832	22.11	13.40	4,805,481,341
2009		3,753,889,412	12.92	446,457,904	133,318,180	177,993,390	757,769,474	24.54	14.87	4,511,658,886
2010	(1)	3,527,110,563	14.01	432,747,534	127,061,700	207,643,630	767,452,864	26.93	16.32	4,294,563,427
2011		3,361,382,273	15.05	417,668,102	123,342,500	213,577,900	754,588,502	29.08	17.62	4,115,970,775
2012		3,291,268,444	15.63	410,704,364	118,044,040	153,768,900	682,517,304	29.81	18.07	3,973,785,748
2013	(1)	3,227,554,748	16.38	420,436,783	116,029,720	163,211,490	699,677,993	31.46	19.07	3,927,232,741
2014		3,265,724,508	16.73	421,704,398	115,505,220	160,002,170	697,211,788	32.05	19.43	3,962,936,296
2015		3,523,220,734	16.41	449,496,402	101,675,040	134,283,680	685,455,122	30.99	18.78	4,208,675,856
2016	(1)	3,802,708,194	15.67	479,297,217	108,008,340	144,065,880	731,371,437	29.55	17.91	4,534,079,631

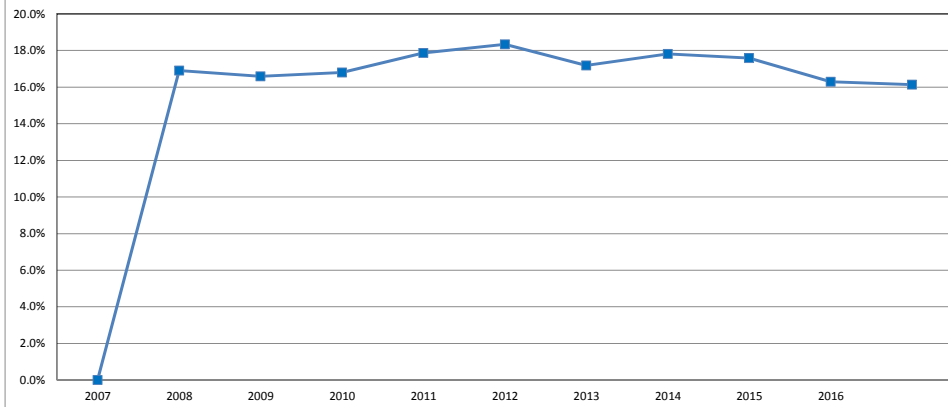
Total Assessed Value by Classification Year Ended June 30, 2015



Total Assessed Value by Classification Year Ended June 30, 2016



Commercial Value as % of Total Value



(1) Revaluation year.

Source: Assessor's Department, City of Salem

All property in the Commonwealth of Massachusetts is assessed at 100% of fair cash value.

Note: Chapter 59, Section 21C of the Massachusetts General Laws, known as "Proposition 2 1/2", imposes 2 separate limits on the annual tax levy of the City. The primary limitation is that the tax levy cannot exceed 2 1/2 percent of the full and fair cash value. The secondary limitation is that the tax levy cannot exceed the maximum levy limit for the preceding 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	2016			2007		
		Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value	Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value
New England Power Co.	Personal & Industrial	\$40,630,950	1	0.9%	\$25,825,130	6	0.5%
Salem Station LLC	Apartments	\$39,381,600	2	0.9%	\$40,102,800	2	0.8%
Mass Electric	Personal Property	\$34,913,030	3	0.8%	\$21,321,110	9	0.4%
National Grid	Personal & Industrial	\$33,663,860	4	0.7%	-		0.0%
Princeton Crossing Apartments	Apartments	\$30,608,700	5	0.7%	\$31,682,200	3	0.6%
Hawthorne Commons	Apartments	\$29,962,700	6	0.7%	28,649,500	5	0.6%
Shetland Properties	Industrial & Commercial	\$28,206,100	7	0.6%	\$28,895,600	4	0.6%
Highlander Plaza	Commercial Property	\$24,400,600	8	0.5%	21,951,500	8	0.4%
Archstone Vinnin Square LLC	Apartments	\$22,624,500	9	0.5%	\$23,156,000	7	0.5%
Algonquin Gas Transmission	Personal Property	\$20,926,800	10	0.5%	-		0.0%
Second Pickwick Trust	Commercial Property	-		0.0%	\$12,622,800	10	0.3%
Dominion	Personal & Industrial Property	-		0.0%	\$219,732,050	1	4.4%
<b>Totals</b>		<u>\$305,318,840</u>		<u>6.7%</u>	<u>\$453,938,690</u>		<u>9.1%</u>

Source: Board of Assessors

**Property Tax Levies and Collections**

**Last Ten Years**

<b>Year</b>		<b>Total Tax Levy</b>	<b>Less Abatements &amp; Exemptions</b>	<b>Net Tax Levy</b>	<b>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>
2007	(1) \$	61,785,514	\$ 593,521	\$ 61,191,993	\$ 60,318,905	98.6%	\$ 870,423	\$ 61,189,328	100.0%
2008		64,399,664	565,307	63,834,357	63,225,112	99.0%	609,245	63,834,357	100.0%
2009		67,095,914	514,742	66,581,172	66,300,317	99.6%	280,855	66,581,172	100.0%
2010	(1)	70,082,325	612,829	69,469,496	68,292,880	98.3%	1,176,616	69,469,496	100.0%
2011		72,532,237	402,324	72,129,913	70,936,056	98.3%	1,193,857	72,129,913	100.0%
2012		71,788,367	360,622	71,427,745	70,558,172	98.8%	869,573	71,427,745	100.0%
2013	(1)	74,879,216	420,829	74,458,387	73,069,108	98.1%	1,389,279	74,458,387	100.0%
2014		76,981,209	337,606	76,643,603	75,905,195	99.0%	738,408	76,643,603	100.0%
2015		79,058,306	354,811	78,703,495	78,006,777	99.1%	696,718	78,703,495	100.0%
2016	(1)	81,200,463	341,538	80,858,925	80,580,642	99.7%	-	80,580,642	99.7%

(1) Revaluation Year

Source: Massachusetts Department of Revenue; Board of Assessors

# Ratios of Outstanding Debt and General Bonded Debt

## Last Ten Years

Year	U. S. Census Population	Personal Income	Assessed Value	Governmental Activities Debt				
				General Obligation Bonds	Capital Leases	Per Capita	Debt as a Percentage of Personal Income	Debt as a Percentage of Assessed Value
2007	40,407	\$ 1,107,321,266	\$ 4,978,320,086	\$ 50,040,000	\$ 779,906	\$ 1,258	4.59%	1.01%
2008	40,407	1,129,467,691	4,805,481,341	55,704,497	675,954	1,395	4.99%	1.16%
2009	41,421	1,180,967,527	4,511,658,886	51,145,000	530,771	1,248	4.38%	1.13%
2010	41,361	1,202,841,984	4,294,563,427	50,387,000	317,032	1,226	4.22%	1.17%
2011	41,361	1,226,898,824	4,115,970,775	44,581,526	384,965	1,087	3.67%	1.08%
2012	41,340	1,250,801,415	3,973,785,748	43,629,929	245,703	1,061	3.51%	1.10%
2013	41,654	1,285,525,748	3,927,232,741	35,291,962	619,317	862	2.79%	0.90%
2014	41,340	1,301,351,782	3,962,936,296	39,943,717	626,059	981	3.12%	1.01%
2015	42,544	1,282,020,896	4,208,675,856	43,473,824	698,595	1,038	3.45%	1.03%
2016	42,544	1,083,723,312	4,534,079,631	45,993,271	2,211,224	1,133	4.45%	1.01%

Year	Business-type Activities		Total Primary Government			
	General Obligation Bonds	Capital Leases	Total Bonded Debt Outstanding	Per Capita	Percentage of Personal Income	Bonded Debt as a Percentage of Assessed Value
2007	\$ 3,570,656	\$ -	\$ 53,610,656	\$ 1,327	4.84%	1.08%
2008	7,624,241	-	63,328,738	1,567	5.61%	1.32%
2009	7,250,908	-	58,395,908	1,410	4.94%	1.29%
2010	12,949,102	-	63,336,102	1,531	5.27%	1.47%
2011	15,665,280	-	60,246,806	1,457	4.91%	1.46%
2012	16,762,802	-	60,392,731	1,461	4.83%	1.52%
2013	16,670,824	-	51,962,786	1,247	4.04%	1.32%
2014	18,825,303	105,047	58,769,020	1,422	4.52%	1.48%
2015	19,935,000	257,054	63,408,824	1,490	4.95%	1.51%
2016	25,774,144	274,554	71,767,415	1,687	6.62%	1.58%

Source: Audited Financial Statements, U. S. Census

# Direct and Overlapping Governmental Activities Debt

As of June 30, 2016

	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable (1)</u>	<u>Estimated Share of Overlapping Debt</u>
Overlapping debt:			
Essex North Shore Agricultural & Tech School District.....\$	30,395,000	21.78%	\$ <u>6,620,031</u>
Direct debt:			
Capital Lease Obligations.....			2,211,224
General Governmental Debt .....			<u>45,993,271</u>
City total direct debt.....			<u>48,204,495</u>
Total direct and overlapping debt.....			\$ <u><u>54,824,526</u></u>

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of the overlapping governments that is borne by the taxpayers of the Town. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the property taxpayers should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

(1) The percentage applicable for the North Shore Regional Vocational School District is based on the number of students attending from the City of Salem as a percentage of all students at the Regional School.

Source: Treasurer and North Shore Regional Vocational School District



**Computation of Legal Debt Margin**

**Last Ten Years**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Equalized Valuation.....	\$ <u>4,923,330,400</u>	\$ <u>5,168,060,200</u>	\$ <u>5,168,060,200</u>	\$ <u>4,568,374,700</u>	\$ <u>4,568,374,700</u>	\$ <u>4,256,808,900</u>	\$ <u>4,256,808,900</u>	\$ <u>4,191,566,000</u>	\$ <u>4,191,566,000</u>	\$ <u>4,757,173,700</u>
Debt Limit -5% of Equalized Valuation.....	\$ 246,166,520	\$ 258,403,010	\$ 258,403,010	\$ 228,418,735	\$ 228,418,735	\$ 212,840,445	\$ 212,840,445	\$ 209,578,300	\$ 209,578,300	\$ 237,858,685
Less:										
Outstanding debt applicable to limit.....	5,435,000	12,004,000	12,004,000	10,884,900	16,669,700	14,905,000	19,976,500	23,966,500	30,306,500	32,996,153
Authorized and unissued debt.....	<u>54,169,239</u>	<u>28,769,240</u>	<u>28,769,240</u>	<u>11,128,240</u>	<u>13,725,802</u>	<u>72,303,161</u>	<u>46,646,035</u>	<u>36,905,041</u>	<u>28,415,041</u>	<u>60,521,980</u>
Legal debt margin.....	\$ <u>186,562,281</u>	\$ <u>217,629,770</u>	\$ <u>217,629,770</u>	\$ <u>206,405,595</u>	\$ <u>198,023,233</u>	\$ <u>125,632,284</u>	\$ <u>146,217,910</u>	\$ <u>148,706,759</u>	\$ <u>150,856,759</u>	\$ <u>144,340,552</u>
Total debt applicable to the limit as a percentage of debt limit.....	24.21%	15.78%	15.78%	9.64%	13.31%	40.97%	31.30%	29.04%	28.02%	39.32%

Source: Audited Financial Statements; Statement of Indebtedness; and the Massachusetts Department of Revenue, Bureau of Local Assessment.

## Demographic and Economic Statistics

### Last Ten Years

Year	Population Estimates	Personal Income	Per Capita Personal Income	Median Age	School Enrollment	Unemployment Rate
2007	40,407	\$ 1,107,321,266	\$ 27,404	36.4	4,573	4.5%
2008	40,407	1,129,467,691	27,952	36.4	4,404	4.9%
2009	41,421	1,180,967,527	28,511	36.4	4,474	9.7%
2010	41,361	1,202,841,984	29,082	36.7	4,647	9.6%
2011	41,361	1,226,898,824	29,663	36.5	4,647	9.2%
2012	41,340	1,250,783,040	30,256	37.6	4,541	8.2%
2013	41,654	1,285,525,748	30,862	36.5	4,501	7.6%
2014	41,340	1,301,351,782	31,479	39.2	4,478	6.2%
2015	42,544	1,282,020,896	30,134	38.4	4,222	5.6%
2016	42,544	1,083,723,312	25,473	38.2	3,949	4.7%

Note: Per Capita Personal Income based on 2010 U.S Census

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

**Principal Employers**  
**Current Year and Nine Years Ago**

Employer	Nature of Business	2016			2007		
		Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
North Shore Medical Center	Healthcare	3,100	1	13.6%	2,850	1	12.7%
City of Salem	Municipal Government	1,780	2	7.8%	-	-	-
Salem State University	Higher Education	1,443	3	6.3%	1,290	2	5.8%
Spaulding Rehab Hospital	Health Care	576	4	2.5%	-	-	-
Market Basket	Food Market	475	5	2.1%	300	4	1.3%
Commonwealth of Massachusetts	State Government	420	6	1.8%	568	3	2.5%
Salem Five Savings	Banking	320	7	1.4%	210	7	0.9%
Peabody Essex Museum	Cultural/Tourism	255	8	1.1%	271	5	1.2%
Grosvenor Park Nursing Center	Health Care	241	9	1.1%	214	6	1.0%
Home Depot	Retail	185	10	0.8%	182	9	0.8%
Hawthorne Hotel	Lodging	-	-	-	200	8	0.9%
Perkin Emer Optoelectronic	Manufacturer	-	-	-	165	10	0.7%
		<u>8,795</u>		<u>38.5%</u>	<u>6,250</u>		<u>27.9%</u>

Source: The City Planning Department

**City of Salem, Massachusetts**

**Full-time Equivalent City Employees by Function**

**Last Ten Years**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Function										
General government.....	34	36	35	35	35	35	35	37	38	56
Public safety.....	190	185	187	191	190	194	203	210	211	210
Education.....	752	753	752	752	752	776	890	841	841	1,008
Public works.....	38	40	37	38	39	40	39	41	41	58
Engineering.....	1	3	1	1	1	1	1	1	1	3
Health and human services.....	20	17	14	17	15	14	15	14	13	15
Culture and recreation.....	23	21	22	22	23	23	23	24	24	25
Total .....	<u>1,058</u>	<u>1,054</u>	<u>1,048</u>	<u>1,056</u>	<u>1,054</u>	<u>1,083</u>	<u>1,206</u>	<u>1,167</u>	<u>1,169</u>	<u>1,376</u>

Source: Various City Departments

## Operating Indicators by Function/Program

### Last Ten Years

<b>Function/Program</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
General government										
Marriage recordings.....	322	306	276	243	381	321	324	365	338	337
Birth recordings.....	2,043	1,712	1,614	1,774	1,599	1,433	1,452	1,566	1,659	1,539
Death recordings.....	755	520	535	557	492	436	484	560	605	520
Police										
Physical arrests.....	2,793	2,502	2,502	2,072	2,629	1,627	1,307	1,597	2,509	2,455
Motor vehicle violations.....	8,672	6,604	191	6,631	10,309	8,497	6,161	7,936	8,660	6,267
Police personnel and officers.....	84	85	85	87	89	93	99	100	103	101
Fire										
Inspections.....	1,562	886	886	935	1,077	973	1,307	1,192	1,545	2,047
Emergency responses.....	6,719	6,330	17	6,409	6,079	5,952	6,161	6,292	6,752	7,054
Fire personnel and officers.....	76	81	81	79	83	90	86	88	88	88
Education										
Number of students.....	4,573	4,404	4,474	4,647	4,585	4,541	4,501	4,478	4,222	3,949
Number of graduates.....	269	254	273	283	246	240	275	275	271	211
Number of teachers.....	484	479	479	488	507	517	540	542	571	521
Water										
Service connections.....	11,811	11,701	11,737	11,719	11,719	11,719	11,729	11,827	9,833	9,998
Consumption in gallons.....	2,056	2,123	1,994	2,103	2,025	1,921	1,934	1,898	1,898	1,612
Daily consumption (MG).....	6.74	5.80	5.44	6.00	6.00	5.26	5.30	5.00	4.00	5.20
Sewer										
Service connections.....	11,811	11,701	11,727	11,709	11,706	11,719	11,719	11,807	9,813	9,988
Health and human services										
Number of persons using COA transportation....	39,052	18,678	15,526	16,076	16,908	19,630	16,170	12,698	14,704	11,479
Libraries										
Volumes in circulation.....	143,052	148,752	145,634	143,512	148,634	158,011	162,486	168,263	172,628	163,038
Total volumes borrowed.....	500,907	514,708	538,184	508,507	508,293	493,315	471,416	430,391	397,810	353,800

Source: Various City Departments; Massachusetts Department of Education

## Capital Asset Statistics by Function/Program

### Last Ten Years

<u>Function/Program</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</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	38	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	17	1	1	1	1	1	1	1
Public Works										
Water mains (miles).....	108	108	102	102	102	102	102	102	102	102
Health and human services										
Number of personnel.....	17	17	17	17	15	14.7	14.7	13.8	13.8	21
Culture and recreation										
Parks and playgrounds.....	35	35	35	35	35	35	35	35	35	35
Park and playground (acreage).....	230	230	230	230	230	230	230	230	230	230
Conservation land (acreage).....	128	128	128	128	128	128	128	128	128	128
Railroad right of way (acreage).....	89	89	89	89	89	89	89	89	89	89
Public beaches.....	7	7	7	7	7	7	7	7	7	7
Ball fields.....	13	13	13	13	13	13	13	13	13	13
Tennis courts.....	10	10	10	10	10	10	10	10	10	10

Source: Various City Departments, Manual of the City Government

## Free Cash and Stabilization Fund Balances

### Last Ten Years

<u>Year</u>	<u>Free Cash</u>	<u>Stabilization Fund</u>
FY2016.....	\$ 5,380,858	\$ 5,531,963
FY2015.....	\$ 4,949,767	\$ 5,440,226
FY2014.....	\$ 3,349,683	\$ 5,173,812
FY2013.....	\$ 5,498,710	\$ 3,438,799
FY2012.....	\$ 2,525,829	\$ 3,453,722
FY2011.....	\$ 3,249,238	\$ 2,736,777
FY2010.....	\$ 750,607	\$ 1,913,913
FY2009.....	\$ 1,261,200	\$ 1,489,907
FY2008.....	\$ 1,114,950	\$ 648,947
FY2007.....	\$ 691,149	\$ 487,980

Source: City Records