

CITY OF SALEM

MASSACHUSETTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT



For the Fiscal Year Ended June 30, 2018

Kimberley L. Driscoll, Mayor
Laurie Giardella, Finance Director

Prepared by the City of Salem Finance Department

On the Cover – Winter Island Lighthouse – Picture courtesy of Stacia Cooper of Destination Salem



Ships Visiting Salem Harbor
Photos courtesy of Salem Harbormaster



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JUNE 30, 2018

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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

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December 18, 2018

Letter of Transmittal

Laurie A. Giardella, Finance Director

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, 2018, 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, 2018, 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, 2018, 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 unmodified opinion that the City's financial statements for the fiscal year ended June 30, 2018, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Salem's separately issued Single Audit Report.

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

Profile of the City

The City of Salem, which was incorporated as a town in 1630 and became a city on March 23, 1836, is situated on the Massachusetts coast, 16 miles northeast of Boston. The City has a population of 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 (SESD) qualify as joint ventures. Accordingly, the City's equity interest in SESD has been included in the City's basic financial statements. The Salem Housing Authority owns and manages 715 units of low income public housing throughout the City of Salem. There are 495 units of elderly/handicapped housing and 220 units of family housing. Additionally, the Salem Housing Authority currently administers approximately 1,130 housing vouchers through the Section 8 Housing Choice program and 17 housing vouchers for the Department of Mental Health through the Department of Housing and Community Development. 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 2018 totaled approximately \$165.2 million, which includes Real & Personal Property tax revenue, State Revenues, MSBA Revenue, local revenues, transfers in of approximately \$1.3 million from Receipts Reserved Harbormaster, Witch House and Golf Course (to reduce tax rate), other receipts reserved transfers, overlay surplus, and approximately \$1.31 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, to fund the Retirement Anticipation Fund and Capital Improvement Projects Fund, including Enterprise fund expenses.

The City includes the Salem Contributory Retirement System (System) in its financial reporting since the City represents approximately 84% 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 Technical High School. Per the Pension Reserves Investment Management Board June 2018 report, the market value of the System's assets totaled \$171.8 million with 98.5% 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-Today

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

Peabody-Essex Museum: In 2003, the Peabody Essex Museum ("PEM") undertook 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, which is adjacent to the Salem Witch Trial Memorial. In 2016, the City completed the restoration of several headstones and tombstones developed a landscape plan for the site's restoration.

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". In 2016, the City completed Phase III of the historic fence's restoration.

Baker's Island Lighthouse: The tower is located on the north end of the island. The lighthouse was automated in 1972. The island is closed to the general public and is best seen by boat.

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 Company: 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.

Public and Non-Profit Development Projects

Salem experienced new growth of approximately hundreds of millions of dollars in new development since 2003. This includes:

- The **J. Michael Ruane Judicial Center** opened at the end of 2011. This \$106 million court expansion in downtown Salem continues to have a significant positive economic impact on the downtown and the City.
- **MBTA Station Improvements and New Garage**: The new MBTA garage opened October 2014. The \$37 million MBTA commuter rail station and parking garage provides an enhanced station and approximately 700 parking spaces for commuters, residents, and visitors.

- **Remond Park:** Improvements to the old bridge abutment on Bridge Street Neck have been funded by the State to create a new park. Construction is complete.
- 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. Construction began in 2017 and is anticipated to be complete in the spring of 2019.
- **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.

In addition, in 2017 the North Shore Medical Center began redevelopment of a portion of their existing hospital campus in order to better serve the surrounding community by consolidating existing uses, improving access and circulation around the hospital, and constructing a new state-of-the-art emergency services department. As proposed, the Project consists of 119,735 square feet of new building space, 119,734 square feet of interior renovations, parking and driveway reconfigurations, landscape and hardscape improvements, and utility infrastructure modifications to support this use. The project is anticipated to be completed in the fall of 2019.

Downtown Redevelopment

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.

90-98 Washington Street: The three-story building has been redeveloped as office space with some ground floor retail. The City of Salem has entered into a 20-year lease for the office space to accommodate personnel currently located in other leased premises. The building has been occupied with City personnel as of April 2018.

District Court Redevelopment: The District Court building will be 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. The SRA and Diamond Sinacori executed a Land Disposition Agreement in January 2017, and the project is in the permitting process.

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. Ground breaking occurred in October 2018. 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 2016 in the historic Joshua Ward House in downtown Salem.

The Hotel Salem: Located in the Newmark Building located on the Essex Street Pedestrian Mall, the 44-room boutique hotel was completed in 2018, after receiving approval from the Salem Redevelopment Authority. It includes loft style and micro rooms, a basement lounge with bowling alley, roof deck restaurant, and high-end fixtures and furnishings. It is anticipated to 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 was completed in spring of 2018.

Salem News Building: This major redevelopment project in Salem's downtown included the renovation of two buildings and construction of a new building at 155 Washington Street, 26 New Derby and 31 Front Street. The project retains approximately 6,000 square feet of existing retail use and adds an additional 7,500 square feet of new retail, and includes the construction of 31 new residential units. Construction is complete, and Tavern in the Square restaurant opened in June 2009.

275-281 Essex Street: The development includes the conversion of the four-story, 30,000 square foot former C.F. Tompkins Furniture Building into a mixed-use retail/residential development with 3 retail units on the ground floor and 20 residential condos on the upper floors.

Old Police Station Redevelopment: In March 2004, the SRA transferred ownership of the Old Police Station to Heritage Plaza Enterprises and construction was completed in the fall of 2006. All of the units were under agreement months before the project was due to be completed. The \$3 million project includes 14 residential condominium units with parking on-site.

Derby Lofts (former Laundry Building): The Derby Lofts project includes the renovation of the 100 year old, four-story industrial building, known as the Laundry Building, into a mixed-use residential and retail development. The project consists of 14,000 square feet of first floor retail and 54 luxury residential units on the upper floors. The project cost approximately \$14 million and was completed in 2006.

10 Federal Street: The owners of 10 Federal Street constructed three-stories of additional office space on top of their existing two-story downtown office building. The additional space allowed the District Attorney's Office to relocate to the space and remain in downtown Salem. The construction began in 2005 and is complete. The project cost was approximately \$10 million.

Bluestone Alley: The Blue Stone Alley project at 7 Crombie Street redeveloped the former Salem Mission into 17 artist live/work condominium spaces. The redevelopment was a "gentle renovation" of the building that integrated many of the historic characteristics of the building. Construction was completed in 2006. The project cost was approximately \$3.3 million.

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.

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:

9 South Mason Street: The project involves redevelopment of industrial and residential land located between Mason Street and Commercial Street in the North River Canal Corridor district. The plans total 4 buildings and 29 dwelling units, including the rehabilitation and expansion of an existing two-story concrete industrial building; expansion of a three-story residential building; and construction of two new townhouse style buildings. The project was permitted in 2016 and anticipated to be complete during the summer of 2019.

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

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. Local approvals are secured and the project is expected to be complete in the spring of 2019.

Gateway Center: Local permitting was completed in August 2016 for 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 of the Community Life Center began in the summer of 2017 and is scheduled for the grand opening in fall of 2018.

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 was completed.

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. In September 2016, the Planning Board approved a mixed-use development containing 50 housing units and a retail space. 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. The project is expected to be complete in the spring of 2019.

Waterfront Development

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

289 Derby Street: In 2016, the City Council approved a \$1.4 million bond order to acquire property located at 289 Derby St. for the purpose of constructing a downtown waterfront park. The project is progressing with construction beginning in the spring of 2018.

Salem Harbor Power Station/Footprint Power: Demolition of the coal plant is complete and construction of the new natural gas facility is underway. A new state-of-the-art, 630-megawatt gas-fired plant is being constructed and is scheduled to be completed in December 2017. 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 began producing electricity early in 2018.

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 constructed a connecting walkway between Footprint's dock and the City's Blaney Street pier. Since construction of the cruise port, Salem has received visits from a

number of cruise ships. At present, Footprint is utilizing the pier for construction purposes and this limits the number of cruise ships visits. Once the plant is completed, the Port of Salem will be able to host a full schedule of ship visits. This past year, the City completed dredging and construction of an 11-slip Commercial Marina at Blaney St. The Marina began operating this past summer and is home to 7 marine businesses. It implements an 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. As a result of its construction, the Port of Salem is now 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 Feb 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, bathometric 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 and work to identify funding sources. 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, currently in its twelfth successful season, 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. 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. Due to the success of the program, the City of Salem has obtained \$3.4 million in grant funding to add a second ferry which is expected to be operational by 2020. 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.

McCabe Marina: The City received a \$500,000 grant from the State Public Access Board to reconstruct the public boat launch at McCabe Marine. Construction was completed in July 2010.

Public Infrastructure Projects

Canal Street Improvements: The improvements include reconstruction of the roadway pavement, curbing and sidewalks. Wheelchair ramps and appropriate pedestrian crossings will be added to improve pedestrian safety. Additional pedestrian improvement such as street trees and curb extensions will be incorporated. Drainage and other utility improvement will be made, the road crown will be adjusted to provide a consistent cross slope, and repair of settled locations will be done.

Boston and Bridge Public Infrastructure Improvements: The City received a \$3.5 million in FY2016 through the State MassWorks Program to fund "Complete Streets" streetscape improvements along Bridge Street, between Boston and Flint Street. The Utility has begun the permitting process.

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 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. Project was completed in the spring of 2018.

Improvement of the Essex Street Pedestrian Mall: The City invested in the redesign and improvement of the pedestrian mall in the heart of downtown. Phase 2 improvements to make the mall more pedestrian friendly and to improve the aesthetics were completed in fall, 2013. Phase 3, which includes the renovation of the fountain at Washington Street, was completed in October 2014.

1A Bridge Street Improvement Project: The major reconstruction of 1A Bridge Street is complete, including roadway reconstruction, new sidewalks and crosswalks, landscaping and period lights.

Lafayette Street Improvements: Funded through a Public Works Economic Development (PWED) grant, construction was completed in the fall of 2012. Improvements include the installation of traffic signals at the Harbor/Lafayette Street intersection and the Lafayette/Washington Street intersection, new sidewalks, new crosswalks and curbing, period lights, new bus shelters and new benches along Lafayette Street. The \$1 million grant was matched with approximately \$200,000 in CDBG funding.

Salem/Beverly Transportation Project/Bridge Street Bypass Road: The Salem-Beverly Transportation Project is a multi-phase roadway project that provides improved vehicular access between Salem and Beverly. The Bridge Street Bypass Road, a component of this project, was completed in 2008, reducing congestion and providing a multi-use pathway for pedestrians and bicyclists.

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 fully permitted.

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.

Lafayette Street and West Avenue: The project includes the construction of a three-story 24,388 square foot mixed use commercial building with retail on the first floor and offices on the upper floors. An existing two-family home on the site will remain in its current use.

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.

Leggs Hill Road YMCA: The project was approved by the Planning Board in 2007; construction of the 88,000 square foot YMCA facility is complete.

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. MassDOT completed a study for transportation improvements for this corridor in coordination with the Cities of Salem and Lynn and working to move to the design phase.

Other City Initiatives

LED Streetlight Conversion: In 2016, the City completed the conversion of 3,000 overhead streetlights to LED fixtures. This project will result in \$194,000 annual cost savings and 1.2 million kilowatt hours in annual energy savings.

Urban Forestry: A tree committee was formed to renew Salem's dedication to its urban forestry. A pilot neighborhood tree inventory was completed in 2016, and the City received a DCR Urban Forestry Challenge Grant to fund a citywide tree inventory, management plan, and cost estimates for implementation of the management plan in 2017.

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.

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 brownfields 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 expects to solicit new proposals for redevelopment in order to put the site back on the tax rolls.

North Street Fire Station: The City was awarded a \$65,000 Massachusetts Historical Commission MPPF grant in June, 2013 for exterior repairs and restoration to the North Street Fire Station, which was completed in 2017.

Public Art: Over the past four 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 and solicits proposals annually for the production of diverse art installations throughout Salem. 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.

City Hall Handicapped Access: Utilizing American Recovery and Reinvestment Act funding, the City was able to move forward with significant handicap accessibility improvements at City Hall. These improvements include a new elevator addition with entrance lobby and restroom upgrades. The elevator was open for use in 2010.

Redevelopment of 5 Broad Street: In March 2010, a reuse feasibility study was completed for a city-owned building located at 5 Broad Street. The building, which currently houses the City's Council on Aging, was declared as surplus property by the City Council. The City hired consultants to examine the redevelopment potential for this property in preparation for its future sale. Proceeds from the sale of this building will be used to off-set the cost of a new senior center.

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: Salem continues to market sale 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. As a result of its success, improvements were made during 2018 to extend the use from seasonal to year round use.

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. The Cemetery received the National Registry status in 2015.

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 EOEEA 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

Proctor’s Ledge Memorial: In July 2017, the City completed the Proctor’s Ledge Memorial at the site where the hangings occurred during the Salem Witch Trials of 1692.

Mary Jane Lee Park Renovation: In June 2017, The City completed the renovation of the park that had begun with the construction of a new splash pad in 2015. The project is supported by CPA funds as well as a \$400,000 PARC grant from the Commonwealth.

McGlew Park Renovation: The Executive Office of Energy and Environmental Affairs awarded the City a \$400,000 Parkland Acquisitions and Renovations for Communities (PARC) grant to renovate McGlew Park. The project was completed in the spring of 2018.

Lafayette Park Renovation: In 2017, the City completed plans for upgrades to Lafayette Park. The project was completed in the spring of 2018.

Winter Island: Salem was 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. The remainder of the park was improved through four funding sources—\$400,000 PARC grant, \$100,000 CDBG, \$85,075 CPA, and \$60,000 CIP. The project was completed in the summer of 2017.

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 full funding.

Open Space & Recreation Plan Update: The City has submitted an updated Open Space and Recreation Plan to the State for approval and was approved in 2015. The Plan established 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.

Peabody Street Park: In July 2010, construction was completed on a new City park along Peabody Street. Previously an abandoned lot, the City of Salem was awarded a \$200,000 EPA Brownfields Cleanup Grant in May 2007 and an Urban Self Help grant in the amount of \$469,110 to fund its cleanup and revitalization. The City provided a 20% match.

High Street Playground: In Spring, 2010, the City installed a new play structure and fence in this neighborhood playground, utilizing Community Development Block Grant funds.

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. It has funded over \$3.5 million in community projects since 2014 throughout Salem including park and community garden improvements, historical building and statue restorations, conservation trails, and many more important community projects.

Workforce Statistics

According to the Massachusetts Executive Office of Labor and workforce Development, in August of 2018, the City had a labor force of 24,887, of whom, 23,937 were employed and 950, or 3.8%, were unemployed. The Commonwealth, at the same time, had an unemployment rate of 3.6%.

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 2018.

Included in the budget was the City's Five Year Financial Forecast. This is the tenth 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 2019 CIP, the City has authorized over \$20 million in general and enterprise fund capital projects.

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 (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 \$13 million dollars, from \$171 million in 2010 to \$158 million in 2018, 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 2018 report, the market value of the System's assets totaled \$171.8 million, with 98.5% of the funds invested in the State's Pension Reserve Investment Trust's (PRIT) Core Fund.

The Salem Contributory Retirement Board completed its most recent actuarial valuation summary for January 1, 2018. The next actuarial valuation will take place in January 2020. The study was performed by the Segal Company and a preliminary report was delivered to the Retirement Board in July of 2018. The study reported that the actuarial value of the system's assets, as of January 1, 2018, had increased to \$177.5 million, while the system's unfunded liability increased by \$2.7 million to \$126.8 million. The Board maintains a funding schedule which will fully amortize the existing unfunded liability by June 30, 2031, with amortization payments that increase 5.55% per year. The total fiscal 2019 City share of 84% amounted to \$11,657,254.

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.

Early 2018, Footprint began producing electricity in the new plant Footprint has constructed a state-of-the-art 630megawatt gas-fired plant on a portion of the site and has plans to 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 2019. 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, an 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 \$7.5 million. As of June 30, 2018, the balance in the City's Stabilization fund is \$6.54 million. The target date to have the Stabilization Fund fully funded is projected to occur by fiscal year 2020. 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, 2018, the balance of this account was \$182,000. During the fiscal 2018 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 2018. 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 \$2.6 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 has been certified subsequent to year-end at \$5.9 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, 2017. 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.

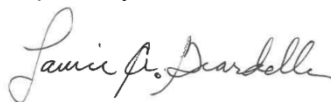
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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, 2017. 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.

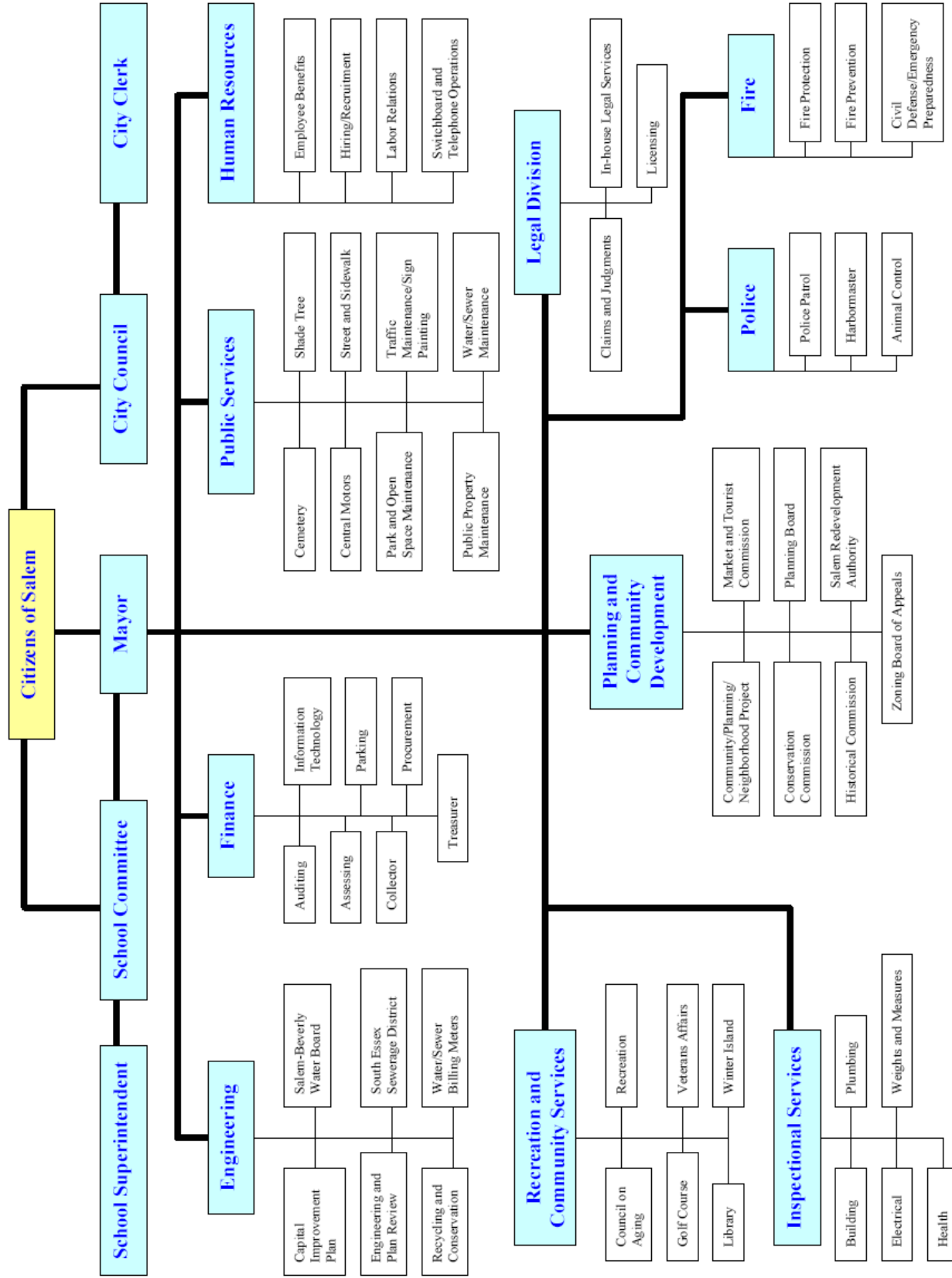
Documents submitted to the Budget Awards Program are reviewed by selected members of the GFOA professional staff and by outside reviewers with experience in public-sector budgeting.

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

Respectfully submitted,



Laurie A. Giardella
Finance Director



Principal Executive Officers

TITLE	NAME	FIRST TOOK OFFICE	TERM EXPIRES
Mayor	Kimberley L. Driscoll	1/2/2006	12/31/2021
President, City Council	Beth Gerard	1/1/2018	12/31/2018
Finance Director	Laurie A. Giardella	10/2/2017	1/31/2020
Treasurer	Kathleen McMahon	12/27/2010	1/31/2019
Collector	Bonnie Celi	3/11/2004	1/31/2021
City Clerk	Ilene Simons	6/28/2018	6/28/2021
City Solicitor	Elizabeth Rennard	1/10/2006	Indefinite
Assistant Finance Director	Nina Bridgman	1/22/2004	1/31/2020



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, 2017

Christopher P. Morvill

Executive Director/CEO



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**City of Salem
Massachusetts**

For the Fiscal Year Beginning

July 1, 2018

Christopher P. Morill

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, 2018. 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

Annual Polar Plunge at Winter Island



Financial Section

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Independent Auditor's Report

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

100 Quannapowitt Parkway
Suite 101
Wakefield, MA 01880
T. 781-914-1700
F. 781-914-1701
www.powersandsullivan.com

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, 2018 (except for the Salem Contributory Retirement System which is as of and for the year ended December 31, 2017), 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, 2018 (except for the Salem Contributory Retirement System which is as of December 31, 2017), 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 18, 2018, 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.

Powers & Sullivan LLC

December 18, 2018

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the City of Salem (the City), we offer readers of these financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2018. 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 City'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, culture and recreation, community preservation and interest. The business-type activities include the activities of water and sewer 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 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 City'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 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 and trash disposal.

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 combined information for the pension and other postemployment benefit (OPEB) trust funds of the City under the caption "pension and other employee benefit trust funds". 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 City's financial position. The City's governmental liabilities and deferred inflows exceed assets and deferred outflows by \$62.9 million at the close of 2018. This represents a decrease of \$7 million from the prior year.

Net position of \$179.9 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, \$11.2 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 \$254 million. The primary reasons for this deficit balance are the recognition of the net other postemployment benefit liabilities totaling \$156.2 million and a net pension liability of \$98.7 million, in accordance with recent requirements of Governmental Auditing Standards Board (GASB).

	2018	(As Revised) 2017
Assets:		
Current assets.....	\$ 51,342,755	\$ 53,695,358
Noncurrent assets (excluding capital).....	863,167	1,827,647
Capital assets, non depreciable.....	10,822,082	9,615,071
Capital assets, net of accumulated depreciation.....	215,830,840	216,486,211
Total assets.....	278,858,844	281,624,287
Deferred outflows of resources.....	14,604,450	18,818,248
Liabilities:		
Current liabilities (excluding debt).....	14,497,800	12,783,849
Noncurrent liabilities (excluding debt).....	265,984,925	286,005,005
Current debt.....	5,710,104	8,719,607
Noncurrent debt.....	43,818,903	45,055,338
Total liabilities.....	330,011,732	352,563,799
Deferred inflows of resources.....	26,363,400	3,797,960
Net position:		
Net investment in capital assets.....	179,897,226	176,860,142
Restricted.....	11,216,626	11,301,791
Unrestricted.....	(254,025,690)	(244,081,157)
Total net position.....	\$ (62,911,838)	\$ (55,919,224)

Beginning net position of the governmental activities has been revised to reflect the implementation of GASB Statement #75. The implementation of this standard required the OPEB liability to be revised due to the use of different methods and assumptions as previously required by GASB Statement #45. This resulted in a decrease to the beginning unrestricted net position of \$106.5 million. Further, as of June 30, 2017 the City determined the golf course fund would be more appropriately reported as a governmental fund, beginning net position was revised by \$742,000 to reflect the change. The net result is the previously reported net position of \$49.8 million has been revised and totals a deficit of \$55.9 million (see Note 18 for details).

Overall governmental net position decreased during 2018 by \$7 million. Of this decrease, \$5 million is directly related to the increase in the net OPEB liability and the amortization of deferred outflows/inflows related to OPEB. Approximately \$760,000 is directly related to changes in the City's net pension liability and the amortization of deferred outflows/inflows related to pensions. Another \$971,000 relates to the net decrease in the City's general fund.

Operating grants have increased due to a change in on-behalf payments associated with the Massachusetts Teachers' Retirement System (MTRS) which have been recorded in accordance with new GASB pension standards. The governmental expenses totaled \$186.5 million of which \$69 million was directly supported by program revenues consisting of charges for services, operating and capital grants, and contributions. Education expenses increased due to MTRS on-behalf payments increasing by \$856,000.

	2018	(As Revised) 2017
Program Revenues:		
Charges for services.....	\$ 9,943,549	\$ 10,390,085
Operating grants and contributions.....	56,548,429	54,915,403
Capital grants and contributions.....	2,514,534	7,576,188
General Revenues:		
Real estate and personal property taxes, net of tax refunds payable.....	92,995,509	90,118,638
Tax and other liens.....	497,622	317,548
Motor vehicle and other excise taxes.....	4,486,746	4,311,772
Hotel/motel tax.....	755,910	663,968
Meals tax.....	1,089,955	1,019,605
Community preservation tax.....	612,399	590,722
Penalties and interest on taxes.....	495,693	466,092
Payments in lieu of taxes.....	1,572,535	1,082,164
Grants and contributions not restricted to specific programs.....	7,527,909	7,218,934
Unrestricted investment income.....	947,635	1,134,074
Miscellaneous.....	585,870	318,858
Total revenues.....	180,574,295	180,124,051
Expenses:		
General government.....	13,502,981	12,327,559
Public safety.....	32,001,933	32,046,642
Education.....	116,239,977	114,049,284
Public works.....	10,560,810	10,846,604
Community development.....	1,404,147	1,335,941
Health and human services.....	6,326,856	6,714,390
Culture and recreation.....	4,177,418	4,123,392
Community preservation.....	923,668	456,019
Interest.....	1,379,029	1,652,087
Total expenses.....	186,516,819	183,551,918
Excess (Deficiency) before transfers.....	(5,942,524)	(3,427,867)
Transfers.....	(1,050,090)	(794,525)
Change in net position.....	(6,992,614)	(4,222,392)
Net position, beginning of year (as revised).....	(55,919,224)	(51,696,832)
Net position, end of year.....	\$ (62,911,838)	\$ (55,919,224)

Business-type Activities

For the City’s business-type activities, assets and deferred outflows exceeded liabilities and deferred inflows by \$12.9 million at the close of 2018.

	<u>2018</u>	<u>(As Revised) 2017</u>
Assets:		
Current assets.....	\$ 15,194,821	\$ 13,724,658
Noncurrent assets (excluding capital).....	1,310,457	1,131,807
Capital assets, non depreciable.....	1,725,699	110,141
Capital assets, net of accumulated depreciation.....	<u>40,053,409</u>	<u>34,758,661</u>
Total assets.....	<u>58,284,386</u>	<u>49,725,267</u>
Deferred outflows of resources.....	<u>298,311</u>	<u>410,687</u>
Liabilities:		
Current liabilities (excluding debt).....	2,424,656	1,639,355
Noncurrent liabilities (excluding debt).....	4,025,336	4,370,413
Current debt.....	2,799,508	3,124,951
Noncurrent debt.....	<u>36,064,587</u>	<u>28,825,412</u>
Total liabilities.....	<u>45,314,087</u>	<u>37,960,131</u>
Deferred inflows of resources.....	<u>398,925</u>	<u>99,248</u>
Net position:		
Net investment in capital assets.....	9,066,385	8,340,720
Unrestricted.....	<u>3,803,300</u>	<u>3,735,855</u>
Total net position.....	<u>\$ 12,869,685</u>	<u>\$ 12,076,575</u>

Business-type net position of \$9.1 million (70.4%) represents net investment in capital assets. The remaining \$3.8 million (29.6%) is available to be used for the ongoing operation of the City’s water and sewer, and trash activities. There was an overall increase of \$793,000 in net position reported in connection with the enterprise funds.

Beginning net position of the business-type activities has been revised to reflect the implementation of GASB Statement #75. The implementation of this standard required the OPEB liability to be revised due to the use of different methods and assumptions as previously required by GASB Statement #45. Further, as of June 30, 2017 the City determined the golf course fund would be more appropriately reported as a governmental fund. Accordingly, beginning net position was reduced by \$742,000 to reflect this revision. The net impact of these two revisions was a reduction in the previously reported net position of \$13 million to \$12.1 million (see Note 18 for details).

The water and sewer enterprise fund’s net position of \$9.1 million (71.4%) represents the net investment in capital assets, while \$3.6 million (28.6%) is unrestricted. The water and sewer enterprise experienced a net increase of \$1 million 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 \$2.4 million and \$4.4 million, respectively. Combined, these assessments represent 59.3% of the fund’s operating expenses for 2018.

The unrestricted balance includes the City's \$1.3 million equity interest in the South Essex Sewerage District. 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 \$2.1 million transfer was made from the general fund to subsidize for the budgeted deficit. As of June 30, 2018, the trash fund had unrestricted net position totaling \$163,000.

	2018	(As Revised) 2017
Program Revenues:		
Charges for services.....	\$ 14,341,864	\$ 14,173,759
Expenses:		
Water and sewer.....	11,472,948	10,787,713
Trash.....	3,125,896	2,917,400
Total expenses.....	14,598,844	13,705,113
Excess (Deficiency) before transfers.....	(256,980)	468,646
Transfers.....	1,050,090	794,525
Change in net position.....	793,110	1,263,171
Net position, beginning of year (as revised)....	12,076,575	10,813,404
Net position, end of year.....	\$ 12,869,685	\$ 12,076,575

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 \$36.2 million of which \$14 million is reported in the general fund, \$893,000 in the community preservation fund, \$1.9 million is reported in the city grants fund, \$5.3 million in the capital improvement fund and \$14 million is reported in the nonmajor governmental funds. Cumulatively there was a decrease of \$793,000 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 \$13.7 million, while total fund balance was \$14 million. The general fund balance decreased by \$971,000 in 2018. The decrease is mainly the result of the use of free cash for budgetary purposes.

The community preservation fund had an ending restricted fund balance at June 30, 2018, of \$893,000. 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. The City reported community preservation tax revenue of \$612,000 and state grant funds of \$100,000 during fiscal year 2018. \$924,000 was expended on community preservation projects.

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, 2018, was \$2.2 million while total fund balance was \$1.9 million. A deficit unassigned fund balance relates to a grant temporarily financed by short-term notes. Total fund balance decreased by \$963,000 in 2018, partially due to transfers to finance capital projects.

The capital improvement fund is 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 \$5.3 million. The fund recognized \$7.3 million in bond proceeds and \$696,000 in capital lease proceeds and \$6.7 million in transfers in from the general fund and city grants fund as funding sources for ongoing projects.

Cumulatively, nonmajor governmental funds had a net decrease of \$5 million. This represents the activity of other nonmajor capital projects, grants, and permanent trust funds. The 2018 decrease was almost entirely the result of City Council's re-appropriation of unspent bond proceeds from the school capital projects to water and sewer projects.

General Fund Budgetary Highlights

The City's final general fund operating budget included \$146 million in total current year appropriations to be funded with \$141.3 million in estimated receipts and transfers in and approximately \$4.7 million in available funds.

The \$3.6 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 \$3.2 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 \$2.3 million higher than budgeted. The City does not budget revenue for tax liens which totaled \$406,000. Additionally, motor vehicle and other excise taxes, payments in lieu of taxes and intergovernmental state aid reported budgetary surpluses of \$456,000, \$573,000 and \$717,000, respectively.

The City's general fund reported expenditures and encumbrances less than appropriations by a net of approximately \$1.3 million. The budget was overspent by \$1.47 million 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 decrease of \$704,000.

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, 2018, amounts to \$268.4 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 \$226.7 million for governmental activities and \$41.8 million for business-type activities.

Major governmental additions included ongoing upgrades for Canal Street improvements, roadway improvements, Salem port expansion, DOER renewal energy project and Museum Place stair replacement.

Capital improvements for business-type activities were mainly for water infrastructure including water main improvements and infrastructure related to the Canal Street improvements, Folly Hill water tank project, and annual improvements.

Debt Administration. Outstanding long-term debt, including unamortized premiums, totaled \$49.2 million for the governmental activities as of June 30, 2018.

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, 2018, the City has recorded a receivable from the MSBA totaling \$1.4 million, which represents anticipated future reimbursements of approved construction costs on projects completed under this MSBA program.

The City issued \$14.9 million in general obligation bonds during fiscal year 2018 for both governmental and business-type activities. The City also issued a state grant anticipation note for \$300,000. The City redeemed \$6.5 million in general obligation bonds in 2018.

Outstanding debt of the water and sewer enterprise fund, including unamortized premiums, totaled \$38.9 million and was used to fund various repairs, maintenance and infrastructure projects. This includes new debt issued in 2018 for water and sewer improvements of \$7.6 million.

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, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 32,097,750	\$ 12,037,542	\$ 44,135,292
Investments.....	12,606,222	-	12,606,222
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	1,135,326	-	1,135,326
Tax liens.....	1,513,522	-	1,513,522
Community preservation fund surtax.....	9,335	-	9,335
Motor vehicle and other excise taxes.....	660,235	-	660,235
User fees.....	-	3,157,279	3,157,279
Departmental and other.....	83,991	-	83,991
Intergovernmental - other.....	3,041,918	-	3,041,918
Community preservation state share.....	72,152	-	72,152
Loans.....	122,304	-	122,304
Total current assets.....	<u>51,342,755</u>	<u>15,194,821</u>	<u>66,537,576</u>
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental - other.....	714,600	-	714,600
Loans.....	148,567	-	148,567
Investment in joint venture.....	-	1,310,457	1,310,457
Capital assets, nondepreciable.....	10,822,082	1,725,699	12,547,781
Capital assets, net of accumulated depreciation.....	<u>215,830,840</u>	<u>40,053,409</u>	<u>255,884,249</u>
Total noncurrent assets.....	<u>227,516,089</u>	<u>43,089,565</u>	<u>270,605,654</u>
TOTAL ASSETS.....	<u>278,858,844</u>	<u>58,284,386</u>	<u>337,143,230</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows for refunding debt.....	41,937	-	41,937
Deferred outflows related to pensions.....	9,896,909	258,624	10,155,533
Deferred outflows related to other postemployment benefits.....	4,665,604	39,687	4,705,291
TOTAL DEFERRED OUTFLOWS OF RESOURCES.....	<u>14,604,450</u>	<u>298,311</u>	<u>14,902,761</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	2,818,836	2,081,254	4,900,090
Accrued payroll.....	6,872,029	20,440	6,892,469
Tax refunds payable.....	192,525	-	192,525
Accrued interest.....	364,822	236,333	601,155
Other liabilities.....	117,500	-	117,500
Capital lease obligations.....	831,406	67,083	898,489
Landfill closure.....	1,125,000	-	1,125,000
Compensated absences.....	2,041,403	19,546	2,060,949
Workers' compensation.....	134,279	-	134,279
Notes payable.....	300,000	-	300,000
Bonds payable.....	5,410,104	2,799,508	8,209,612
Total current liabilities.....	<u>20,207,904</u>	<u>5,224,164</u>	<u>25,432,068</u>
NONCURRENT:			
Capital lease obligations.....	1,515,147	-	1,515,147
Landfill closure.....	1,125,000	-	1,125,000
Compensated absences.....	6,958,412	41,869	7,000,281
Workers' compensation.....	1,393,596	-	1,393,596
Net pension liability.....	98,744,415	2,580,369	101,324,784
Net other postemployment benefits liability.....	156,248,355	1,403,098	157,651,453
Bonds payable.....	43,818,903	36,064,587	79,883,490
Total noncurrent liabilities.....	<u>309,803,828</u>	<u>40,089,923</u>	<u>349,893,751</u>
TOTAL LIABILITIES.....	<u>330,011,732</u>	<u>45,314,087</u>	<u>375,325,819</u>
DEFERRED INFLOWS OF RESOURCES			
Taxes paid in advance.....	63,458	-	63,458
Deferred inflows related to pensions.....	9,488,936	247,963	9,736,899
Deferred inflows related to other postemployment benefits.....	16,811,006	150,962	16,961,968
TOTAL DEFERRED INFLOWS OF RESOURCES.....	<u>26,363,400</u>	<u>398,925</u>	<u>26,762,325</u>
NET POSITION			
Net investment in capital assets.....	179,897,226	9,066,385	188,963,611
Restricted for:			
Loans.....	270,871	-	270,871
Permanent funds:			
Expendable.....	5,021,540	-	5,021,540
Nonexpendable.....	2,230,357	-	2,230,357
Gifts and grants.....	2,719,673	-	2,719,673
Community preservation.....	974,185	-	974,185
Unrestricted.....	(254,025,690)	3,803,300	(250,222,390)
TOTAL NET POSITION.....	<u>\$ (62,911,838)</u>	<u>\$ 12,869,685</u>	<u>\$ (50,042,153)</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 13,502,981	\$ 3,739,247	\$ 1,122,897	\$ 49,031	\$ (8,591,806)
Public safety.....	32,001,933	2,589,149	1,089,635	-	(28,323,149)
Education.....	116,239,977	951,076	47,859,262	-	(67,429,639)
Public works.....	10,560,810	259,866	834,074	2,381,341	(7,085,529)
Community development.....	1,404,147	84,181	1,257,538	-	(62,428)
Health and human services.....	6,326,856	324,138	3,863,381	-	(2,139,337)
Culture and recreation.....	4,177,418	1,995,892	521,642	-	(1,659,884)
Community preservation.....	923,668	-	-	84,162	(839,506)
Interest.....	1,379,029	-	-	-	(1,379,029)
Total Governmental Activities.....	186,516,819	9,943,549	56,548,429	2,514,534	(117,510,307)
<i>Business-Type Activities:</i>					
Water and sewer.....	11,472,948	13,486,343	-	-	2,013,395
Trash.....	3,125,896	855,521	-	-	(2,270,375)
Total Business-Type Activities.....	14,598,844	14,341,864	-	-	(256,980)
Total Primary Government.....	\$ 201,115,663	\$ 24,285,413	\$ 56,548,429	\$ 2,514,534	\$ (117,767,287)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net position:			
Net (expense) revenue from previous page.....	\$ (117,510,307)	\$ (256,980)	\$ (117,767,287)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	92,995,509	-	92,995,509
Tax and other liens.....	497,622	-	497,622
Motor vehicle and other excise taxes.....	4,486,746	-	4,486,746
Hotel/motel tax.....	755,910	-	755,910
Meals tax.....	1,089,955	-	1,089,955
Community preservation tax.....	612,399	-	612,399
Penalties and interest on taxes.....	495,693	-	495,693
Payments in lieu of taxes.....	1,572,535	-	1,572,535
Grants and contributions not restricted to specific programs.....	7,527,909	-	7,527,909
Unrestricted investment income.....	947,635	-	947,635
Miscellaneous.....	585,870	-	585,870
<i>Transfers, net</i>	<u>(1,050,090)</u>	<u>1,050,090</u>	<u>-</u>
Total general revenues and transfers.....	<u>110,517,693</u>	<u>1,050,090</u>	<u>111,567,783</u>
Change in net position.....	(6,992,614)	793,110	(6,199,504)
<i>Net position:</i>			
Beginning of year, as revised.....	<u>(55,919,224)</u>	<u>12,076,575</u>	<u>(43,842,649)</u>
End of year.....	\$ <u><u>(62,911,838)</u></u>	\$ <u><u>12,869,685</u></u>	\$ <u><u>(50,042,153)</u></u>

(Concluded)

See notes to basic financial statements.

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2018

	General	Community Preservation Fund	City Grants Fund	Capital Improvement Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents.....	\$ 16,054,472	\$ 892,698	\$ 1,534,862	\$ 6,531,604	\$ 7,058,795	\$ 32,072,431
Investments.....	5,599,966	-	-	-	7,006,256	12,606,222
Receivables, net of uncollectibles:						
Real estate and personal property taxes.....	1,135,326	-	-	-	-	1,135,326
Tax liens.....	1,513,522	-	-	-	-	1,513,522
Community preservation fund surtax.....	-	9,335	-	-	-	9,335
Motor vehicle and other excise taxes.....	660,235	-	-	-	-	660,235
Departmental and other.....	-	-	-	-	83,991	83,991
Intergovernmental - other.....	1,498,398	-	921,215	-	1,336,905	3,756,518
Community preservation state share.....	-	72,152	-	-	-	72,152
Loans.....	-	-	-	-	270,871	270,871
Due from other funds.....	274,148	-	-	-	-	274,148
TOTAL ASSETS.....	\$ 26,736,067	\$ 974,185	\$ 2,456,077	\$ 6,531,604	\$ 15,756,818	\$ 52,454,751
LIABILITIES						
Warrants payable.....	\$ 1,499,636	\$ -	\$ 174,299	\$ 1,144,901	\$ -	\$ 2,818,836
Accrued payroll.....	6,638,695	-	33,946	-	199,388	6,872,029
Tax refunds payable.....	192,525	-	-	-	-	192,525
Due to other funds.....	-	-	-	-	274,148	274,148
Other liabilities.....	-	-	-	117,500	-	117,500
Notes payable.....	-	-	300,000	-	-	300,000
TOTAL LIABILITIES.....	8,330,856	-	508,245	1,262,401	473,536	10,575,038
DEFERRED INFLOWS OF RESOURCES						
Taxes paid in advance.....	63,458	-	-	-	-	63,458
Unavailable revenue.....	4,325,655	81,486	-	-	1,247,771	5,654,912
TOTAL DEFERRED INFLOWS OF RESOURCES.....	4,389,113	81,486	-	-	1,247,771	5,718,370
FUND BALANCES						
Nonspendable.....	-	-	-	-	2,230,357	2,230,357
Restricted.....	-	892,699	2,230,500	5,269,203	11,805,154	20,197,556
Assigned.....	303,334	-	-	-	-	303,334
Unassigned.....	13,712,764	-	(282,668)	-	-	13,430,096
TOTAL FUND BALANCES.....	14,016,098	892,699	1,947,832	5,269,203	14,035,511	36,161,343
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES.....	\$ 26,736,067	\$ 974,185	\$ 2,456,077	\$ 6,531,604	\$ 15,756,818	\$ 52,454,751

See notes to basic financial statements.

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

JUNE 30, 2018

Total governmental fund balances.....		\$ 36,161,343
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		226,652,922
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.....		5,654,912
The statement of net position includes certain deferred inflows of resources and deferred outflows of resources that will be amortized over future periods. In governmental funds, these amounts are not deferred.....		(11,695,492)
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.....		25,319
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(364,822)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds payable.....	(49,229,007)	
Net pension liability.....	(98,744,415)	
Net other postemployment benefits liability.....	(156,248,355)	
Landfill closure.....	(2,250,000)	
Capital lease obligations.....	(2,346,553)	
Workers' compensation.....	(1,527,875)	
Compensated absences.....	(8,999,815)	
Net effect of reporting long-term liabilities.....		<u>(319,346,020)</u>
Net position of governmental activities.....		\$ <u><u>(62,911,838)</u></u>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2018

	General	Community Preservation Fund	City Grants Fund	Capital Improvement Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:						
Real estate and personal property taxes, net of tax refunds.....	\$ 92,695,956	\$ -	\$ -	\$ -	\$ -	\$ 92,695,956
Tax liens.....	406,226	-	-	-	-	406,226
Motor vehicle and other excise taxes.....	4,456,037	-	-	-	-	4,456,037
Hotel/motel tax.....	755,910	-	-	-	-	755,910
Meals tax.....	1,089,955	-	-	-	-	1,089,955
Charges for services.....	2,034,201	-	-	-	759,208	2,793,409
Penalties and interest on taxes.....	491,762	1,341	-	-	2,590	495,693
Payments in lieu of taxes.....	1,572,535	-	-	-	-	1,572,535
Licenses and permits.....	533,820	-	-	-	-	533,820
Fines and forfeitures.....	1,004,571	-	-	-	-	1,004,571
Intergovernmental - state aid.....	30,531,671	-	-	-	-	30,531,671
Intergovernmental - Teachers Retirement.....	14,100,491	-	-	-	-	14,100,491
Intergovernmental - other.....	-	100,418	6,559,233	1,000,000	10,022,037	17,681,688
Departmental and other.....	4,900,448	-	1,873,161	-	4,130,063	10,903,672
Community preservation taxes.....	-	612,399	-	-	-	612,399
Contributions and donations.....	-	-	40,000	-	151,073	191,073
Investment income.....	197,602	752	202	-	648,424	846,980
TOTAL REVENUES.....	154,771,185	714,910	8,472,596	1,000,000	15,713,395	180,672,086
EXPENDITURES:						
Current:						
General government.....	8,217,736	-	558,489	1,437,203	200,411	10,413,839
Public safety.....	20,974,379	-	671,597	467,767	77,844	22,191,587
Education.....	61,992,400	-	944,517	903,553	11,097,303	74,937,773
Public works.....	5,544,371	-	410,988	6,341,421	1,067,363	13,364,143
Community development.....	-	-	2,933	-	1,401,214	1,404,147
Health and human services.....	1,256,030	-	4,108,623	-	224,410	5,589,063
Culture and recreation.....	2,756,221	-	629,770	211,381	384,455	3,981,827
Community preservation.....	-	923,668	-	-	-	923,668
Pension benefits.....	10,934,690	-	-	-	-	10,934,690
Pension benefits - Teachers Retirement.....	14,100,491	-	-	-	-	14,100,491
Employee benefits.....	14,390,925	-	-	-	-	14,390,925
State and county charges.....	8,376,492	-	-	-	-	8,376,492
Debt service:						
Principal.....	4,312,000	-	-	-	-	4,312,000
Interest.....	1,840,860	-	-	-	-	1,840,860
TOTAL EXPENDITURES.....	154,696,595	923,668	7,326,917	9,361,325	14,453,000	186,761,505
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	74,590	(208,758)	1,145,679	(8,361,325)	1,260,395	(6,089,419)
OTHER FINANCING SOURCES (USES):						
Issuance of bonds.....	-	-	-	7,349,229	-	7,349,229
Premium from issuance of bonds.....	4,856	-	-	-	556,991	561,847
Capital lease financing.....	-	-	-	695,958	-	695,958
Transfers in.....	2,474,840	-	141,028	6,672,853	75,445	9,364,166
Transfers out.....	(3,525,732)	-	(2,249,976)	-	(4,638,548)	(10,414,256)
Capital transfer.....	-	-	-	-	(2,260,269)	(2,260,269)
TOTAL OTHER FINANCING SOURCES (USES).....	(1,046,036)	-	(2,108,948)	14,718,040	(6,266,381)	5,296,675
NET CHANGE IN FUND BALANCES.....	(971,446)	(208,758)	(963,269)	6,356,715	(5,005,986)	(792,744)
FUND BALANCES AT BEGINNING OF YEAR, AS REVISED...	14,987,544	1,101,457	2,911,101	(1,087,512)	19,041,497	36,954,087
FUND BALANCES AT END OF YEAR.....	\$ 14,016,098	\$ 892,699	\$ 1,947,832	\$ 5,269,203	\$ 14,035,511	\$ 36,161,343

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, 2018

Net change in fund balances - total governmental funds.....	\$	(792,744)
<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.....	10,245,735	
Depreciation expense.....	<u>(9,694,095)</u>	
Net effect of reporting capital assets.....		551,640
<p>Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. This amount represents the net change in unavailable revenue.....</p>		
		202,209
<p>The issuance of long-term debt 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 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 unavailable and amortized in the Statement of Activities.</p>		
Principal payments on capital leases.....	693,851	
Issuance of bonds.....	(7,349,229)	
Premium from issuance of bonds.....	(561,847)	
Capital lease financing.....	(695,958)	
Net amortization of premium from issuance of bonds.....	463,869	
Net change in deferred charge on refunding.....	(15,451)	
Debt service principal payments.....	4,012,000	
Capital transfer.....	<u>2,260,269</u>	
Net effect of reporting long-term debt.....		(1,192,496)
<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.....	89,311	
Net change in accrued interest on long-term debt.....	13,413	
Net change in deferred outflow/(inflow) of resources related to pensions.....	(10,056,736)	
Net change in net pension liability.....	9,296,870	
Net change in deferred outflow/(inflow) of resources related to other postemployment benefits.....	(16,643,593)	
Net change in net other postemployment benefits liability.....	11,623,905	
Net change in workers' compensation liability.....	<u>(46,280)</u>	
Net effect of recording long-term liabilities.....		(5,723,110)
The net activity of internal service funds is reported with Governmental Activities.....		<u>(38,113)</u>
Change in net position of governmental activities.....	\$	<u><u>(6,992,614)</u></u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2018

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer	Trash	Total	
ASSETS				
CURRENT:				
Cash and cash equivalents.....	\$ 11,422,008	\$ 615,534	\$ 12,037,542	\$ 25,319
Receivables, net of allowance for uncollectibles:				
User fees.....	3,063,486	93,793	3,157,279	-
Total current assets.....	<u>14,485,494</u>	<u>709,327</u>	<u>15,194,821</u>	<u>25,319</u>
NONCURRENT:				
Investment in joint venture.....	1,310,457	-	1,310,457	-
Capital assets, non depreciable.....	1,725,699	-	1,725,699	-
Capital assets, net of accumulated depreciation.....	40,053,409	-	40,053,409	-
Total noncurrent assets.....	<u>43,089,565</u>	<u>-</u>	<u>43,089,565</u>	<u>-</u>
TOTAL ASSETS.....	<u>57,575,059</u>	<u>709,327</u>	<u>58,284,386</u>	<u>25,319</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions.....	258,624	-	258,624	-
Deferred outflows related to other postemployment benefits....	32,998	6,689	39,687	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES.....	<u>291,622</u>	<u>6,689</u>	<u>298,311</u>	<u>-</u>
LIABILITIES				
CURRENT:				
Warrants payable.....	1,791,675	289,579	2,081,254	-
Accrued payroll.....	18,907	1,533	20,440	-
Accrued interest.....	236,333	-	236,333	-
Capital lease obligations.....	67,083	-	67,083	-
Compensated absences.....	19,546	-	19,546	-
Bonds payable.....	2,799,508	-	2,799,508	-
Total current liabilities.....	<u>4,933,052</u>	<u>291,112</u>	<u>5,224,164</u>	<u>-</u>
NONCURRENT:				
Compensated absences.....	41,869	-	41,869	-
Net pension liability.....	2,580,369	-	2,580,369	-
Net other postemployment benefits liability.....	1,166,621	236,477	1,403,098	-
Bonds payable.....	36,064,587	-	36,064,587	-
Total noncurrent liabilities.....	<u>39,853,446</u>	<u>236,477</u>	<u>40,089,923</u>	<u>-</u>
TOTAL LIABILITIES.....	<u>44,786,498</u>	<u>527,589</u>	<u>45,314,087</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions.....	247,963	-	247,963	-
Deferred inflows related to other postemployment benefits.....	125,519	25,443	150,962	-
TOTAL DEFERRED INFLOWS OF RESOURCES.....	<u>373,482</u>	<u>25,443</u>	<u>398,925</u>	<u>-</u>
NET POSITION				
Net investment in capital assets.....	9,066,385	-	9,066,385	-
Unrestricted.....	3,640,316	162,984	3,803,300	25,319
TOTAL NET POSITION.....	<u>\$ 12,706,701</u>	<u>\$ 162,984</u>	<u>\$ 12,869,685</u>	<u>\$ 25,319</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2018

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer	Trash	Total	
OPERATING REVENUES:				
Charges for services.....	\$ 13,486,343	\$ 855,521	\$ 14,341,864	\$ -
OPERATING EXPENSES:				
Cost of services and administration.....	2,596,112	3,125,896	5,722,008	-
District assessment.....	6,880,204	-	6,880,204	-
Depreciation.....	1,122,272	-	1,122,272	-
Employee benefits.....	-	-	-	38,113
TOTAL OPERATING EXPENSES.....	10,598,588	3,125,896	13,724,484	38,113
OPERATING INCOME (LOSS).....	2,887,755	(2,270,375)	617,380	(38,113)
NONOPERATING REVENUES (EXPENSES):				
Interest expense.....	(874,360)	-	(874,360)	-
INCOME (LOSS) BEFORE TRANSFERS.....	2,013,395	(2,270,375)	(256,980)	(38,113)
TRANSFERS:				
Transfers in.....	-	2,054,990	2,054,990	-
Transfers out.....	(1,004,900)	-	(1,004,900)	-
TOTAL TRANSFERS.....	(1,004,900)	2,054,990	1,050,090	-
CHANGE IN NET POSITION.....	1,008,495	(215,385)	793,110	(38,113)
NET POSITION AT BEGINNING OF YEAR, AS REVISED.....	11,698,206	378,369	12,076,575	63,432
NET POSITION AT END OF YEAR.....	\$ 12,706,701	\$ 162,984	\$ 12,869,685	\$ 25,319

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2018

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer	Trash	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users.....	\$ 13,340,671	\$ 856,879	\$ 14,197,550	\$ -
Payments to vendors.....	(8,569,688)	(3,028,031)	(11,597,719)	-
Payments to employees.....	(972,750)	(68,716)	(1,041,466)	-
Payments for interfund services used.....	-	-	-	(38,113)
NET CASH FROM OPERATING ACTIVITIES.....	3,798,233	(2,239,868)	1,558,365	(38,113)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in.....	-	2,054,990	2,054,990	-
Transfers out.....	(1,304,900)	-	(1,304,900)	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(1,304,900)	2,054,990	750,090	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from the issuance of bonds and notes.....	8,822,771	-	8,822,771	-
Premium from the issuance of bonds.....	580,998	-	580,998	-
Capital contributions.....	2,260,269	-	2,260,269	-
Acquisition and construction of capital assets.....	(7,379,858)	-	(7,379,858)	-
Principal payments on bonds and notes.....	(4,125,124)	-	(4,125,124)	-
Principal payments on capital lease obligations.....	(65,167)	-	(65,167)	-
Interest expense.....	(1,076,495)	-	(1,076,495)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(982,606)	-	(982,606)	-
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	1,510,727	(184,878)	1,325,849	(38,113)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	9,911,281	800,412	10,711,693	63,432
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 11,422,008	\$ 615,534	\$ 12,037,542	\$ 25,319
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH				
FROM OPERATING ACTIVITIES:				
Operating income (loss).....	\$ 2,887,755	\$ (2,270,375)	\$ 617,380	\$ (38,113)
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation.....	1,122,272	-	1,122,272	-
Deferred (outflows)/inflows related to pensions.....	262,800	-	262,800	-
Deferred (outflows)/inflows related to other postemployment benefits.....	124,098	25,155	149,253	-
Changes in assets and liabilities:				
User charges.....	(145,672)	1,358	(144,314)	-
Investment in joint venture.....	(178,650)	-	(178,650)	-
Warrants payable.....	50,271	22,416	72,687	-
Accrued payroll.....	965	(829)	136	-
Compensated absences.....	4,127	-	4,127	-
Net pension liability.....	(242,944)	-	(242,944)	-
Other postemployment benefits.....	(86,789)	(17,593)	(104,382)	-
Total adjustments.....	910,478	30,507	940,985	-
NET CASH FROM OPERATING ACTIVITIES.....	\$ 3,798,233	\$ (2,239,868)	\$ 1,558,365	\$ (38,113)

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2018

	Pension and Other Employee Benefit Trust Funds (1)	Private Purpose Trust Funds	Agency Funds
ASSETS			
Cash and cash equivalents.....	\$ 222,578	\$ 202,961	\$ 483,858
Investments:			
Investments in Pension Reserve Investment Trust.....	175,313,753	-	-
Equity securities.....	-	839,247	-
Equity mutual funds.....	1,854,277	-	-
Fixed income mutual funds.....	709,452	485,038	-
Repurchase agreements.....	1,610,414	-	-
Alternative investments.....	112,468	-	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	189,693	-	-
Capital assets, net of accumulated depreciation.....	85,156	-	-
TOTAL ASSETS.....	180,097,791	1,527,246	483,858
LIABILITIES			
Warrants payable.....	8,648	-	-
Liabilities due depositors.....	-	-	483,858
TOTAL LIABILITIES.....	8,648	-	483,858
NET POSITION			
Restricted for pensions.....	177,516,472	-	-
Restricted for other postemployment benefits.....	2,572,671	-	-
Held in trust for other purposes.....	-	1,527,246	-
TOTAL NET POSITION.....	\$ 180,089,143	\$ 1,527,246	\$ -

(1) The Pension Trust Fund is as of December 31, 2017.

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2018

	Pension and Other Employee Benefit Trust Funds (1)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer contributions.....	\$ 13,419,056	\$ -
Employer contributions for other postemployment benefit payments....	4,459,144	-
Member contributions.....	4,454,440	-
Transfers from other systems.....	636,186	-
3(8)c contributions from other systems.....	179,521	-
State COLA reimbursements.....	68,796	-
Member makeup payments and redeposits.....	34,141	-
Private donations.....	-	26,203
	<u>23,251,284</u>	<u>26,203</u>
Total contributions.....		
Net investment income:		
Investment income.....	26,371,122	110,187
Less: investment expense.....	(846,174)	-
	<u>25,524,948</u>	<u>110,187</u>
Net investment income.....		
	<u>48,776,232</u>	<u>136,390</u>
TOTAL ADDITIONS.....		
DEDUCTIONS:		
Administration.....	270,574	-
Transfers to other systems.....	578,480	-
3(8)c transfer to other systems.....	648,419	-
Retirement benefits and refunds.....	15,356,905	-
Depreciation.....	3,125	-
Other postemployment benefit payments.....	4,459,144	-
Health and human services.....	-	38,626
Educational scholarships.....	-	34,057
	<u>21,316,647</u>	<u>72,683</u>
TOTAL DEDUCTIONS.....		
NET INCREASE IN NET POSITION.....		
	27,459,585	63,707
NET POSITION AT BEGINNING OF YEAR.....		
	152,629,558	1,463,539
NET POSITION AT END OF YEAR.....		
	<u>\$ 180,089,143</u>	<u>\$ 1,527,246</u>

(1) The Pension Trust Fund is for the year ended December 31, 2017.

See notes to basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the City of Salem, Massachusetts (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 (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. The 2018 assessment totaled \$4.4 million. As of June 30, 2018, the City's equity interest in the operations of the District totaled \$1.3 million, 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, 2018, totaled approximately \$2.4 million. Complete financial information for the Water Board can be obtained by contacting them at 50 Arlington Avenue, Beverly, MA 01915.

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 2018 assessment was \$2.3 million.

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 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 *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 and other employee benefit trust* funds are used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries and 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 City 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 City'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 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the 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 lienning any unpaid balance plus interest to the corresponding real estate tax bills.

Trash user fees are levied monthly based on the number of units located on the property. The monthly per unit fee collected is \$26.50 for commercial and \$18.00 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, donated works of art, historical treasures and similar assets; and capital assets received in service concession arrangements are recorded at acquisition value. 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 and other postemployment benefits 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 taxes paid in advance and deferred inflows related to pensions and other postemployment benefits 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 and taxes paid in advance 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.

“Community preservation” amounts held for uses restricted by law for community preservation purposes.

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, 2018, in the City grants fund. The deficit will be funded through grant proceeds in 2019.

Actual expenditures exceeded appropriations for snow and ice removal by \$1.5 million and will be raised in fiscal year 2019. 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 (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, 2018, \$2,572,671, 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 \$44,212,044 and the bank balance totaled \$45,657,469. Of the bank balance, \$4,035,799 was covered by Federal Depository Insurance, \$8,484,548 was covered by the Share Insurance Fund, \$21,674,454 was covered by the Depositors Insurance Fund, \$9,093,845 was collateralized and \$2,368,823 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 \$213,636 and the bank balance totaled \$424,021. The entire bank balance was covered by Federal Depository Insurance.

Investments

As of June 30, 2018, the City had the following investments:

<u>Investment Type</u>	<u>Fair value</u>	<u>Maturity</u>	
		<u>Under 1 Year</u>	<u>1-5 Years</u>
<u>Debt securities:</u>			
U.S. treasury notes.....	\$ 1,123,415	\$ 946,311	\$ 177,104
Government sponsored enterprises.....	2,212,872	-	2,212,872
Corporate bonds.....	1,392,811	249,745	1,143,066
Total debt securities.....	4,729,098	\$ 1,196,056	\$ 3,533,042
<u>Other investments:</u>			
Equity securities.....	5,104,319		
Equity mutual funds.....	2,872,131		
Fixed income.....	3,788,688		
Money market mutual funds.....	534,332		
MMDT - Cash portfolio.....	75,735		
Total investments.....	\$ 17,104,303		

As of December 31, 2017, the System had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
<u>Other investments:</u>	
Repurchase agreement.....	\$ 1,610,414
Pooled alternative investments.....	112,468
Pension Reserve Investment Trust (PRIT).....	<u>175,313,753</u>
 Total investments.....	 \$ <u>177,036,635</u>

The City participates in MMDT which is unrated. MMDT maintains a cash portfolio and a short-term bond portfolio with combined average maturities of approximately 3 months. The System participates in PRIT which is unrated. The effective weighted duration rate for PRIT investments ranged from 0.15 to 16.31 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, \$1,392,811 of corporate bonds, \$1,123,415 of U.S. Treasury notes, \$2,212,872 of government sponsored enterprises and \$5,104,319 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:

<u>Quality Rating</u>	<u>U.S. Treasury Notes</u>	<u>Government Sponsored Enterprises</u>	<u>Corporate Bonds</u>
AAA.....	\$ 1,123,415	\$ -	\$ -
AA+.....	-	2,212,872	-
A.....	-	-	386,614
A-.....	-	-	260,899
BBB.....	-	-	441,500
BBB+.....	-	-	<u>303,798</u>
 Total.....	 \$ <u>1,123,415</u>	 \$ <u>2,212,872</u>	 \$ <u>1,392,811</u>

The System has not adopted a formal policy related to Credit Risk. The alternate investments, repurchase agreement 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 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, 2018, that the City measures fair value on a recurring basis, by level, within the fair value hierarchy:

Investment Type	June 30, 2018	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments measured at fair value:				
<u>Debt securities:</u>				
U.S. treasury notes.....	\$ 1,123,415	\$ 1,123,415	\$ -	\$ -
Government sponsored enterprises.....	2,212,872	2,212,872	-	-
Corporate bonds.....	1,392,811	-	1,392,811	-
Total debt securities.....	4,729,098	3,336,287	1,392,811	-
<u>Other investments:</u>				
Equity securities.....	5,104,319	5,104,319	-	-
Equity mutual funds.....	2,872,131	2,872,131	-	-
Fixed income.....	3,788,688	3,788,688	-	-
Money market mutual funds.....	534,332	534,332	-	-
Total other investments.....	12,299,470	12,299,470	-	-
Total investments measured at fair value.....	17,028,568	\$ 15,635,757	\$ 1,392,811	\$ -
Investments measured at amortized cost:				
MMDT - Cash portfolio.....	75,735			
Total investments.....	\$ 17,104,303			

U.S. treasury bonds, government sponsored enterprises, equity securities, equity mutual funds, fixed income, money market mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Corporate bonds 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 System 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, 2017, that the System measures fair value on a recurring basis, by level, within the fair value hierarchy:

Investment Type	December 31, 2017	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments measured at fair value:				
<u>Other investments:</u>				
Repurchase agreement.....	\$ 1,610,414	-	\$ -	\$ 1,610,414
Alternative investments.....	112,468	-	-	112,468
Total other investments.....	1,722,882	\$ -	\$ -	\$ 1,722,882
Investments measured at net asset value:				
Pension Reserve Investment Trust (PRIT).....	175,313,753			
Total investments.....	\$ 177,036,635			

Alternative investments and repurchase agreements classified in level 3 are valued using either a discounted cash flow or market comparable company's 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, 2018, receivables for the individual major governmental funds and non-major governmental 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.....	\$ 1,135,326	\$ -	\$ 1,135,326
Tax liens.....	1,513,522	-	1,513,522
Community preservation fund surtax.....	9,335	-	9,335
Motor vehicle and other excise taxes.....	852,635	(192,400)	660,235
Departmental and other.....	83,991	-	83,991
Intergovernmental - other.....	3,756,518	-	3,756,518
Community preservation state share.....	72,152	-	72,152
Loans.....	270,871	-	270,871
Total.....	<u>\$ 7,694,350</u>	<u>\$ (192,400)</u>	<u>\$ 7,501,950</u>

At June 30, 2018, 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.....	\$ 3,063,486	\$ -	\$ 3,063,486
Trash user fees.....	93,793	-	93,793
Total.....	<u>\$ 3,157,279</u>	<u>\$ -</u>	<u>\$ 3,157,279</u>

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>Receivables:</u>			
Real estate and personal property taxes.....	\$ 762,824	\$ -	\$ 762,824
Tax liens.....	1,513,522	-	1,513,522
Community preservation.....	-	81,487	81,487
Motor vehicle and other excise taxes.....	660,235	-	660,235
Departmental and other.....	-	83,991	83,991
Intergovernmental - highway improvements.....	-	892,908	892,908
Intergovernmental - School Building Authority.....	1,389,074	-	1,389,074
Loans.....	-	270,871	270,871
Total.....	<u>\$ 4,325,655</u>	<u>\$ 1,329,257</u>	<u>\$ 5,654,912</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 7,848,824	\$ 100,000	\$ (18,205)	\$ 7,930,619
Construction in progress.....	1,766,247	2,780,493	(1,655,277)	2,891,463
Total capital assets not being depreciated.....	9,615,071	2,880,493	(1,673,482)	10,822,082
<u>Capital assets being depreciated:</u>				
Land improvements.....	14,580,502	985,378	(101,197)	15,464,683
Buildings and improvements.....	238,789,658	1,899,193	-	240,688,851
Equipment.....	14,981,332	459,358	(93,611)	15,347,079
Vehicles.....	5,954,595	434,139	(293,707)	6,095,027
Infrastructure.....	84,718,801	5,260,656	-	89,979,457
Total capital assets being depreciated.....	359,024,888	9,038,724	(488,515)	367,575,097
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(4,947,575)	(656,821)	109,900	(5,494,496)
Buildings and improvements.....	(84,382,758)	(5,413,475)	-	(89,796,233)
Equipment.....	(9,139,182)	(990,500)	84,908	(10,044,774)
Vehicles.....	(3,621,138)	(502,873)	293,707	(3,830,304)
Infrastructure.....	(40,448,024)	(2,130,426)	-	(42,578,450)
Total accumulated depreciation.....	(142,538,677)	(9,694,095)	488,515	(151,744,257)
Total capital assets being depreciated, net.....	216,486,211	(655,371)	-	215,830,840
Total governmental activities capital assets, net.....	\$ 226,101,282	\$ 2,225,122	\$ (1,673,482)	\$ 226,652,922
	Beginning Balance	Increases	Decreases	Ending Balance
Water and Sewer:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 110,141	\$ -	\$ -	\$ 110,141
Construction in progress.....	-	1,615,558	-	1,615,558
Total capital assets not being depreciated.....	110,141	1,615,558	-	1,725,699
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	119,975	-	-	119,975
Equipment.....	296,290	-	(91,290)	205,000
Vehicles.....	423,701	-	-	423,701
Infrastructure.....	46,472,205	6,417,020	-	52,889,225
Total capital assets being depreciated.....	47,312,171	6,417,020	(91,290)	53,637,901
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(94,202)	(5,727)	-	(99,929)
Equipment.....	(286,041)	(10,249)	91,290	(205,000)
Vehicles.....	(260,642)	(65,222)	-	(325,864)
Infrastructure.....	(11,912,625)	(1,041,074)	-	(12,953,699)
Total accumulated depreciation.....	(12,553,510)	(1,122,272)	91,290	(13,584,492)
Total capital assets being depreciated, net.....	34,758,661	5,294,748	-	40,053,409
Total water and sewer activities capital assets, net....	\$ 34,868,802	\$ 6,910,306	\$ -	\$ 41,779,108

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, 2017, totals \$39,844, for a net book value of \$85,156.

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

Governmental Activities:	
General government.....	\$ 529,994
Public safety.....	1,001,169
Education.....	5,012,646
Public works.....	2,716,284
Health and human services.....	12,221
Culture and recreation.....	<u>421,781</u>
Total depreciation expense - governmental activities....	\$ <u>9,694,095</u>
Business-Type Activities:	
Water and sewer.....	\$ <u>1,122,272</u>
Fiduciary Activities:	
Pension Trust.....	\$ <u>3,125</u>

NOTE 5 – INTERFUND TRANSFERS AND BALANCES

Interfund transfers for the year ended June 30, 2018, are summarized as follows:

Transfers Out:	Transfers In:					Total
	General Fund	City Grants Fund	Capital Improvement Fund	Nonmajor Governmental Funds	Trash Enterprise Fund	
General Fund.....	\$ -	\$ 25,707	\$ 1,406,442	\$ 38,593	\$ 2,054,990	\$ 3,525,732 (1)
City Grants Fund.....	25,261	115,321	2,094,522	14,872	-	2,249,976 (2)
Nonmajor Governmental Funds.....	1,444,679	-	3,171,889	21,980	-	4,638,548 (3)
Water and Sewer Enterprise Fund...	<u>1,004,900</u>	-	-	-	-	<u>1,004,900</u> (4)
Total.....	\$ <u>2,474,840</u>	\$ <u>141,028</u>	\$ <u>6,672,853</u>	\$ <u>75,445</u>	\$ <u>2,054,990</u>	\$ <u>11,419,156</u>

(1) Transfer from general fund to capital improvement fund to fund capital projects from free cash; transfer from general fund to City grants fund and nonmajor governmental funds to fund deficits and the 400th anniversary fund; to trash enterprise fund for the City's subsidized portion.

(2) Transfer from city grants fund to general fund to close out old grant funds; transfers within city grant funds and capital improvement funds and nonmajor governmental funds to reallocate resources.

(3) Transfer from nonmajor governmental funds, receipts reserved for appropriation, to the general fund to reduce amounts raised by taxation and for supplemental appropriations; transfer to capital improvement fund to fund capital projects from reallocated unspent bond proceeds and receipts reserved for appropriation; transfers within nonmajor governmental funds to reallocate resources; transfer to water and sewer enterprise fund to reallocate unspent bond proceeds to sewer upgrades.

(4) Transfer from water and sewer enterprise fund to the general fund.

Additionally, the nonmajor school capital projects fund reported a \$2,260,269 capital transfer out of unspent bond proceeds which were reappropriated by City Council during fiscal 2018 for a sewer project. Accordingly, the corresponding bonds payable were reclassified from governmental activities to the water and sewer enterprise fund.

The City’s interfund balances at June 30, 2018 consisted of \$274,148 in balances due to the general fund from 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 and business-type 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 assets acquired through capital leases are as follows:

	Governmental Activities	Business-Type Activities
<u>Asset:</u>		
Machinery and equipment.....	\$ 636,254	\$ 326,110
Vehicles.....	1,863,104	-
Infrastructure.....	1,240,594	-
Less: accumulated depreciation....	(873,771)	(228,278)
Total.....	\$ 2,866,181	\$ 97,832

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2018, were as follows:

Years ending June 30:	Governmental Activities	Business-Type Activities
2019.....	\$ 874,489	\$ 69,055
2020.....	628,079	-
2021.....	339,556	-
2022.....	270,838	-
2023.....	268,047	-
2024.....	87,972	-
Total minimum lease payments.....	2,468,981	69,055
Less: amounts representing interest.....	(122,428)	(1,972)
Present value of minimum lease payments.....	\$ 2,346,553	\$ 67,083

Operating Leases

The City leased office space at 120 Washington Street for the City Hall Annex under an operating lease that began in March 2013 and ended in April 2018. The City made nine lease payments for the year ended June 30, 2018, totaling approximately \$348,000 which is reported as general government expenditures in the general fund. In April 2018, the City began leasing new office space at 98 Washington Street for the new City Hall Annex under a 20 year operating lease. The City made three lease payments for the year ended June 30, 2018, totaling \$87,970 which is reported as general government expenditures in the general fund.

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, 2018, are as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2017	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2018
Governmental Funds:							
SAAN	Municipal Purpose.....	1.50%	06/28/18	\$ 948,500	\$ -	\$ (948,500)	\$ -
BAN	Municipal Purpose.....	1.60%	11/17/17	2,427,930	-	(2,427,930)	-
BAN	Municipal Purpose.....	1.23%	01/31/18	-	2,427,930	(2,427,930)	-
BAN	Municipal Purpose.....	1.45%	06/28/18	-	1,027,930	(1,027,930)	-
SAAN	Derby Street.....	2.10%	06/28/19	-	300,000	-	300,000
Total Governmental Funds.....				\$ 3,376,430	\$ 3,755,860	\$ (6,832,290)	\$ 300,000
Water and Sewer Enterprise Fund:							
BAN	Municipal Purpose.....	1.60%	11/17/17	\$ 636,000	\$ -	\$ (636,000)	\$ -
BAN	Municipal Purpose.....	1.23%	01/31/18	-	636,000	(636,000)	-
BAN	Municipal Purpose.....	1.45%	06/28/18	-	636,000	(636,000)	-
Total Water and Sewer Enterprise Fund.....				\$ 636,000	\$ 1,272,000	\$ (1,908,000)	\$ -

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, 2018, 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, 2018
Municipal Purpose Refunding Bonds of 2010.....	2020	\$ 8,113,000	2.00-5.00	\$ 1,690,000
Municipal Purpose Bonds of 2010.....	2026	5,219,000	3.00-5.00	1,895,000
Municipal Purpose Bonds of 2013.....	2043	15,143,598	2.63-4.00	12,870,000
Municipal Purpose Refunding Bonds of 2014.....	2025	2,509,500	3.00-4.00	1,555,000
Municipal Purpose Bonds of 2014.....	2034	6,680,000	3.00-4.00	5,610,000
Municipal Purpose Bonds of 2015.....	2035	4,860,000	2.50-4.00	4,285,000
Municipal Purpose Bonds of 2016.....	2036	5,845,000	2.50-4.00	3,439,416
Municipal Purpose Bonds of 2017.....	2036	5,707,000	3.00-4.00	4,355,315
Municipal Purpose Refunding Bonds of 2017.....	2037	3,312,000	3.00-4.00	3,312,000
Municipal Purpose Bonds of 2018.....	2038	7,349,229	3.13-5.00	<u>7,349,229</u>
Total Bonds Payable.....				46,360,960
Add: Unamortized premium on bonds.....				<u>2,868,047</u>
Total Bonds Payable, net.....				<u>\$ 49,229,007</u>

Debt service requirements for governmental bonds are as follows:

Year	Principal	Interest	Total
2019.....	\$ 4,896,916	\$ 1,839,851	\$ 6,736,767
2020.....	4,959,449	1,634,272	6,593,721
2021.....	3,841,424	1,429,797	5,271,221
2022.....	3,479,722	1,260,348	4,740,070
2023.....	3,251,483	1,098,795	4,350,278
2024.....	2,701,483	951,977	3,653,460
2025.....	2,701,483	833,425	3,534,908
2026.....	2,270,005	730,002	3,000,007
2027.....	2,069,937	646,178	2,716,115
2028.....	2,055,176	568,573	2,623,749
2029.....	1,508,176	498,793	2,006,969
2030.....	1,409,937	441,893	1,851,830
2031.....	1,409,937	388,518	1,798,455
2032.....	1,373,176	338,733	1,711,909
2033.....	1,396,630	287,121	1,683,751
2034.....	1,116,630	234,456	1,351,086
2035.....	801,630	199,236	1,000,866
2036.....	723,391	171,765	895,156
2037.....	664,375	146,486	810,861
2038.....	605,000	123,953	728,953
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.....	\$ <u>46,360,960</u>	\$ <u>14,100,874</u>	\$ <u>60,461,834</u>

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 2018, \$733,000 of such assistance was received. Approximately \$1,466,000 will be received in future years of which \$77,000 represents reimbursement of long-term interest costs, and \$1,389,000 represents reimbursement of approved construction costs. Accordingly, a \$1,389,000 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.

Bonds Payable Schedule – Water and Sewer Enterprise Fund

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2018
Water Project - MCWT.....	2027	\$ 2,330,656	2.00	\$ 1,166,539
Sewer Improvements.....	2030	1,690,000	3.00-5.00	1,010,000
Water System Tanks and Improvements.....	2031	8,464,000	3.00-5.00	4,680,000
Water System Improvements	2033	1,412,402	2.63-4.00	1,135,000
Sewer Improvements.....	2033	1,435,000	2.63-4.00	1,140,000
Sewer Improvements.....	2034	3,900,000	3.00-4.00	3,330,000
Sewer Improvements.....	2035	2,300,000	2.50-4.00	1,955,000
Sewer Improvements.....	2036	2,650,000	2.00-5.00	2,370,000
Water Improvements.....	2025	3,600,000	2.00-5.00	2,770,000
Sewer Improvements.....	2036	2,650,000	3.00-4.00	2,560,000
Water Improvements.....	2036	4,095,000	3.00-4.00	3,820,000
Water Refunding Bonds of 2017.....	2028	1,463,000	4.00	1,463,000
Water Improvements of 2018.....	2048	2,660,000	3.13-5.00	2,660,000
Sewer Improvements of 2018.....	2048	4,890,771	3.13-5.00	4,890,771
Sewer Improvements.....	2037	2,260,269	2.00-5.00	<u>2,260,269</u>
Total Bonds Payable.....				37,210,579
Add: Unamortized premium on bonds.....				<u>1,653,516</u>
Total Bonds Payable, net.....				<u>\$ 38,864,095</u>

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

Year	Principal	Interest	Total
2019.....	\$ 2,587,574	\$ 1,300,188	\$ 3,887,762
2020.....	2,602,455	1,212,362	3,814,817
2021.....	2,622,943	1,110,200	3,733,143
2022.....	2,492,158	1,008,887	3,501,045
2023.....	2,517,960	908,725	3,426,685
2024.....	2,535,575	807,360	3,342,935
2025.....	2,568,243	707,634	3,275,877
2026.....	2,222,442	619,151	2,841,593
2027.....	1,860,287	547,992	2,408,279
2028.....	1,644,824	486,938	2,131,762
2029.....	1,481,824	430,719	1,912,543
2030.....	1,345,063	380,993	1,726,056
2031.....	1,340,063	335,922	1,675,985
2032.....	1,266,824	295,488	1,562,312
2033.....	1,248,370	255,914	1,504,284
2034.....	1,138,370	217,835	1,356,205
2035.....	873,370	188,191	1,061,561
2036.....	776,609	165,922	942,531
2037.....	585,625	147,231	732,856
2038.....	265,000	134,444	399,444
2039.....	270,000	125,500	395,500
2040.....	275,000	116,050	391,050
2041.....	295,000	105,050	400,050
2042.....	305,000	93,250	398,250
2043.....	310,000	81,050	391,050
2044.....	335,000	68,650	403,650
2045.....	345,000	56,506	401,506
2046.....	355,000	44,000	399,000
2047.....	365,000	29,800	394,800
2048.....	380,000	15,200	395,200
Total.....	\$ <u>37,210,579</u>	\$ <u>11,997,152</u>	\$ <u>49,207,731</u>

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2018, the City had the following authorized and unissued debt:

Purpose	Amount
CIP Projects Water and Sewer.....	\$ 15,408,960
Capital Projects Water and Sewer.....	5,053,269
Senior Center Construction.....	4,994,136
Collins School Improvement.....	4,360,410
Water Systems Improvement.....	2,915,264
Transfer Station.....	1,605,500
CIP General Government.....	1,918,189
Feasibility Study Collins School.....	687,062
Feasibility Study Saltonstall School....	312,000
Capital Projects General Government.	345,000
High School.....	101,032
Total.....	\$ <u>37,700,822</u>

Changes in Long-term Liabilities

During the year ended June 30, 2018, the following changes occurred in long-term liabilities:

	Beginning Balance	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Increases	Other Decreases	Ending Balance	Due Within One Year
Governmental Activities:							
Long-term bonds payable.....	\$ 45,584,000	\$ 7,349,229	\$ (4,312,000)	\$ -	\$ (2,260,269)	\$ 46,360,960	\$ 4,896,916
Add: Unamortized premium on bonds.....	2,770,069	561,847	(463,869)	-	-	2,868,047	513,188
Total bonds payable.....	48,354,069	7,911,076	(4,775,869)	-	(2,260,269)	49,229,007	5,410,104
Capital lease obligations.....	2,344,446	-	-	695,958	(693,851)	2,346,553	831,406
Landfill closure.....	2,250,000	-	-	-	-	2,250,000	1,125,000
Compensated absences.....	9,089,126	-	-	1,391,820	(1,481,131)	8,999,815	2,041,403
Workers' compensation.....	1,481,595	-	-	177,986	(131,706)	1,527,875	134,279
Net pension liability.....	108,041,285	-	-	1,508,461	(10,805,331)	98,744,415	-
Net other postemployment benefits liability....	167,603,216	-	-	9,951,940	(21,306,801)	156,248,355	-
Total governmental activity long-term liabilities.....	\$ 339,163,737	\$ 7,911,076	\$ (4,775,869)	\$ 13,726,165	\$ (36,679,089)	\$ 319,346,020	\$ 9,542,192
Business-Type Activities:							
Long-term bonds payable.....	\$ 29,616,663	\$ 7,550,771	\$ (2,217,124)	\$ 2,260,269	\$ -	\$ 37,210,579	\$ 2,587,574
Add: Unamortized premium on bonds.....	1,265,450	580,998	(192,932)	-	-	1,653,516	211,934
Total bonds payable.....	30,882,113	8,131,769	(2,410,056)	2,260,269	-	38,864,095	2,799,508
Capital lease obligations.....	132,250	-	-	-	(65,167)	67,083	67,083
Compensated absences.....	57,288	-	-	21,795	(17,668)	61,415	19,546
Net pension liability.....	2,823,313	-	-	39,419	(282,363)	2,580,369	-
Net other postemployment benefits liability....	1,507,480	-	-	86,952	(191,334)	1,403,098	-
Total business-type activity long-term liabilities.....	\$ 35,402,444	\$ 8,131,769	\$ (2,410,056)	\$ 2,408,435	\$ (556,532)	\$ 42,976,060	\$ 2,886,137

Long-term 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 and water and trash enterprise funds, except for debt incurred by the CPA fund.

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 City from its highest level of decision making authority.
- Assigned: fund balances that contain self-imposed constraints of the City 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’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 \$6.5 million and \$182,000, respectively and are reported as unassigned fund balance within the general fund.

As of June 30, 2018, the governmental fund balances consisted of the following:

	General	Community Preservation Fund	City Grants Fund	Capital Improvement Fund	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balances:						
Nonspendable:						
Permanent fund principal.....	\$ -	\$ -	\$ -	\$ -	\$ 2,230,357	\$ 2,230,357
Restricted for:						
Community preservation.....	-	892,699	-	-	-	892,699
City grants.....	-	-	2,230,500	-	-	2,230,500
Capital improvement.....	-	-	-	5,269,203	-	5,269,203
School grants.....	-	-	-	-	1,110,987	1,110,987
Community development grants.....	-	-	-	-	26,929	26,929
School lunch.....	-	-	-	-	403,183	403,183
Donations and gifts.....	-	-	-	-	715,777	715,777
Receipts reserved.....	-	-	-	-	2,311,103	2,311,103
City revolving accounts.....	-	-	-	-	1,150,185	1,150,185
School revolving accounts.....	-	-	-	-	301,538	301,538
City wharf project.....	-	-	-	-	531,057	531,057
School capital.....	-	-	-	-	6,845	6,845
Other capital.....	-	-	-	-	226,010	226,010
Cemetery.....	-	-	-	-	2,769,997	2,769,997
Human service.....	-	-	-	-	1,178,509	1,178,509
Other permanent.....	-	-	-	-	1,073,034	1,073,034
Assigned to:						
Encumbrances:						
Finance/auditing.....	30,000	-	-	-	-	30,000
Data processing.....	18,950	-	-	-	-	18,950
Planning department.....	17,754	-	-	-	-	17,754
Other general government.....	3,190	-	-	-	-	3,190
Police.....	8,740	-	-	-	-	8,740
Electrical inspection and maintenance..	2,554	-	-	-	-	2,554
Harbormaster.....	2,512	-	-	-	-	2,512
Education.....	63,977	-	-	-	-	63,977
Public works.....	1,911	-	-	-	-	1,911
Health and human services.....	53,746	-	-	-	-	53,746
Unemployment compensation.....	100,000	-	-	-	-	100,000
Unassigned.....	13,712,764	-	(282,668)	-	-	13,430,096
Total Fund Balances.....	\$ 14,016,098	\$ 892,699	\$ 1,947,832	\$ 5,269,203	\$ 14,035,511	\$ 36,161,343

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, 2018, the amount of the liability for workers’ compensation claims totaled \$1,527,875.

Changes in the reported liability since July 1, 2016, are as follows:

	Balance at Beginning of Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Year-End	Current Portion
2017.....	\$ 1,421,695	\$ 180,756	\$ (120,856)	\$ 1,481,595	\$ 123,130
2018.....	1,481,595	177,986	(131,706)	1,527,875	134,279

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, 2017. The City’s portion of the collective pension expense, contributed by the Commonwealth, of \$14,100,491, 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 \$135,097,228, 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, 2017.

At December 31, 2017, the System’s membership consists of the following:

Active members.....	1,072
Inactive members.....	105
Disabled members.....	56
Retirees and beneficiaries currently receiving benefits....	<u>510</u>
 Total.....	 <u>1,743</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, 2017, was \$13,172,909, 28.26% 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 June 30, 2018, and totaled \$11,087,694.

Pension Liabilities

The components of the net pension liability of the participating member units at June 30, 2018, were as follows:

Total pension liability.....	\$ 297,896,974
Total pension plan's fiduciary net position.....	<u>(177,516,472)</u>
Total net pension liability.....	\$ <u>120,380,502</u>
The pension plan's fiduciary net position as a percentage of the total pension liability.....	59.59%

At June 30, 2018, the City reported a liability of \$101,324,784, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018. Accordingly, update procedures were used to roll back 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, 2017, the City's proportion was 84.17%, which decreased from its 84.73% proportion measured at December 31, 2016.

Pension Expense

For the year ended June 30, 2018, the City recognized a pension expense of \$11,834,820. At June 30, 2018, the City reported deferred outflows of resources related to pensions of \$10,155,533, and reported deferred inflows of resources related to pensions of \$9,736,899.

The balances of deferred outflows and inflows at June 30, 2018, consist of the following:

Deferred Category	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Differences between expected and actual experience.....	\$ -	\$ (3,527,861)	\$ (3,527,861)
Difference between projected and actual earnings, net.....	-	(5,598,189)	(5,598,189)
Changes in assumptions.....	9,924,478	-	9,924,478
Changes in proportion and proportionate share of contributions....	<u>231,055</u>	<u>(610,849)</u>	<u>(379,794)</u>
Total deferred outflows/(inflows) of resources.....	\$ <u>10,155,533</u>	\$ <u>(9,736,899)</u>	\$ <u>418,634</u>

The City’s deferred outflows (inflows) of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2019.....	\$ 1,479,349
2020.....	1,183,561
2021.....	(490,022)
2022.....	<u>(1,754,254)</u>
	 \$ <u>418,634</u>

Actuarial Assumptions

The total pension liability in the January 1, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was rolled back to December 31, 2017:

Valuation date.....	January 1, 2018
Actuarial cost method.....	Entry Age Normal Cost Method
Amortization method.....	Increasing at 4.5% per year for 2002 and 2003 ERI and level dollar amortization for 2010 ERI, with total contribution increasing 5.15% per year
Remaining amortization period.....	As of July 1, 2016, 15 years remaining for 2002 and 2003 ERI liability, 6 years remaining for 2010 ERI liability and 15 years for remaining unfunded liability
Asset valuation method.....	The difference between the expected return on an actuarial basis and the actual investment return on a market value basis is recognized over a five-year period. Asset value is adjusted as necessary to be within 20% of the market value
Investment rate of return/Discount rate....	7.375% (previously, 7.50%)
Inflation rate.....	3.50%
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% of first \$12,000
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
Mortality Rates:	
Pre-Retirement.....	RP-2014 Blue Collar Employee Mortality Table set forward one year for female participants projected generationally using Scale MP-2017 (Previously, RP-2000 Employee Mortality Table projected generationally from 2009 using Scale BB2D)
Healthy Retiree.....	RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year for female participants projected generationally using Scale MP-2017 (Previously, RP-2000 Healthy Annuitant Mortality Table projected generationally from 2009 using Scale BB2D)
Disabled Retiree.....	RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year projected generationally using Scale MP-2017 (Previously, RP-2000 Healthy Annuitant Mortality Table projected generationally from 2015 using Scale BB2D)

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 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, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation (approved by the Board) and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption as of December 31, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity.....	17.5%	6.15%
International developed markets equity.....	15.5%	7.11%
International emerging markets equity.....	6.0%	9.41%
Core fixed income.....	12.0%	1.68%
High-yield fixed income.....	10.0%	4.13%
Real estate.....	10.0%	4.90%
Commodities.....	4.0%	4.71%
Hedge fund, GTAA, risk parity.....	13.0%	3.94%
Private equity.....	12.0%	10.28%
Total.....	<u>100.00%</u>	

Rate of Return:

For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 17.23%. 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 7.375%. 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 System’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 Pension Liability to Changes in the Discount Rate:

The following page presents the net position liability, calculated using the discount rate of 7.375%, as well as what the net position liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.375%) or 1-percentage-point higher (8.375%) than the current rate.

	1% Decrease (6.375%)	Current Discount (7.375%)	1% Increase (8.375%)
<u>December 31, 2017 Measurement Date</u>			
The City's proportionate share of the net pension liability.....	\$ 129,222,222	\$ 101,324,784	\$ 77,686,439
SCRS total net pension liability.....	\$ 153,524,490	\$ 120,380,502	\$ 92,296,594

Changes in Assumptions

The following assumption changes were reflected in the January 1, 2018, actuarial valuation:

- The investment return assumption was lowered from 7.50% to 7.375%.
- The mortality assumption for non-disabled participants was updated from the RP-2000 Employee and Healthy Annuitant Mortality Tables projected generationally from 2009 with Scale BB2D to the RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year for female participants projected generationally with Scale MP-2017.
- The mortality assumption for disabled participants was changed from the RP-2000 Healthy Annuitant Mortality Table projected generationally from 2015 with Scale B2D to the RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year projected generationally with Scale MP-2017.
- The administrative expense assumption was decreased from \$350,000 to \$305,000.

Changes in Plan Provisions

There were no changes in plan provisions.

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description – City administers a single-employer defined benefit healthcare plan (“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. Benefit provisions are negotiated between the City and unions representing City employees and are renegotiated each bargaining period. 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.

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 the year ended June 30, 2018, the City’s average contribution rate was 5.43% of covered-employee payroll.

The Commonwealth of Massachusetts passed special legislation that has allowed the City to establish the other postemployment benefit trust fund to begin pre-funding its OPEB liabilities. The City has named the Health Care Security Board of Trustees (HSCBT) as Trustees of the OPEB fund and as such has authorized the OPEB Trust Funds to be invested by Bartholomew & Company (the custodian). Investment of the fund monies by the custodian must be consistent with the prudent person standard set forth in MGL Chapter 203C for private trust funds. Interest earned on the investment of the fund monies belongs to the fund.

During 2018, the City pre-funded future OPEB liabilities totaling \$246,000, by contributing funds to the OPEB trust fund in excess of the pay-as-you-go required contribution. These funds are reported within the Fiduciary Fund financial statements. As of June 30, 2018, the net position of the OPEB trust fund totaled \$2.6 million.

Investment policy – The City’s policy in regard to the allocation of invested assets is established and may be amended by the Board of Selectmen by a majority vote of its members. The OPEB plan’s assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the OPEB plan. The long-term real rate of return on OPEB investments was determined using the City’s OPEB trust investment policy.

GASB Statement #74 – OPEB Plan Financial Reporting

Measurement Date – GASB #74 requires the net OPEB liability to be measured as of the OPEB Plan’s most recent fiscal year-end. Accordingly, the net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016.

Employees Covered by Benefit Terms – The following table represents the Plan’s membership at June 30, 2016:

Active members.....	822
Retired members of beneficiaries currently receiving benefits...	<u>968</u>
Total.....	<u>1,790</u>

Components of OPEB Liability – The following table represents the components of the Plan’s OPEB liability as of June 30, 2018:

Total OPEB liability.....	\$ 160,427,046
Less: OPEB plan’s fiduciary net position.....	<u>(2,572,671)</u>
Net OPEB liability.....	<u>\$ 157,854,375</u>
The OPEB plan’s fiduciary net position	
as a percentage of the total OPEB liability.....	1.60%

Significant Actuarial Methods and Assumptions – The total OPEB liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified, that was updated to June 30, 2018, to be in accordance with GASB Statement #74:

Valuation date.....	June 30, 2016
Actuarial cost method.....	Entry Age Normal
Amortization method.....	Level percentage of payroll
Remaining amortization period.....	30 years from July 1, 2016
Asset valuation method.....	Market Value
Salary increase.....	Service-related increases for Group 1 (Excluding Teachers) and Group 2 Employees: 6.0% decreasing over 9 years to an ultimate level of 4.25%. Service-related increases for Group 4 members: 7.0% decreasing over 5 years to an ultimate level of 4.75%. Service-related increases for Teachers: 7.5% decreasing over 20 years to an ultimate level of 4.0%
Discount rate.....	3.87% as of June 30, 2018 and 3.58% as of June 30, 2017
Investment rate of return.....	7.50%
Inflation rate.....	3.50%
Health care trend rates:	
Non Medicare.....	6.3% for year 1, then 8.5% decreasing by 0.5% for 7 years to an ultimate level of 5.0%
Medicare Supplement.....	0.4% for year 1, then 8.5% decreasing by 0.5% for 7 years to an ultimate level of 5.0%
Medicare Advantage.....	8.9% for year 1, then 8.5% decreasing by 0.5% for 7 years to an ultimate level of 5.0%
Part B.....	5.00%
Contributions.....	Non-Medicare and Medicare retiree contributions are expected to increase with the respective medical trends shown above
Mortality rates:	
Pre-Retirement (Non-Teachers).....	RP-2000 Employee Mortality Table projected generationally from 2009 with Scale BB2D
Healthy (Non-Teachers).....	RP-2000 Healthy Annuitant Mortality Table projected generationally from 2009 with Scale BB2d
Disabled (Non-Teachers).....	RP-2000 Healthy Annuitant Mortality Table projected generationally from 2015 with Scale BB2d
Pre-Retirement (Teachers).....	RP-2014 White Collar Employee Mortality Table projected generationally with Scale MP-2016
Healthy (Teachers).....	RP-2014 White Collar Healthy Annuitant Mortality Table projected generationally with Scale MP-2016
Disabled (Teachers).....	RP-2014 Healthy Annuitant Mortality Table set forward 4 years projected generationally with Scale BB from 2014

Rate of return – For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 5.89%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The long-term expected rate of return on OPEB 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 investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return of by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption, as of June 30, 2018, are summarized in the table on the following page.

Asset Class	Long-Term Expected Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity.....	18.00%	6.15%
International developed markets equity....	16.00%	7.11%
International emerging markets equity.....	6.00%	9.41%
Core fixed income.....	12.00%	1.68%
High yield fixed income.....	10.00%	4.13%
Real estate.....	10.00%	4.90%
Commodities.....	4.00%	4.71%
Hedge fund, GTAA, risk parity.....	13.00%	3.94%
Private equity.....	11.00%	10.28%
Total.....	100.00%	

Discount rate – The discount rate used to measure the total OPEB liability was 3.87% as of June 30, 2018 and 3.58% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that contributions will be made in accordance with the Plan’s funding policy. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be insufficient to make all projected benefit payments to current plan members. Therefore the tax exempt general obligation municipal bonds with an average rate of AA/Aa or higher, which was based on the S&P Municipal Bond 20 – Year High Grade Index as of June 30, 2018, was applied to all periods.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate – The following table presents the net other postemployment benefit liability and service cost, calculated using the discount rate of 3.87%, as well as what the net other postemployment benefit liability and service cost would be if it were calculated using a discount rate that is 1-percentage-point lower (2.87%) or 1-percentage-point higher (4.87%) than the current rate.

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
Net OPEB liability.....	\$ 184,894,705	\$ 157,854,375	\$ 136,242,314

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Trend – The following table presents the net other postemployment benefit liability and service cost, calculated using the current healthcare trend rate, as well as what the net other postemployment benefit liability and service cost would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or 1-percentage-point higher.

	<u>1% Decrease</u>	<u>Current Trend</u>	<u>1% Increase</u>
Net OPEB liability..... \$	<u>132,584,084</u>	<u>\$ 157,854,375</u>	<u>\$ 190,605,671</u>

Changes of Assumptions – The discount rate was increased from 3.58% to 3.87%.

Changes in Plan Provisions – None.

GASB Statement #75 – OPEB Employer Financial Reporting

Summary of Significant Accounting Policies – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts (repurchase agreements) that have a maturity at the time of purchase of one year or less, which are reported at cost.

Measurement Date – GASB Statement #75 requires the net OPEB liability to be measured as of a date no earlier than the end of the employer’s prior fiscal year and no later than the end of the employer’s current fiscal year, consistently applied from period to period. Accordingly, the net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016. The plan membership and actuarial assumptions are consistent with those used for GASB Statement #74, since the same actuarial valuation was used.

The long-term expected rate of return on OPEB 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 investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return of by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and subtracting expected investment expenses and a risk margin.

The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption, as of June 30, 2017 are summarized in the following table:

Asset Class	Long-Term Expected Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity.....	18.00%	6.44%
International developed markets equity....	16.00%	7.40%
International emerging markets equity.....	6.00%	9.20%
Core fixed income.....	12.00%	2.02%
High yield fixed income.....	10.00%	4.43%
Real estate.....	10.00%	5.00%
Commodities.....	4.00%	4.43%
Hedge fund, GTAA, risk parity.....	13.00%	3.75%
Private equity.....	11.00%	10.47%
Total.....	100.00%	

Discount rate – The discount rate used to measure the total OPEB liability was 3.58% as of June 30, 2017 and 2.85% as of June 30, 2016. The projection of cash flows used to determine the discount rate assumed that contributions will be made in accordance with the Plan’s funding policy. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be insufficient to make all projected benefit payments to current plan members. Therefore a yield or index rate for 20 year, tax exempt general obligation municipal bonds with an average rate of AA/Aa or higher, which was based on the S&P Municipal Bond 20 – Year High Grade Index as of June 30, 2017, was applied to all periods of projected future benefits payments.

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan	
		Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2016..... \$	171,129,227	\$ 1,749,487	\$ 169,379,740
Changes for the year:			
Service cost.....	8,252,716	-	8,252,716
Interest.....	5,052,006	-	5,052,006
Changes in assumptions.....	(20,326,073)	-	(20,326,073)
Contributions - employer.....	-	4,536,167	(4,536,167)
Net investment income.....	-	170,769	(170,769)
Benefit payments.....	(4,267,124)	(4,267,124)	-
Net change.....	(11,288,475)	439,812	(11,728,287)
Balances at June 30, 2017..... \$	159,840,752	\$ 2,189,299	\$ 157,651,453

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate – The following table presents the net other postemployment benefit liability, calculated using the discount rate of 3.58%, as well as what the net other postemployment benefit liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58%) or 1-percentage-point higher (4.58%) than the current discount rate.

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
Net OPEB liability.....	\$ 185,396,485	\$ 157,651,453	\$ 135,547,971

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following table presents the net other postemployment benefit liability, calculated using the current healthcare trend, as well as what the net other postemployment benefit liability would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or 1-percentage-point higher.

	1% Decrease	Current Trend	1% Increase
Net OPEB liability.....	\$ 133,089,808	\$ 157,651,453	\$ 189,474,498

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2018, the GASB Statement #75 measurement date, the City recognized OPEB expense of \$9,600,725. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Deferred Category	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Difference between projected and actual earnings.....	\$ -	\$ (23,574)	\$ (23,574)
Changes in assumptions.....	-	(16,938,394)	(16,938,394)
Contributions made subsequent to the measurement date....	4,705,291	-	4,705,291
Total deferred outflows/(inflows) of resources.....	\$ 4,705,291	\$ (16,961,968)	\$ (12,256,677)

Rate of return – As of June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 9.08%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

For the year ended June 30:

2019.....	\$	(3,393,573)
2020.....		(3,393,573)
2021.....		(3,393,573)
2022.....		(3,393,571)
2023.....		<u>(3,387,678)</u>
Subtotal amortized deferred outflows/(inflows) of resource.....		(16,961,968)
Contributions made subsequent to the measurement date.....		<u>4,705,291</u>
Total deferred outflows/(inflows) of resources.....	\$	<u>(12,256,677)</u>

Changes of Assumptions – The discount rate was increased from 2.85% to 3.58%.

Changes in Plan Provisions – None.

NOTE 13 – FINANCIAL STATEMENTS FOR INDIVIDUAL PENSION AND OTHER EMPLOYEE BENEFITS TRUST FUND

GAAP requires that all Pension and Other Employee Benefit Trust Funds be combined and presented in one column in the Fiduciary Funds financial statements and that the individual financial statements for each trust fund plan are reported in the notes to the financial statements. Provided below are the individual financial statements for the pension and OPEB plans that are included in the Fiduciary Funds as Pension and Other Employee Benefit Trust Funds.

	Pension Trust Fund (as of December 31, 2017)	Other Employee Benefit Trust Fund	Total Pension and Other Employee Benefit Trust Funds
ASSETS			
Cash and cash equivalents.....	\$ 213,636	\$ 8,942	\$ 222,578
Investments:			
Investments in Pension Reserve Investment Trust....	175,313,753	-	175,313,753
Equity mutual funds.....	-	1,854,277	1,854,277
Repurchase agreements.....	1,610,414	709,452	2,319,866
Alternative investments.....	112,468	-	112,468
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	189,693	-	189,693
Capital assets, net of accumulated depreciation.....	85,156	-	85,156
TOTAL ASSETS.....	177,525,120	2,572,671	180,097,791
LIABILITIES			
Warrants payable.....	8,648	-	8,648
NET POSITION			
Restricted for pensions.....	177,516,472	-	177,516,472
Restricted for other postemployment benefits.....	-	2,572,671	2,572,671
TOTAL NET POSITION.....	\$ 177,516,472	\$ 2,572,671	\$ 180,089,143

	Pension Trust Fund (as of December 31, 2017)	Other Postemployment Benefit Trust Fund	Total Pension and Other Postemployment Benefit Trust Funds
ADDITIONS:			
Contributions:			
Employer contributions.....	\$ 13,172,909	\$ 246,147	\$ 13,419,056
Employer contributions for other postemployment benefit payments....	-	4,459,144	4,459,144
Member contributions.....	4,454,440	-	4,454,440
Transfers from other systems.....	636,186	-	636,186
3(8)c contributions from other systems.....	179,521	-	179,521
State COLA reimbursements.....	68,796	-	68,796
Member makeup payments and redeposits.....	34,141	-	34,141
Total contributions.....	18,545,993	4,705,291	23,251,284
Net investment income:			
Investment income.....	26,233,897	137,225	26,371,122
Less: investment expense.....	(846,174)	-	(846,174)
Net investment income.....	25,387,723	137,225	25,524,948
TOTAL ADDITIONS.....	43,933,716	4,842,516	48,776,232
DEDUCTIONS:			
Administration.....	270,574	-	270,574
Transfers to other systems.....	578,480	-	578,480
3(8)c transfer to other systems.....	648,419	-	648,419
Retirement benefits and refunds.....	15,356,905	-	15,356,905
Depreciation.....	3,125	-	3,125
Other postemployment benefit payments.....	-	4,459,144	4,459,144
TOTAL DEDUCTIONS.....	16,857,503	4,459,144	21,316,647
NET INCREASE IN NET POSITION.....	27,076,213	383,372	27,459,585
NET POSITION AT BEGINNING OF YEAR.....	150,440,259	2,189,299	152,629,558
NET POSITION AT END OF YEAR.....	\$ 177,516,472	\$ 2,572,671	\$ 180,089,143

NOTE 14 – 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.

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, an 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.

In early 2018, Footprint began producing electricity in the new plant with a state-of-the-art 630 megawatt gas-fired plant using a portion of the site and has plans to open the remaining two-thirds of the 63 acre waterfront property to private and public development opportunities.

NOTE 15 – 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 2017, 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 issued bonds for \$644,000 and has authorized and unissued debt for \$1.6 million. The City 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 16 – COMMITMENTS

The City has various commitments related to ongoing construction projects which will be financed through long-term borrowing. These projects include \$1.6 million for the transfer station, \$5 million for senior center construction, \$18.2 million for water and sewer projects and \$2.3 million for various other capital projects.

In fiscal year 2015, the City entered into an agreement with Alternative Therapies Group, Inc. (ATG), a Massachusetts not for profit Corporation, on April 14th 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 3.0% of the total gross annual sales. The City received its first payment in fiscal year 2016 and has since has collected \$618,000.

In fiscal year 2017, the City entered into a Community Benefits Agreement with North Shore Medical Center (NSMC) that consists of support for a broad range of City needs and programs. The agreement, which is in addition to the regular annual payment in lieu of taxes that the hospital provides to the City, comes as NSMC is

undergoing a significant campus consolidation and expansion project. The agreement is intended to address and mitigate the disruption and impact that the project will have on the City. Under the terms of the agreement, NSMC will provide approximately \$1.7 million over the next seven years for various City endeavors. Additionally, NSMC will allow attendees at sporting events at Salem's Bertram Field to utilize NSMC's parking lot at 55 Highland Avenue for event parking on evenings and weekends; NSMC will work collaboratively with the City on the design and implementation of a South Salem Commuter Rail stop; and NSMC will maintain its current support for ongoing community public health programs and activities in the City, including the current annual payment in lieu of taxes of \$125,000.

NOTE 17 – CONTINGENCIES

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the *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, 2018, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2018.

NOTE 18 – REVISION OF PRIOR BALANCES AND NET POSITION PREVIOUSLY REPORTED

The City revised its beginning net position as of July 1, 2017 to reflect the implementation of GASB Statement #75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The cumulative effect of the revision is presented in the following table.

As of June 30, 2017, the governmental and business-type activities net position, and nonmajor governmental fund balance, have been revised. In fiscal 2018, management determined that the golf course fund, previously reported as a business-type activity, should now be reported as a governmental fund because it is management's current policy that all costs, including capital costs, i.e. depreciation and debt service, will not be funded with through fees and charges. The beginning net position, and fund balance, have been revised in the table on the following page.

	Previously Reported Balances	Implementation of GASB #75	Golf course fund	Revised Balances
Government-Wide Financial Statements				
Governmental activities.....	\$ 49,834,179	\$ (106,495,766)	\$ 742,363	\$ (55,919,224)
Business-type activities.....	13,029,725	(210,787)	(742,363)	12,076,575
Total.....	<u>\$ 62,863,904</u>	<u>\$ (106,706,553)</u>	<u>\$ -</u>	<u>\$ (43,842,649)</u>
Business-type Activities - Enterprise Funds				
Water and Sewer fund.....	\$ 11,786,034	\$ (87,828)	-	\$ 11,698,206
Golf Course fund.....	742,363	-	(742,363)	-
Trash fund.....	501,328	(122,959)	-	378,369
Total.....	<u>\$ 13,029,725</u>	<u>\$ (210,787)</u>	<u>\$ (742,363)</u>	<u>\$ 12,076,575</u>
Governmental Funds				
Nonmajor governmental funds.....	\$ 18,541,239	-	\$ 500,258	\$ 19,041,497

NOTE 19 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 18, 2018, which is the date the financial statements were available to be issued.

NOTE 20 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During 2018, the following GASB pronouncements were implemented:

- GASB Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The basic financial statements, related notes and required supplementary information were updated to be in compliance with this pronouncement.
- GASB Statement #81, *Irrevocable Split-Interest Agreements*. This pronouncement did not impact the basic financial statements.
- GASB Statement #85, *Omnibus 2017*. This pronouncement did not impact the basic financial statements.
- GASB Statement #86, *Certain Debt Extinguishment Issues*. This pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #83, *Certain Asset Retirement Obligations*, which is required to be implemented in 2019.
- The GASB issued Statement #84, *Fiduciary Activities*, which is required to be implemented in 2019.
- The GASB issued Statement #87, *Leases*, which is required to be implemented in 2021.

- The GASB issued Statement #88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which is required to be implemented in 2019.
- The GASB issued Statement #89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which is required to be implemented in 2021.
- The GASB issued Statement #90, *Majority Equity Interests – an amendment of GASB Statements #14 and #61*, which is required to be implemented in 2020.

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, 2018

	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			
REVENUES:						
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 93,162,354	\$ 93,162,354	\$ 93,162,354	\$ 93,033,940	\$ (128,414)
Tax liens.....	-	-	-	-	406,226	406,226
Motor vehicle and other excise taxes.....	-	4,000,000	4,000,000	4,000,000	4,456,037	456,037
Hotel/motel tax.....	-	798,000	798,000	798,000	755,910	(42,090)
Meals tax.....	-	1,000,000	1,000,000	1,000,000	1,089,955	89,955
Charges for services.....	-	2,250,000	2,250,000	2,250,000	2,034,201	(215,799)
Penalties and interest on taxes.....	-	430,000	430,000	430,000	491,762	61,762
Payments in lieu of taxes.....	-	1,000,000	1,000,000	1,000,000	1,572,535	572,535
Licenses and permits.....	-	500,000	500,000	500,000	533,820	33,820
Fines and forfeitures.....	-	800,000	800,000	800,000	1,004,571	204,571
Intergovernmental - state aid.....	-	30,157,339	30,157,339	30,157,339	30,873,976	716,637
Intergovernmental - School Building Authority.....	-	732,824	732,824	732,824	732,824	-
Departmental and other.....	-	3,250,000	3,250,000	3,250,000	3,355,323	105,323
Investment income.....	-	200,000	200,000	200,000	246,422	46,422
TOTAL REVENUES.....	-	138,280,517	138,280,517	138,280,517	140,587,502	2,306,985
EXPENDITURES:						
Current:						
General government						
City Council						
Personnel.....	-	149,950	149,950	149,950	149,325	625
Non - Personnel.....	-	35,950	35,950	93,950	93,763	187
Total.....	-	185,900	185,900	243,900	243,088	812
Mayor						
Personnel.....	-	387,958	387,958	388,461	388,461	-
Non - Personnel.....	6,300	167,200	173,500	172,998	158,574	700
Total.....	6,300	555,158	561,458	561,459	547,035	700
Finance/Auditing						
Personnel.....	-	297,142	297,142	284,407	252,676	31,731
Non - Personnel.....	23,100	51,220	74,320	87,055	43,878	30,000
Total.....	23,100	348,362	371,462	371,462	296,554	30,000
Purchasing						
Personnel.....	-	127,395	127,395	127,395	124,709	2,686
Non - Personnel.....	-	18,850	18,850	18,850	12,666	6,184
Fixed Costs.....	-	63,412	63,412	71,412	69,025	2,387
Total.....	-	209,657	209,657	217,657	206,400	11,257
Assessors						
Personnel.....	-	304,063	304,063	306,318	306,312	6
Non - Personnel.....	2,000	24,200	26,200	23,945	22,341	1,600
Total.....	2,000	328,263	330,263	330,263	328,653	1,600
Treasurer						
Personnel.....	-	238,310	238,310	238,310	238,309	1
Non - Personnel.....	-	116,884	116,884	149,884	143,943	5,941
Total.....	-	355,194	355,194	388,194	382,252	5,942
Collector						
Personnel.....	-	226,364	226,364	238,364	237,289	1,075
Non - Personnel.....	-	8,300	8,300	8,300	7,460	840
Total.....	-	234,664	234,664	246,664	244,749	1,915
Solicitor						
Personnel.....	-	280,808	280,808	280,808	280,664	144
Non - Personnel.....	-	62,300	62,300	62,300	61,400	900
Total.....	-	343,108	343,108	343,108	342,064	1,044
Human Resources						
Personnel.....	-	238,604	238,604	240,404	240,332	72
Non - Personnel.....	-	31,450	31,450	31,450	26,742	4,685
Total.....	-	270,054	270,054	271,854	267,074	23

(continued)

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

YEAR ENDED JUNE 30, 2018

	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			
Data Processing						
Personnel.....	-	830,380	830,380	830,380	796,751	-
Non - Personnel.....	-	24,750	24,750	24,750	20,490	-
Fixed Costs.....	126,889	866,733	993,622	993,622	948,450	18,950
Total.....	126,889	1,721,863	1,848,752	1,848,752	1,765,691	18,950
City Clerk Record Maintenance						
Personnel.....	-	290,581	290,581	290,581	273,293	-
Non - Personnel.....	9,002	9,700	18,702	18,702	11,946	-
Total.....	9,002	300,281	309,283	309,283	285,239	-
Elections & Registrations						
Personnel.....	-	122,970	122,970	125,470	122,134	-
Non - Personnel.....	-	75,657	75,657	73,157	72,437	-
Total.....	-	198,627	198,627	198,627	194,571	-
Conservation Commission						
Personnel.....	-	29,401	29,401	29,401	26,545	-
Non - Personnel.....	-	1,108	1,108	1,108	1,054	54
Total.....	-	30,509	30,509	30,509	27,599	54
Subdivision, Planning, and Zoning Board						
Personnel.....	-	30,918	30,918	30,918	30,237	-
Non - Personnel.....	-	4,500	4,500	4,500	337	158
Total.....	-	35,418	35,418	35,418	30,574	158
Board of Appeals						
Non - Personnel.....	-	400	400	400	196	-
Planning Department						
Personnel.....	-	441,150	441,150	446,350	439,403	-
Non - Personnel.....	20,000	101,807	121,807	138,807	112,535	17,754
Total.....	20,000	542,957	562,957	585,157	551,938	17,754
Public Property/Building Maintenance						
Fixed Costs.....	5,000	720,625	725,625	725,625	699,666	655
Market and Tourism.....	-	244,425	244,425	244,425	241,772	-
Total General Government.....	192,291	6,625,465	6,817,756	6,952,757	6,655,115	69,894
Public Safety						
Police						
Personnel.....	-	9,875,733	9,875,733	9,939,739	9,764,632	-
Non - Personnel.....	28,660	671,887	700,547	789,182	724,714	8,740
Total.....	28,660	10,547,620	10,576,280	10,728,921	10,489,346	8,740
Fire						
Personnel.....	-	8,357,575	8,357,575	8,536,104	8,514,095	-
Non - Personnel.....	13,164	442,911	456,075	508,473	461,996	-
Total.....	13,164	8,800,486	8,813,650	9,044,577	8,976,091	-
Building, Plumbing, Gas Inspections						
Personnel.....	-	527,429	527,429	515,014	475,447	-
Non - Personnel.....	-	39,600	39,600	53,215	41,435	-
Total.....	-	567,029	567,029	568,229	516,882	-
Electrical Inspection and Maintenance						
Personnel.....	-	395,823	395,823	395,823	379,414	-
Non - Personnel.....	-	379,900	379,900	403,900	314,933	2,554
Total.....	-	775,723	775,723	799,723	694,347	2,554
Harbormaster						
Personnel.....	-	230,440	230,440	230,440	214,669	-
Non - Personnel.....	22,226	49,000	71,226	71,226	62,285	2,512
Total.....	22,226	279,440	301,666	301,666	276,954	2,512
Total Public Safety.....	64,050	20,970,298	21,034,348	21,443,116	20,953,620	13,806

(continued)

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

YEAR ENDED JUNE 30, 2018

	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
Education							
School.....	106,554	56,807,834	56,914,388	57,183,725	56,935,803	63,977	183,945
NSRS/Charter/Choice.....	-	2,414,672	2,414,672	2,291,866	2,281,622	-	10,244
Total Education.....	106,554	59,222,506	59,329,060	59,475,591	59,217,425	63,977	194,189
Public Works							
Public Services							
Personnel.....	-	1,734,825	1,734,825	1,734,825	1,704,953	-	29,872
Non - Personnel.....	-	752,891	752,891	1,026,087	976,230	-	49,857
Total.....	-	2,487,716	2,487,716	2,760,912	2,681,183	-	79,729
Engineering							
Personnel.....	-	94,394	94,394	94,394	80,413	-	13,981
Non - Personnel.....	-	6,200	6,200	6,200	4,577	-	1,623
Total.....	-	100,594	100,594	100,594	84,990	-	15,604
Snow and Ice							
Personnel.....	-	50,000	50,000	50,000	93,515	-	(43,515)
Non - Personnel.....	-	408,935	408,935	408,935	1,836,760	-	(1,427,825)
Total.....	-	458,935	458,935	458,935	1,930,275	-	(1,471,340)
Parking Garage							
Personnel.....	-	695,557	695,557	695,557	636,324	-	59,233
Non - Personnel.....	39,309	216,132	255,441	255,441	250,894	1,911	2,636
Total.....	39,309	911,689	950,998	950,998	887,218	1,911	61,869
Total Public Works.....	39,309	3,958,934	3,998,243	4,271,439	5,583,666	1,911	(1,314,138)
Health and Human Services							
Board of Health							
Personnel.....	-	461,969	461,969	465,769	406,990	-	58,779
Non - Personnel.....	500	32,500	33,000	32,500	25,074	310	7,116
Total.....	500	494,469	494,969	498,269	432,064	310	65,895
Council on Aging							
Personnel.....	17,000	354,216	371,216	371,216	348,967	-	22,249
Non - Personnel.....	3,000	37,950	40,950	60,950	51,531	1,251	8,168
Total.....	20,000	392,166	412,166	432,166	400,498	1,251	30,417
Veterans Services							
Personnel.....	-	109,084	109,084	109,089	109,088	-	1
Non - Personnel.....	223	522,709	522,932	524,427	319,641	52,185	152,601
Total.....	223	631,793	632,016	633,516	428,729	52,185	152,602
Total Health and Human Services.....	20,723	1,518,428	1,539,151	1,563,951	1,261,291	53,746	248,914
Culture and Recreation							
Library							
Personnel.....	-	1,015,251	1,015,251	1,015,251	937,203	-	78,048
Non - Personnel.....	20,967	309,829	330,796	330,796	327,307	-	3,489
Total.....	20,967	1,325,080	1,346,047	1,346,047	1,264,510	-	81,537
Parks and Recreation							
Personnel.....	-	282,958	282,958	282,958	281,861	-	1,097
Non - Personnel.....	-	233,485	233,485	233,485	210,561	-	22,924
Total.....	-	516,443	516,443	516,443	492,422	-	24,021
Golf Course							
Personnel.....	-	305,812	305,812	305,812	297,247	-	8,565
Non - Personnel.....	-	223,972	223,972	303,617	289,161	-	14,456
Total.....	-	529,784	529,784	609,429	586,408	-	23,021
Witch House							
Personnel.....	-	131,051	131,051	131,051	126,725	-	4,326
Non - Personnel.....	-	67,480	67,480	67,480	63,522	-	3,958
Total.....	-	198,531	198,531	198,531	190,247	-	8,284

(continued)

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

YEAR ENDED JUNE 30, 2018

	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			
Historical Commission						
Personnel.....	-	9,036	9,036	9,036	8,736	300
Non - Personnel.....	-	1,250	1,250	1,250	464	786
Total.....	-	10,286	10,286	10,286	9,200	1,086
Winter Island						
Personnel.....	-	177,366	177,366	177,366	156,895	20,471
Non - Personnel.....	-	52,300	52,300	52,300	39,609	12,691
Total.....	-	229,666	229,666	229,666	196,504	33,162
Pioneer Village						
Non - Personnel.....	-	17,900	17,900	17,900	16,930	970
Total Culture and Recreation.....	20,967	2,827,690	2,848,657	2,928,302	2,756,221	172,081
Debt service:						
Principal.....	-	4,312,000	4,312,000	4,312,000	4,312,000	-
Interest.....	-	1,602,783	1,602,783	1,602,784	1,602,781	3
Short Term Interest.....	25,000	200,822	225,822	265,222	238,079	27,143
Capital Lease Payment.....	-	491,588	491,588	491,588	491,588	-
Total.....	25,000	6,607,193	6,632,193	6,671,594	6,644,448	27,146
State and county charges.....	-	8,947,490	8,947,490	8,947,490	8,376,492	570,998
Pension benefits						
Contributory Retirement.....	-	10,933,812	10,933,812	10,933,812	10,915,833	17,979
Non-Contributory Retirement.....	-	19,935	19,935	19,935	18,857	1,078
Total.....	-	10,953,747	10,953,747	10,953,747	10,934,690	19,057
Workmen's Compensation.....	-	448,832	448,832	451,432	451,363	69
Unemployment Compensation.....	-	400,000	400,000	397,400	175,123	100,000
Group Insurance.....	-	12,868,727	12,868,727	13,114,874	12,600,550	514,324
Medicare.....	-	1,080,484	1,080,484	1,163,890	1,163,889	1
Municipal Insurance.....	-	317,907	317,907	317,907	244,290	73,617
TOTAL EXPENDITURES.....	468,894	136,747,701	137,216,595	138,653,490	137,018,183	303,334
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(468,894)	1,532,816	1,063,922	(372,973)	3,569,319	(303,334)
OTHER FINANCING SOURCES (USES):						
Premium from issuance of bonds.....	-	-	-	-	4,856	4,856
Transfers in.....	-	2,599,934	2,599,934	3,018,108	3,043,369	25,261
Transfers out.....	-	(5,135,816)	(5,135,816)	(7,319,607)	(7,321,513)	(1,906)
TOTAL OTHER FINANCING SOURCES (USES).....	-	(2,535,882)	(2,535,882)	(4,301,499)	(4,273,288)	28,211
NET CHANGE IN FUND BALANCE.....	(468,894)	(1,003,066)	(1,471,960)	(4,674,472)	(703,969)	3,667,169
BUDGETARY FUND BALANCE, Beginning of year.....	-	8,279,163	8,279,163	8,279,163	8,279,163	-
BUDGETARY FUND BALANCE, End of year.....	\$ (468,894)	\$ 7,276,097	\$ 6,807,203	\$ 3,604,691	\$ 7,575,194	\$ (303,334)

(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	December 31, 2016	December 31, 2017
Total pension liability:				
Service cost.....	\$ 5,854,030	\$ 6,097,323	\$ 6,350,728	\$ 6,879,418
Interest.....	18,557,934	19,386,667	20,274,843	21,023,506
Changes in benefit terms.....	-	-	-	-
Differences between expected and actual experience.....	-	-	(5,574,549)	(1,058,253)
Changes in assumptions.....	-	-	12,360,928	5,467,970
Benefit payments.....	(14,146,676)	(13,777,134)	(14,776,958)	(15,699,301)
Interest on benefit payments.....	-	-	-	-
Net change in total pension liability.....	10,265,288	11,706,856	18,634,992	16,613,340
Total pension liability - beginning.....	<u>240,676,498</u>	<u>250,941,786</u>	<u>262,648,642</u>	<u>281,283,634</u>
Total pension liability - ending (a).....	<u>\$ 250,941,786</u>	<u>\$ 262,648,642</u>	<u>\$ 281,283,634</u>	<u>\$ 297,896,974</u>
Plan fiduciary net position:				
Employer contributions.....	\$ 11,942,341	\$ 12,181,169	\$ 12,527,730	\$ 13,172,909
Member contributions.....	3,939,454	4,121,728	4,311,175	4,488,581
Net investment income (loss).....	9,022,647	659,962	10,046,275	25,387,723
Administrative expenses.....	(242,294)	(238,374)	(266,216)	(273,699)
Retirement benefits and refunds.....	<u>(14,146,676)</u>	<u>(13,777,134)</u>	<u>(14,776,958)</u>	<u>(15,699,301)</u>
Net increase (decrease) in fiduciary net position.....	10,515,472	2,947,351	11,842,006	27,076,213
Fiduciary net position - beginning of year.....	<u>123,879,403</u>	<u>135,650,902</u>	<u>138,598,253</u>	<u>150,440,259</u>
Adjustment to include members transferred from Essex Agricultural and Technical School (c).....	1,256,027	-	-	-
Fiduciary net position - end of year (b).....	<u>\$ 135,650,902</u>	<u>\$ 138,598,253</u>	<u>\$ 150,440,259</u>	<u>\$ 177,516,472</u>
Net pension liability - ending (a)-(b).....	<u>\$ 115,290,884</u>	<u>\$ 124,050,389</u>	<u>\$ 130,843,375</u>	<u>\$ 120,380,502</u>
Plan fiduciary net position as a percentage of the total pension liability.....	54.06%	52.77%	53.48%	59.59%
Covered payroll.....	\$ 40,399,678	\$ 42,015,665	\$ 45,841,256	\$ 46,608,505
Net pension liability as a percentage of covered payroll.....	285.38%	295.25%	285.43%	258.28%

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

<u>Year</u>	<u>Actuarially determined contribution</u>	<u>Contributions in relation to the actuarially determined contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Covered payroll</u>	<u>Contributions as a percentage of covered payroll</u>
December 31, 2017.....	\$ 13,172,909	\$ (13,172,909)	\$ -	\$ 46,608,505	28.26%
December 31, 2016.....	12,527,730	(12,527,730)	-	45,841,256	27.33%
December 31, 2015.....	12,013,685	(12,181,169)	(167,484)	42,015,665	28.99%
December 31, 2014.....	11,942,341	(11,942,341)	-	40,399,678	29.56%

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

<u>Year</u>	<u>Annual money-weighted rate of return, net of investment expense</u>
December 31, 2017.....	17.23%
December 31, 2016.....	7.41%
December 31, 2015.....	0.51%
December 31, 2014.....	7.58%

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.

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**

<u>Year</u>	<u>Proportion of the net pension liability</u>	<u>Proportionate share of the net pension liability</u>	<u>Covered payroll</u>	<u>Net pension liability as a percentage of covered payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
December 31, 2017.....	84.17%	\$ 101,324,784	\$ 35,989,977	281.54%	59.59%
December 31, 2016.....	84.73%	110,864,597	35,015,154	316.62%	53.48%
December 31, 2015.....	84.67%	105,037,687	33,907,437	309.78%	52.77%
December 31, 2014.....	84.01%	96,851,803	32,603,305	297.06%	54.06%

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 CITY'S CONTRIBUTIONS
SALEM CONTRIBUTORY RETIREMENT SYSTEM**

Year	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
June 30, 2018.....	\$ 11,087,694	\$ (11,087,694)	\$ -	\$ 35,989,977	30.81%
June 30, 2017.....	10,513,908	(10,513,908)	-	35,015,154	30.03%
June 30, 2016.....	10,071,175	(10,238,659)	(167,484)	33,907,437	30.20%
June 30, 2015.....	10,121,621	(10,121,621)	-	32,603,305	31.04%

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. Therefore, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the associated collective net pension liability; the portion of the collective pension expense as both a revenue and pension expense recognized; and the Plan's fiduciary net position as a percentage of the total liability.

Year	Commonwealth's 100% Share of the Associated Net Pension Liability	Expense and Revenue Recognized for the Commonwealth's Support	Plan Fiduciary Net Position as a Percentage of the Total Liability
2018.....	\$ 135,097,228	\$ 14,100,491	54.25%
2017.....	129,844,131	13,244,953	52.73%
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 Changes in the City's Net Other Postemployment Benefit Liability and Related Ratios presents multi-year trend information on changes in the Plan's total OPEB liability, changes in the Plan's net position, and ending net OPEB liability. It also demonstrates the Plan's net position as a percentage of the total liability and the Plan's net other postemployment benefit liability as a percentage of covered-employee payroll.

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

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

**SCHEDULE OF CHANGES IN THE
CITY'S NET OPEB LIABILITY AND RELATED RATIOS
OTHER POSTEMPLOYMENT BENEFIT PLAN**

	June 30, 2017	June 30, 2018
Total OPEB Liability		
Service Cost.....	\$ 8,252,716	\$ 6,389,170
Interest.....	5,052,006	5,871,915
Changes of benefit terms.....	-	-
Differences between expected and actual experience.....	-	-
Changes of assumptions.....	(20,326,073)	(7,215,647)
Benefit payments.....	<u>(4,267,124)</u>	<u>(4,459,144)</u>
Net change in total OPEB liability.....	(11,288,475)	586,294
Total OPEB liability - beginning.....	<u>171,129,227</u>	<u>159,840,752</u>
Total OPEB liability - ending (a).....	<u>\$ 159,840,752</u>	<u>\$ 160,427,046</u>
Plan fiduciary net position		
Employer contributions.....	\$ 269,044	\$ 246,147
Employer contributions for OPEB payments.....	4,267,124	4,459,144
Net investment income.....	170,768	137,225
Benefit payments.....	<u>(4,267,124)</u>	<u>(4,459,144)</u>
Net change in plan fiduciary net position.....	439,812	383,372
Plan fiduciary net position - beginning of year.....	<u>1,749,487</u>	<u>2,189,299</u>
Plan fiduciary net position - end of year (b).....	<u>\$ 2,189,299</u>	<u>\$ 2,572,671</u>
Net OPEB liability - ending (a)-(b).....	<u>\$ 157,651,453</u>	<u>\$ 157,854,375</u>
Plan fiduciary net position as a percentage of the total OPEB liability.....	1.37%	1.60%
Covered-employee payroll.....	\$ 82,395,392	\$ 86,683,070
Net OPEB liability as a percentage of covered-employee payroll.....	191.34%	182.11%

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 CITY'S CONTRIBUTIONS
OTHER POSTEMPLOYMENT BENEFIT PLAN**

<u>Year</u>	<u>Actuarially determined contribution</u>	<u>Contributions in relation to the actuarially determined contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Covered- employee payroll</u>	<u>Contributions as a percentage of covered- employee payroll</u>
June 30, 2018.....	\$ 8,076,359	\$ (4,705,291)	\$ 3,371,068	\$ 86,683,070	5.43%
June 30, 2017.....	7,625,880	(4,536,167)	3,089,713	82,395,392	5.51%

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.

See notes to required supplementary information.

SCHEDULE OF INVESTMENT RETURNS
OTHER POSTEMPLOYMENT BENEFIT PLAN

<u>Year</u>	<u>Annual money-weighted rate of return, net of investment expense</u>
June 30, 2018.....	5.89%
June 30, 2017.....	9.08%

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.

NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY1. 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 2018 approved budget authorized approximately \$142.4 million in appropriations and other amounts to be raised. During the year, increases to the original budget were approved totaling approximately \$3.6 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, 2018, is presented below:

Net change in fund balance - budgetary basis.....	\$ (703,969)
<u>Perspective differences:</u>	
Activity of the stabilization fund recorded in the general fund for GAAP.....	(73,611)
Activity of the Bentley Charter School.....	98,239
<u>Basis of accounting differences:</u>	
Net change in recording tax refunds payable.....	(45,958)
Net change in recording 60 day receipts.....	(228,341)
Net change in recording accrued expenditures.....	(17,806)
Recognition of revenue for on-behalf payments.....	14,100,491
Recognition of expenditures for on-behalf payments.....	<u>(14,100,491)</u>
Net change in fund balance - GAAP basis.....	<u>\$ (971,446)</u>

3. Appropriation Deficits

During 2018, 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.

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.

Changes in Assumptions

The following assumption changes were reflected in the January 1, 2018 actuarial valuation:

- The investment return assumption was lowered from 7.50% to 7.375%.
- The mortality assumption for non-disabled participants was updated from the RP-2000 Employee and Healthy Annuitant Mortality Tables projected generationally from 2009 with Scale BB2D to the RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year for female participants projected generationally with Scale MP-2017.
- The mortality assumption for disabled participants was changed from the RP-2000 Healthy Annuitant Mortality Table projected generationally from 2015 with Scale B2D to the RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year projected generationally with Scale MP-2017.
- The administrative expense assumption was decreased from \$350,000 to \$305,000.

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. Additionally, retired teachers and their spouses receive health insurance through the Group Insurance Commission of the Commonwealth of Massachusetts (GIC). Each participating municipality is assessed for the governmental share of health and life insurance premiums paid on behalf of its teacher retirees by the state.

The Other Postemployment Benefit Plan

Schedule of Changes in the City’s Net Other Postemployment Benefit Liability and Related Ratios

The Schedule of Changes in the City’s Net Other Postemployment Benefit Liability and Related Ratios presents multi-year trend information on changes in the Plan’s total OPEB liability, changes in the Plan’s net position, and ending net OPEB liability. It also demonstrates the Plan’s net position as a percentage of the total liability and the Plan’s net other postemployment benefit liability as a percentage of covered employee payroll.

Schedule of the City’s Contributions

The Schedule of the City’s Contributions includes the City’s annual required contribution to the Plan, along with the contribution made in relation to the actuarially determined contribution and the covered employee payroll. The City is not required to fully fund this contribution. It also demonstrates the contributions as a percentage of covered payroll. Actuarially contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported. Methods and assumptions used to determine contribution rates are as follows:

Valuation date.....	June 30, 2016
Actuarial cost method.....	Entry Age Normal
Amortization method.....	Level percentage of payroll
Remaining amortization period.....	30 years from July 1, 2016
Asset valuation method.....	Market Value
Salary increase.....	Service-related increases for Group 1 (Excluding Teachers) and Group 2 Employees: 6.0% decreasing over 9 years to an ultimate level of 4.25%. Service-related increases for Group 4 members: 7.0% decreasing over 5 years to an ultimate level of 4.75%. Service-related increases for Teachers: 7.5% decreasing over 20 years to an ultimate level of 4.0%
Discount rate.....	3.87% as of June 30, 2018 and 3.58% as of June 30, 2017
Investment rate of return.....	7.50%
Inflation rate.....	3.50%

Health care trend rates:

Non Medicare.....	6.3% for year 1, then 8.5% decreasing by 0.5% for 7 years to an ultimate level of 5.0%
Medicare Supplement.....	0.4% for year 1, then 8.5% decreasing by 0.5% for 7 years to an ultimate level of 5.0%
Medicare Advantage.....	8.9% for year 1, then 8.5% decreasing by 0.5% for 7 years to an ultimate level of 5.0%
Part B.....	5.00%
Contributions.....	Non-Medicare and Medicare retiree contributions are expected to increase with the respective medical trends shown above

Mortality rates:

Pre-Retirement (Non-Teachers).....	RP-2000 Employee Mortality Table projected generationally from 2009 with Scale BB2D
Healthy (Non-Teachers).....	RP-2000 Healthy Annuitant Mortality Table projected generationally from 2009 with Scale BB2d
Disabled (Non-Teachers).....	RP-2000 Healthy Annuitant Mortality Table projected generationally from 2015 with Scale BB2d
Pre-Retirement (Teachers).....	RP-2014 White Collar Employee Mortality Table projected generationally with Scale MP-2016
Healthy (Teachers).....	RP-2014 White Collar Healthy Annuitant Mortality Table projected generationally with Scale MP-2016
Disabled (Teachers).....	RP-2014 Healthy Annuitant Mortality Table set forward 4 years projected generationally with Scale BB from 2014

Schedule of Investment Returns

The Schedule of Investment Returns includes the money-weighted investment return on the Plan’s other postemployment assets, net of investment expense.

Changes in Assumptions – The discount rate was increased from 3.58% to 3.87% as of June 30, 2018.

Changes in Plan Provisions – None

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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.

City Wharf Project Fund – This fund is used to account for the fourth phase of the wharf project which includes improvements to the harborwalk, docks, walkways and pier construction.

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, 2018

	Special Revenue Funds				
	School Grants	Community Development Grants	School Lunch	Highway Grants	Donations and Gifts
ASSETS					
Cash and cash equivalents.....	\$ 1,130,359	\$ -	\$ 428,695	\$ -	\$ 439,912
Investments.....	-	-	-	-	276,211
Receivables, net of uncollectibles:					
Departmental and other.....	-	-	-	-	-
Intergovernmental - other.....	137,261	62,382	-	1,137,262	-
Loans.....	-	136,679	-	-	-
TOTAL ASSETS.....	<u>\$ 1,267,620</u>	<u>\$ 199,061</u>	<u>\$ 428,695</u>	<u>\$ 1,137,262</u>	<u>\$ 716,123</u>
LIABILITIES					
Accrued payroll.....	\$ 156,633	\$ 5,658	\$ 25,512	\$ -	\$ 346
Due to other funds.....	-	29,795	-	244,353	-
TOTAL LIABILITIES.....	<u>156,633</u>	<u>35,453</u>	<u>25,512</u>	<u>244,353</u>	<u>346</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue.....	-	136,679	-	892,909	-
FUND BALANCES					
Nonspendable.....	-	-	-	-	-
Restricted.....	1,110,987	26,929	403,183	-	715,777
TOTAL FUND BALANCES.....	<u>1,110,987</u>	<u>26,929</u>	<u>403,183</u>	<u>-</u>	<u>715,777</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES.....	<u>\$ 1,267,620</u>	<u>\$ 199,061</u>	<u>\$ 428,695</u>	<u>\$ 1,137,262</u>	<u>\$ 716,123</u>

(continued)

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

JUNE 30, 2018

	Special Revenue Funds				
	Receipts Reserved	City Revolving Accounts	School Revolving Accounts	City Wharf Project	Subtotal
ASSETS					
Cash and cash equivalents.....	\$ 2,311,103	\$ 1,150,269	\$ 312,693	\$ 531,057	\$ 6,304,088
Investments.....	-	-	-	-	276,211
Receivables, net of uncollectibles:					
Departmental and other.....	83,991	-	-	-	83,991
Intergovernmental - other.....	-	-	-	-	1,336,905
Loans.....	-	134,192	-	-	270,871
TOTAL ASSETS.....	\$ 2,395,094	\$ 1,284,461	\$ 312,693	\$ 531,057	\$ 8,272,066
LIABILITIES					
Accrued payroll.....	\$ -	\$ 84	\$ 11,155	\$ -	\$ 199,388
Due to other funds.....	-	-	-	-	274,148
TOTAL LIABILITIES.....	-	84	11,155	-	473,536
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue.....	83,991	134,192	-	-	1,247,771
FUND BALANCES					
Nonspendable.....	-	-	-	-	-
Restricted.....	2,311,103	1,150,185	301,538	531,057	6,550,759
TOTAL FUND BALANCES.....	2,311,103	1,150,185	301,538	531,057	6,550,759
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES.....	\$ 2,395,094	\$ 1,284,461	\$ 312,693	\$ 531,057	\$ 8,272,066

Capital Project Funds			Permanent Funds				Total Nonmajor Governmental Funds
School Capital Projects	Other Capital Projects	Subtotal	Cemetery	Human Service	Other	Subtotal	
\$ 6,845	\$ 226,010	\$ 232,855	\$ 259,693	\$ 99,748	\$ 162,411	\$ 521,852	\$ 7,058,795
-	-	-	3,754,585	1,613,469	1,361,991	6,730,045	7,006,256
-	-	-	-	-	-	-	83,991
-	-	-	-	-	-	-	1,336,905
-	-	-	-	-	-	-	270,871
<u>\$ 6,845</u>	<u>\$ 226,010</u>	<u>\$ 232,855</u>	<u>\$ 4,014,278</u>	<u>\$ 1,713,217</u>	<u>\$ 1,524,402</u>	<u>\$ 7,251,897</u>	<u>\$ 15,756,818</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 199,388
-	-	-	-	-	-	-	274,148
-	-	-	-	-	-	-	473,536
-	-	-	-	-	-	-	1,247,771
-	-	-	1,244,281	534,708	451,368	2,230,357	2,230,357
<u>6,845</u>	<u>226,010</u>	<u>232,855</u>	<u>2,769,997</u>	<u>1,178,509</u>	<u>1,073,034</u>	<u>5,021,540</u>	<u>11,805,154</u>
<u>6,845</u>	<u>226,010</u>	<u>232,855</u>	<u>4,014,278</u>	<u>1,713,217</u>	<u>1,524,402</u>	<u>7,251,897</u>	<u>14,035,511</u>
<u>\$ 6,845</u>	<u>\$ 226,010</u>	<u>\$ 232,855</u>	<u>\$ 4,014,278</u>	<u>\$ 1,713,217</u>	<u>\$ 1,524,402</u>	<u>\$ 7,251,897</u>	<u>\$ 15,756,818</u>

(concluded)

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

YEAR ENDED JUNE 30, 2018

	Special Revenue Funds				
	School Grants	Community Development Grants	School Lunch	Highway Grants	Donations and Gifts
REVENUES:					
Charges for services.....	\$ -	\$ -	\$ -	\$ -	\$ -
Penalties and interest on taxes.....	-	-	-	-	-
Intergovernmental - other.....	5,600,588	1,176,107	2,270,401	909,691	-
Departmental and other.....	1,143,702	187,909	143,357	-	-
Contributions and donations.....	-	-	-	-	120,966
Investment income.....	-	33	-	-	27,841
TOTAL REVENUES.....	6,744,290	1,364,049	2,413,758	909,691	148,807
EXPENDITURES:					
Current:					
General government.....	-	-	-	-	16,004
Public safety.....	-	-	-	-	16,168
Education.....	7,557,475	-	2,352,944	-	103,399
Public works.....	-	-	-	912,057	-
Community development.....	-	1,363,285	-	-	-
Health and human services.....	-	-	-	-	74,328
Culture and recreation.....	-	-	-	-	13,162
TOTAL EXPENDITURES.....	7,557,475	1,363,285	2,352,944	912,057	223,061
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(813,185)	764	60,814	(2,366)	(74,254)
OTHER FINANCING SOURCES (USES):					
Premium from issuance of bonds.....	-	-	-	-	-
Transfers in.....	21,979	-	-	43,466	10,000
Transfers out.....	(21,979)	-	-	-	-
Capital transfer.....	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	-	-	-	43,466	10,000
NET CHANGE IN FUND BALANCES.....	(813,185)	764	60,814	41,100	(64,254)
FUND BALANCES AT BEGINNING OF YEAR, AS REVISED....	1,924,172	26,165	342,369	(41,100)	780,031
FUND BALANCES AT END OF YEAR.....	\$ 1,110,987	\$ 26,929	\$ 403,183	\$ -	\$ 715,777

Special Revenue Funds					Capital Project Funds		
Receipts Reserved	City Revolving Accounts	School Revolving Accounts	City Wharf Project	Subtotal	School Capital Projects	Other Capital Projects	Subtotal
\$ 759,208	\$ -	\$ -	-	\$ 759,208	\$ -	\$ -	\$ -
2,590	-	-	-	2,590	-	-	-
-	65,250	-	-	10,022,037	-	-	-
820,342	887,457	895,083	-	4,077,850	-	49,031	49,031
-	4,062	-	-	125,028	-	-	-
-	1,715	828	-	30,417	-	-	-
<u>1,582,140</u>	<u>958,484</u>	<u>895,911</u>	<u>-</u>	<u>15,017,130</u>	<u>-</u>	<u>49,031</u>	<u>49,031</u>
-	183,171	-	-	199,175	-	1,236	1,236
28,173	11,777	-	-	56,118	-	-	-
-	-	1,083,485	-	11,097,303	-	-	-
-	-	-	-	912,057	-	-	-
-	37,929	-	-	1,401,214	-	-	-
-	88,143	-	-	162,471	-	-	-
<u>57,316</u>	<u>313,977</u>	<u>-</u>	<u>-</u>	<u>384,455</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>85,489</u>	<u>634,997</u>	<u>1,083,485</u>	<u>-</u>	<u>14,212,793</u>	<u>-</u>	<u>1,236</u>	<u>1,236</u>
<u>1,496,651</u>	<u>323,487</u>	<u>(187,574)</u>	<u>-</u>	<u>804,337</u>	<u>-</u>	<u>47,795</u>	<u>47,795</u>
556,991	-	-	-	556,991	-	-	-
-	-	-	-	75,445	-	-	-
(1,955,069)	-	-	-	(1,977,048)	(2,661,500)	-	(2,661,500)
-	-	-	-	-	(2,260,269)	-	(2,260,269)
<u>(1,398,078)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,344,612)</u>	<u>(4,921,769)</u>	<u>-</u>	<u>(4,921,769)</u>
98,573	323,487	(187,574)	-	(540,275)	(4,921,769)	47,795	(4,873,974)
<u>2,212,530</u>	<u>826,698</u>	<u>489,112</u>	<u>531,057</u>	<u>7,091,034</u>	<u>4,928,614</u>	<u>178,215</u>	<u>5,106,829</u>
<u>\$ 2,311,103</u>	<u>\$ 1,150,185</u>	<u>\$ 301,538</u>	<u>\$ 531,057</u>	<u>\$ 6,550,759</u>	<u>\$ 6,845</u>	<u>\$ 226,010</u>	<u>\$ 232,855</u>

(continued)

	Permanent Funds				Total Nonmajor Governmental Funds
	Cemetery	Human Service	Other	Subtotal	
REVENUES:					
Charges for services.....	\$ -	\$ -	\$ -	\$ -	\$ 759,208
Penalties and interest on taxes.....	-	-	-	-	2,590
Intergovernmental - other.....	-	-	-	-	10,022,037
Departmental and other.....	-	-	3,182	3,182	4,130,063
Contributions and donations.....	29,100	-	(3,055)	26,045	151,073
Investment income.....	388,725	132,461	96,821	618,007	648,424
TOTAL REVENUES.....	417,825	132,461	96,948	647,234	15,713,395
EXPENDITURES:					
Current:					
General government.....	-	-	-	-	200,411
Public safety.....	-	-	21,726	21,726	77,844
Education.....	-	-	-	-	11,097,303
Public works.....	155,306	-	-	155,306	1,067,363
Community development.....	-	-	-	-	1,401,214
Health and human services.....	-	61,939	-	61,939	224,410
Culture and recreation.....	-	-	-	-	384,455
TOTAL EXPENDITURES.....	155,306	61,939	21,726	238,971	14,453,000
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	262,519	70,522	75,222	408,263	1,260,395
OTHER FINANCING SOURCES (USES):					
Premium from issuance of bonds.....	-	-	-	-	556,991
Transfers in.....	-	-	-	-	75,445
Transfers out.....	-	-	-	-	(4,638,548)
Capital transfer.....	-	-	-	-	(2,260,269)
TOTAL OTHER FINANCING SOURCES (USES).....	-	-	-	-	(6,266,381)
NET CHANGE IN FUND BALANCES.....	262,519	70,522	75,222	408,263	(5,005,986)
FUND BALANCES AT BEGINNING OF YEAR, AS REVISED....	3,751,759	1,642,695	1,449,180	6,843,634	19,041,497
FUND BALANCES AT END OF YEAR.....	\$ 4,014,278	\$ 1,713,217	\$ 1,524,402	\$ 7,251,897	\$ 14,035,511

(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, 2018

	<u>Trust Fund Commissioners</u>	<u>Scholarship Funds</u>	<u>Total Private Purpose Trust Funds</u>
ASSETS			
Cash and cash equivalents.....	\$ 81,870	\$ 121,091	\$ 202,961
Investments:			
Equity securities.....	839,247	-	839,247
Fixed income mutual funds.....	<u>485,038</u>	<u>-</u>	<u>485,038</u>
TOTAL ASSETS.....	<u>1,406,155</u>	<u>121,091</u>	<u>1,527,246</u>
NET POSITION			
Held in trust for other purposes.....	<u>\$ 1,406,155</u>	<u>\$ 121,091</u>	<u>\$ 1,527,246</u>

PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2018

	Trust Fund Commissioners	Scholarship Funds	Total Private Purpose Trust Funds
ADDITIONS:			
Contributions:			
Private donations.....	\$ -	\$ 26,203	\$ 26,203
Net investment income:			
Investment income.....	108,528	1,659	110,187
TOTAL ADDITIONS.....	108,528	27,862	136,390
DEDUCTIONS:			
Health and human services.....	38,626	-	38,626
Educational scholarships.....	6,700	27,357	34,057
TOTAL DEDUCTIONS.....	45,326	27,357	72,683
NET INCREASE IN NET POSITION.....	63,202	505	63,707
NET POSITION AT BEGINNING OF YEAR.....	1,342,953	120,586	1,463,539
NET POSITION AT END OF YEAR.....	\$ 1,406,155	\$ 121,091	\$ 1,527,246

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, 2018

	June 30, 2017	Additions	Deletions	June 30, 2018
ASSETS				
CURRENT:				
Cash and cash equivalents.....	\$ <u>652,922</u>	\$ <u>64,868,030</u>	\$ <u>(65,037,094)</u>	\$ <u>483,858</u>
LIABILITIES				
Liabilities due depositors.....	\$ <u>652,922</u>	\$ <u>64,868,030</u>	\$ <u>(65,037,094)</u>	\$ <u>483,858</u>

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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 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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Governmental activities										
Net investment in capital assets.....	\$ 147,373,757	\$ 147,313,749	\$ 144,887,020	\$ 147,692,495	\$ 169,750,602	\$ 170,092,864	\$ 172,084,606	\$ 171,154,358	\$ 176,860,142	\$ 179,897,226
Restricted.....	6,968,580	6,892,267	10,562,103	11,197,635	12,499,976	14,383,949	12,047,560	9,234,701	11,301,791	11,216,626
Unrestricted.....	(13,473,169)	(17,907,226)	(17,992,385)	(21,617,069)	(22,562,824)	(116,481,627)	(125,845,138)	(126,419,624)	(244,081,157)	(254,025,690)
Total governmental activities net position.....	\$ 140,869,168	\$ 136,298,790	\$ 137,456,738	\$ 137,273,061	\$ 159,687,754	\$ 67,995,186	\$ 58,287,028	\$ 53,969,435	\$ (55,919,224)	\$ (62,911,838)
Business-type activities										
Net investment in capital assets.....	6,939,001	\$ 8,245,799	\$ 8,248,186	\$ 8,605,165	\$ 9,562,558	\$ 8,511,138	\$ 8,744,920	\$ 8,280,350	\$ 8,340,720	\$ 9,066,385
Unrestricted.....	6,371,380	3,920,927	4,366,232	4,085,318	4,857,190	6,184,586	3,008,694	3,573,341	3,735,855	3,803,300
Total business-type activities net position.....	\$ 13,310,381	\$ 12,166,726	\$ 12,614,418	\$ 12,690,483	\$ 14,419,748	\$ 14,695,724	\$ 11,753,614	\$ 11,853,691	\$ 12,076,575	\$ 12,869,685
Primary government										
Net investment in capital assets.....	154,312,758	\$ 155,559,548	\$ 153,135,206	\$ 156,297,660	\$ 179,313,160	\$ 178,604,002	\$ 180,829,526	\$ 179,434,708	\$ 185,200,862	\$ 188,963,611
Restricted.....	6,968,580	6,892,267	10,562,103	11,197,635	12,499,976	14,383,949	12,047,560	9,234,701	11,301,791	11,216,626
Unrestricted.....	(7,101,789)	(13,986,299)	(13,626,153)	(17,531,751)	(17,705,634)	(110,297,041)	(122,836,444)	(122,846,283)	(240,345,302)	(250,222,390)
Total primary government net position.....	\$ 154,179,549	\$ 148,465,516	\$ 150,071,156	\$ 149,963,544	\$ 174,107,502	\$ 82,690,910	\$ 70,040,642	\$ 65,823,126	\$ (43,842,649)	\$ (50,042,153)

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

GASB 75 was implemented in 2018 and the net other postemployment benefits liability was recorded. Fiscal year 2017 was revised to reflect this implementation.

In 2018 it was determined the golf course fund would be more appropriately reported as a governmental fund, accordingly beginning net position for governmental and business-type activities was revised.

Changes in Net Position

Last Ten Years

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Expenses										
Governmental activities:										
General government.....	\$ 10,914,012	\$ 10,865,152	\$ 11,702,186	\$ 11,904,711	\$ 10,574,021	\$ 10,080,121	\$ 12,503,170	\$ 11,788,264	\$ 12,327,559	\$ 13,502,981
Public safety.....	27,421,538	26,755,783	27,989,181	26,551,919	27,832,445	29,879,444	29,652,698	29,707,698	32,046,642	32,001,933
Education.....	79,410,738	83,743,843	86,938,434	91,261,655	95,924,303	100,837,487	100,997,380	105,955,199	114,049,284	116,239,977
Public works.....	6,705,986	6,820,639	8,894,659	5,952,380	8,848,271	9,092,995	11,878,911	12,627,503	10,846,604	10,560,810
Community development.....	2,093,618	3,226,360	1,845,141	1,530,786	1,347,731	1,304,481	1,569,281	1,033,601	1,335,941	1,404,147
Health and human services.....	6,226,498	6,622,114	5,930,089	6,001,130	6,140,975	5,768,579	6,850,201	6,793,390	6,714,390	6,326,856
Community preservation.....	(A)	(A)	(A)	(A)	(A)	(A)	5,350	356,518	80,610	456,019
Culture and recreation.....	3,228,906	3,169,224	2,997,090	3,219,315	3,429,452	3,589,253	3,277,578	3,585,339	3,576,595	4,177,418
Interest.....	2,396,187	1,888,315	1,582,033	1,544,887	1,277,709	1,328,888	1,349,443	1,313,435	1,646,278	1,379,029
Total government activities expenses.....	138,397,483	143,091,430	147,878,813	147,966,783	155,374,907	161,906,598	168,435,180	172,885,039	182,999,312	186,516,819
Business-type activities:										
Water and sewer services.....	11,488,868	11,796,038	10,752,161	10,921,100	11,169,816	11,241,391	12,386,557	11,694,630	10,787,708	11,472,948
Golf course.....	278,007	399,023	363,625	438,613	465,210	466,834	472,708	531,307	552,606	(C)
Parking.....	905,834	844,615	991,722	1,042,610	1,052,780	968,159	(B)	(B)	(B)	(B)
Trash.....	2,558,263	2,573,421	2,617,948	2,744,963	2,648,564	2,373,876	2,448,400	2,762,022	2,917,405	3,125,896
Total business type activities expenses.....	15,230,972	15,613,097	14,725,456	15,147,286	15,336,370	15,050,260	15,307,665	14,987,959	14,257,719	14,598,844
Total primary government expenses.....	\$ 153,628,455	\$ 158,704,527	\$ 162,604,269	\$ 163,114,069	\$ 170,711,277	\$ 176,956,858	\$ 183,742,845	\$ 187,872,998	\$ 197,257,031	\$ 201,115,663
Program Revenues										
Governmental activities:										
Education charges for services.....	\$ 1,473,880	\$ 1,370,250	\$ 1,277,950	\$ 1,271,626	\$ 1,171,221	\$ 1,275,125	\$ 1,036,778	\$ 1,224,683	\$ 807,217	\$ 951,076
Public Safety charges for services.....	2,456,341	2,074,324	2,115,452	2,212,295	2,780,253	2,237,189	2,712,983	2,289,056	3,257,068	2,589,149
Other charges for services.....	1,693,333	1,824,040	1,744,351	1,872,305	2,264,412	2,345,324	4,762,457	4,971,335	5,576,210	6,403,324
Operating grants and contributions.....	43,744,124	46,352,034	51,358,511	47,872,700	49,028,512	50,489,073	46,826,741	52,223,253	54,915,403	56,548,429
Capital grant and contributions.....	8,762,642	4,135,374	5,197,515	5,699,571	30,643,446	8,496,589	5,050,922	7,213,351	7,576,188	2,514,534
Total government activities program revenues.....	58,130,320	55,756,022	61,693,779	58,928,497	85,887,844	64,843,300	60,389,881	67,921,678	72,132,086	69,006,512
Business-type activities:										
Charges for services - Water and Sewer.....	11,753,147	12,122,111	12,810,031	12,609,726	13,692,023	13,086,639	13,288,556	13,043,867	13,312,357	13,486,343
Charges for services - Golf.....	547,301	589,345	548,805	648,916	697,232	705,341	724,052	805,227	749,590	(C)
Charges for services - Parking.....	1,694,708	2,038,235	2,333,478	2,274,470	2,580,262	2,510,838	(B)	(B)	(B)	(B)
Charges for services - Trash.....	720,193	740,511	692,089	675,916	684,262	678,607	689,982	838,882	861,402	855,521
Capital grants and contributions.....	43,796	41,820	39,804	-	-	2,887,131	102,518	-	-	-
Total business-type activities program revenues.....	14,759,145	15,532,022	16,424,207	16,209,028	17,653,779	19,868,556	14,805,108	14,687,976	14,923,349	14,341,864
Total primary government program revenues.....	\$ 72,889,465	\$ 71,288,044	\$ 78,117,986	\$ 75,137,525	\$ 103,541,623	\$ 84,711,856	\$ 75,194,989	\$ 82,609,654	\$ 87,055,435	\$ 83,348,376
Net (Expense)/Revenue										
Governmental activities.....	\$ (80,267,163)	\$ (87,335,408)	\$ (86,185,034)	\$ (89,038,286)	\$ (69,487,063)	\$ (97,063,298)	\$ (108,045,299)	\$ (104,963,361)	\$ (110,867,226)	\$ (117,510,307)
Business-type activities.....	(471,827)	(81,075)	1,698,751	1,061,742	2,317,409	4,818,296	(502,557)	(299,983)	665,630	(256,980)
Total primary government net expense.....	\$ (80,738,990)	\$ (87,416,483)	\$ (84,486,283)	\$ (87,976,544)	\$ (67,169,654)	\$ (92,245,002)	\$ (108,547,856)	\$ (105,263,344)	\$ (110,201,596)	\$ (117,767,287)
General Revenues and other Changes in Net Position										
Governmental activities:										
Real estate and personal property taxes, net of tax refunds payable.....	\$ 66,672,653	\$ 69,067,349	\$ 71,828,412	\$ 72,073,381	\$ 76,770,134	\$ 79,012,963	\$ 82,444,144	\$ 84,802,453	\$ 90,118,638	\$ 92,995,509
Community Preservation Taxes.....	(A)	(A)	(A)	(A)	(A)	486,797	535,637	561,424	590,722	612,399
Tax liens.....	527,492	234,353	510,973	795,443	589,138	563,353	708,963	523,414	317,548	497,622
Motor vehicle and other excise taxes.....	2,978,961	3,092,527	3,181,247	3,131,334	3,052,229	3,890,099	3,929,230	4,194,711	4,311,772	4,486,746
Hotel/motel tax.....	324,622	294,214	955,092	1,161,007	1,224,849	1,319,418	1,362,357	1,541,901	1,683,573	1,845,865
Penalties and interest on taxes.....	412,572	437,361	438,487	490,242	399,311	457,958	443,444	497,484	466,092	495,693
Payments in lieu of taxes.....	1,320,945	1,307,078	1,319,079	1,440,186	1,462,692	1,321,060	1,043,782	1,322,806	1,082,164	1,572,535
Grants and contributions not restricted to specific programs.....	8,064,486	6,583,118	6,404,395	8,220,908	6,610,413	6,775,827	7,182,509	6,881,968	7,218,934	7,527,909
Unrestricted investment income.....	(35,188)	435,769	1,095,518	103,015	828,974	1,377,835	554,360	459,322	1,134,074	947,635
Miscellaneous.....	203,848	250,681	358,720	453,416	375,872	344,538	122,979	260,344	318,858	585,870
Transfers.....	702,234	1,062,580	1,251,059	985,677	588,144	1,653,218	9,736	(400,060)	(510,404)	(1,050,090)
Total governmental activities.....	81,172,625	82,765,030	87,342,982	88,854,609	91,901,756	97,203,066	98,337,141	100,645,767	106,731,971	110,517,693
Business-type activities:										
Transfers.....	(702,234)	(1,062,580)	(1,251,059)	(985,677)	(588,144)	(1,653,218)	(9,736)	400,060	510,404	1,050,090
Total primary government.....	\$ 80,470,391	\$ 81,702,450	\$ 86,091,923	\$ 87,868,932	\$ 91,313,612	\$ 95,549,848	\$ 98,327,405	\$ 101,045,827	\$ 107,242,375	\$ 111,567,783
Changes in Net Position										
Governmental activities.....	\$ 905,462	(4,570,378)	1,157,948	(183,677)	22,414,693	139,768	(9,708,158)	(4,317,594)	(4,135,255)	(6,992,614)
Business-type activities.....	(1,174,061)	(1,143,655)	447,692	76,065	1,729,265	3,165,078	(512,293)	100,077	1,176,034	793,110
Total primary government.....	\$ (268,599)	\$ (5,714,033)	\$ 1,605,640	\$ (107,612)	\$ 24,143,958	\$ 3,304,846	\$ (10,220,451)	\$ (4,217,517)	\$ (2,959,221)	\$ (6,199,504)

(A) In 2014 the City approved and established the Community Preservation Fund.
 (B) In 2015 the City reclassified the parking fund to a governmental activity.
 (C) In 2018 the City reclassified the golf course fund to a governmental activity.

Fund Balances, Governmental Funds

Last Ten Years

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Fund										
Reserved.....	\$ 372,027	\$ 421,825	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved.....	749,849	1,211,094	-	-	-	-	-	-	-	-
Assigned.....	-	-	589,894	985,737	1,059,667	1,002,935	558,880	661,246	468,894	303,334
Unassigned.....	-	-	8,405,585	9,550,262	11,663,494	11,998,002	11,159,068	12,937,609	14,518,650	13,712,764
Total general fund.....	\$ 1,121,876	\$ 1,632,919	\$ 8,995,479	\$ 10,535,999	\$ 12,723,161	\$ 13,000,937	\$ 11,717,948	\$ 13,598,855	\$ 14,987,544	\$ 14,016,098
All Other Governmental Funds										
Reserved.....	\$ 1,688,851	\$ 1,689,176	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds.....	5,602,931	5,819,702	-	-	-	-	-	-	-	-
Capital projects funds.....	(537,848)	3,969,207	-	-	-	-	-	-	-	-
Permanent funds.....	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	2,206,224	2,230,357
Restricted.....	-	-	11,329,632	14,344,418	12,942,168	15,563,265	12,440,090	20,988,535	19,857,614	20,197,556
Unassigned.....	-	-	(665,295)	(4,101,228)	(623,622)	(2,089,648)	(1,002,367)	(23,344)	(128,661)	(282,668)
Total all other governmental funds....	\$ 9,431,977	\$ 14,261,740	\$ 12,371,613	\$ 12,317,287	\$ 14,393,535	\$ 15,548,604	\$ 13,588,810	\$ 23,142,160	\$ 21,935,177	\$ 22,145,245

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenues:										
Real estate and personal property taxes, net of tax refunds.....	\$ 66,717,968	\$ 68,747,759	\$ 71,754,816	\$ 72,202,064	\$ 77,018,965	\$ 79,449,354	\$ 82,905,745	\$ 85,828,099	\$ 91,488,374	\$ 93,102,182
Motor vehicle and other excise taxes.....	3,154,642	3,007,759	3,180,552	3,203,122	3,113,058	3,799,179	3,945,343	4,057,235	4,300,898	4,456,037
Intergovernmental.....	42,962,129	44,150,857	51,562,915	50,048,535	84,640,597	49,698,445	49,811,556	51,544,933	53,058,071	46,824,285
Departmental and other.....	9,382,460	8,511,803	9,656,996	10,366,488	12,049,109	11,097,377	13,036,554	14,259,338	14,159,322	19,953,037
Investment income.....	(32,923)	436,686	1,096,747	129,773	828,974	1,377,835	554,360	459,322	1,134,074	846,980
Commonwealth school construction grants.....	13,130,784	7,095,272	4,310,837	4,310,837	4,310,837	3,695,128	3,171,572	3,171,572	3,171,572	1,389,074
On-behalf pension payments by the Commonwealth (A).....	8,277,958	8,602,216	9,290,000	9,695,000	10,522,000	10,808,000	6,752,780	10,209,061	13,244,953	14,100,491
Total Revenue.....	143,593,018	140,552,352	150,852,863	149,955,819	192,483,540	159,925,318	160,177,910	169,529,560	180,557,264	180,672,086
Expenditures:										
General government.....	5,284,403	5,062,768	5,678,376	6,039,335	6,351,699	6,218,639	8,285,799	7,404,363	7,971,958	9,740,148
Public safety.....	16,452,689	16,147,666	17,129,546	17,807,607	18,207,275	19,627,830	19,936,450	19,682,270	20,668,857	21,796,758
Education.....	48,101,995	49,491,944	51,429,439	50,076,848	53,168,217	54,548,503	63,150,832	60,044,184	71,832,889	73,764,881
Public works.....	3,718,860	3,255,769	3,573,118	2,831,181	5,338,674	5,230,942	7,137,934	7,530,669	6,216,029	6,469,400
Community development.....	2,402,149	3,413,203	1,933,227	1,757,053	1,322,586	1,629,209	1,544,509	1,033,601	1,335,941	1,404,147
Health and human services.....	5,339,094	6,158,089	5,927,137	5,538,621	5,580,162	5,446,188	6,424,227	6,341,080	5,837,125	5,589,063
Community Preservation (B).....	-	-	-	-	-	5,350	356,518	506,415	456,019	923,668
Culture and recreation.....	2,395,536	2,320,698	2,152,872	3,367,206	2,468,723	2,368,401	2,264,401	2,347,889	2,366,896	2,872,247
Pension benefits.....	16,206,240	16,770,835	17,707,823	18,538,274	19,771,148	20,402,625	16,923,249	20,151,894	10,365,094	10,934,690
Massachusetts teachers' retirement (A).....	8,277,958	8,602,216	9,290,000	9,695,000	10,522,000	10,808,000	6,752,780	10,209,061	13,244,953	14,100,491
Employee benefits.....	11,805,651	11,077,682	11,751,691	13,122,992	13,326,634	14,255,543	13,490,299	13,529,621	14,108,736	14,390,925
State and county charges.....	6,302,025	6,655,890	6,445,380	6,390,908	5,141,397	5,776,828	6,015,427	7,061,663	7,946,729	8,376,492
Capital outlay.....	13,552,655	4,654,814	6,194,898	11,752,488	38,287,997	16,665,809	13,273,983	10,251,982	14,234,566	10,245,735
Debt service										
Principal.....	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	3,752,361	4,312,000
Interest.....	2,568,643	2,087,028	1,851,117	1,761,551	1,816,117	1,536,769	1,558,748	1,640,859	1,810,439	1,840,860
Total Expenditures.....	146,967,395	141,083,602	148,614,624	153,396,064	200,756,629	167,594,234	170,050,156	171,235,551	182,148,592	186,761,505
Excess of revenues over (under) expenditures.....	(3,374,377)	(531,250)	2,238,239	(3,440,245)	(8,273,089)	(7,668,916)	(9,872,246)	(1,705,991)	(1,591,328)	(6,089,419)
Other Financing Sources (Uses)										
Issuance of debt.....	-	4,589,000	630,000	3,900,938	11,242,660	6,680,000	5,980,000	10,473,361	665,000	7,349,229
Premium from issuance of bonds.....	-	575,986	1,167,420	1,059	191,693	421,355	700,157	606,548	517,618	561,847
Issuance of refunding bonds.....	3,785,000	11,043,000	4,589,000	-	-	2,509,500	-	-	3,312,000	-
Premium from issuance of refunding bonds.....	-	-	-	-	-	262,818	-	-	464,866	-
Payments to refunded bond escrow agent.....	-	(8,512,000)	-	-	-	(2,709,130)	-	-	(3,735,364)	-
Refunding bonds redeemed.....	(3,785,000)	(2,930,000)	(4,589,000)	-	-	-	-	-	-	-
Capital lease financing.....	167,454	43,500	185,715	38,765	514,002	284,000	351,762	1,805,846	590,426	695,958
Transfers in.....	5,228,530	6,160,597	5,137,447	5,184,894	5,343,327	6,718,284	3,699,383	4,779,568	7,261,562	9,364,166
Transfers out.....	(4,526,296)	(5,098,017)	(3,886,388)	(4,199,217)	(4,755,183)	(5,065,066)	(3,689,647)	(5,179,628)	(7,771,966)	(10,414,256)
Capital transfer.....	-	-	-	-	-	-	-	-	-	(2,260,269)
Total other financing sources (uses).....	869,688	5,872,066	3,234,194	4,926,439	12,536,499	9,101,761	7,041,655	12,485,695	1,304,142	5,296,675
Net change in fund balance.....	\$ (2,504,689)	\$ 5,340,816	\$ 5,472,433	\$ 1,486,194	\$ 4,263,410	\$ 1,432,845	\$ (2,830,591)	\$ 10,779,704	\$ (287,186)	\$ (792,744)
Debt service as a percentage of noncapital expenditures.....	5.34%	5.48%	6.60%	4.57%	13.09%	3.05%	2.87%	3.19%	3.31%	3.49%

(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.

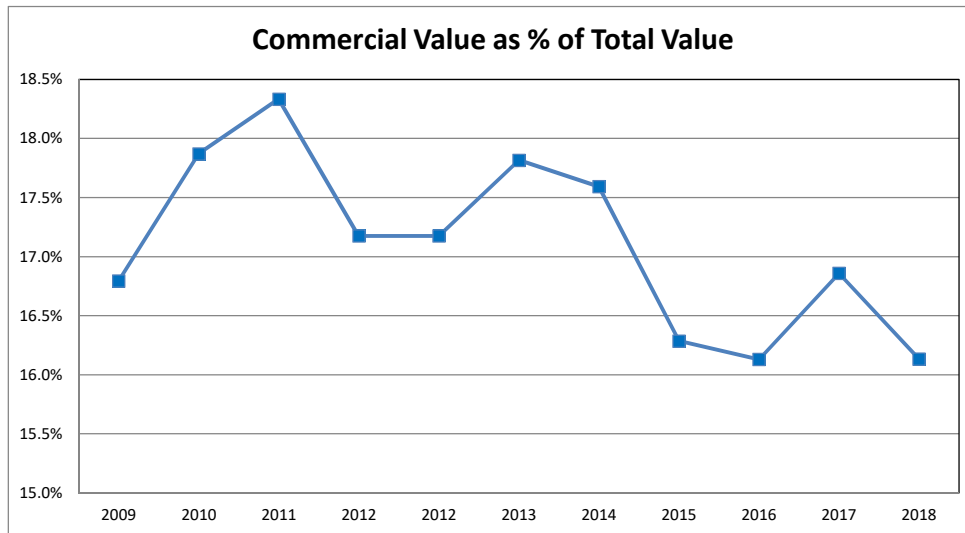
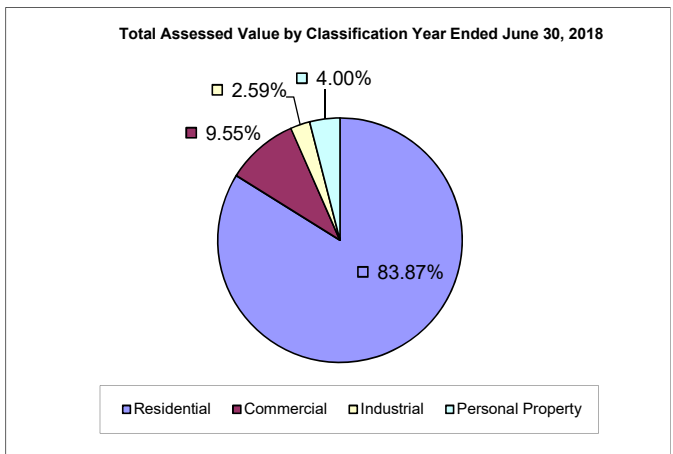
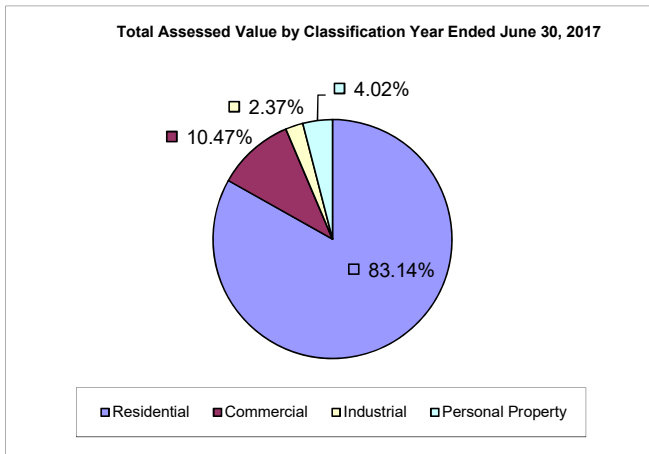
(B) In 2014 the City approved and established the Community Preservation Fund.

(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

Assessed and Actual Values and Tax Rates									
Year	Residential Value	Residential Tax Rate	Commercial Value	Industrial Value	Personal Property	Total Commercial Value	Commercial Tax Rate	Total Direct Rate	Total City Value
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	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	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	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
2017	3,802,708,194	15.86	478,990,259	108,442,340	183,684,630	771,117,229	29.99	18.24	4,573,825,423
2018	4,249,989,014	15.38	483,778,163	131,020,400	202,795,500	817,594,063	29.97	17.73	5,067,583,077



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	2018			2009		
		Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value	Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value
New England Power Co./Boston Gas	Personal & Industrial	\$69,810,060	1	1.38%	\$24,520,050	6	0.54%
Mass Electric	Personal Property	\$34,648,590	2	0.68%	\$21,899,450	7	0.49%
National Grid	Personal & Industrial	\$38,307,500	3	0.76%	-	-	-
Shetland Properties	Industrial & Commercial	\$29,259,100	4	0.58%	\$29,315,600	4	0.65%
Highlander Plaza	Commercial Property	\$23,565,500	5	0.47%	\$21,728,900	8	0.48%
Algonquin Gas Transmission	Personal Property	\$31,471,900	6	0.62%	-	-	-
Footprint Power	Power Plant - Industrial	\$25,860,000	7	0.51%	-	-	-
Bell Fund V (Salem Station LLC)	Apartments	\$48,930,600	8	0.97%	\$40,027,860	2	0.89%
RCG, Total Properties	Apartments & Commercial	\$15,157,200	9	0.30%	-	-	-
Princeton Crossing Apartments	Apartments	\$30,785,000	10	0.61%	\$30,981,000	3	0.69%
Dominion	Personal & Industrial Property	-	-	-	\$158,305,850	1	3.51%
Hawthorne Commons	Apartments	-	-	-	\$28,417,500	5	0.63%
Keyspan PP	Personal Property & Real Estate	-	-	-	\$18,849,020	9	0.42%
Second Pickwick Trust	Commercial Property	-	-	-	\$14,542,500	10	0.32%
Totals		<u>\$347,795,450</u>		<u>6.9%</u>	<u>\$388,587,730</u>		<u>8.6%</u>

Source: Board of Assessors

Property Tax Levies and Collections

Last Ten Years

Year	Total Tax Levy	Less Abatements & Exemptions	Net Tax Levy	Current Tax Collections	Percent of Net Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Net Tax Levy
2009	\$ 67,095,914	\$ 514,742	\$ 66,581,172	\$ 66,300,317	99.6%	\$ 280,855	\$ 66,581,172	100.0%
2010	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	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	81,200,463	341,538	80,858,925	80,580,642	99.7%	278,283	80,858,925	100.0%
2017	85,600,551	364,920	85,235,631	84,518,157	99.2%	717,474	85,235,631	100.0%
2018	89,868,125	705,771	89,162,354	88,816,390	99.6%	-	88,816,390	99.6%

Source: Massachusetts Department of Revenue; Board of Assessors

Ratios of Outstanding Debt by Type

Last Ten Years

Year	U. S. Census Population	Personal Income	Assessed Value	Business-type Activities		Governmental Activities		Total Primary Government			
				General Obligation Bonds	Capital Leases	General Obligation Bonds	Capital Leases	Total Outstanding Debt	Per Capita	Percentage of Personal Income	Percentage of Assessed Value
2009	41,421	\$ 1,180,967,527	\$ 4,511,658,886	\$ 7,250,908	\$ -	\$ 51,145,000	\$ 530,771	\$ 58,926,679	\$ 1,423	4.99%	1.31%
2010	41,361	1,202,841,984	4,294,563,427	12,949,102	-	50,387,000	317,032	63,653,134	1,539	5.29%	1.48%
2011	41,361	1,226,898,824	4,115,970,775	15,665,280	-	44,581,526	384,965	60,631,771	1,466	4.94%	1.47%
2012	41,340	1,250,801,415	3,973,785,748	16,762,802	-	43,629,929	245,703	60,638,434	1,467	4.85%	1.53%
2013	41,654	1,285,525,748	3,927,232,741	16,670,824	-	35,291,962	619,317	52,582,103	1,262	4.09%	1.34%
2014	41,340	1,301,351,782	3,962,936,296	18,825,303	105,047	39,943,717	626,059	59,500,126	1,439	4.57%	1.50%
2015	42,544	1,282,020,896	4,208,675,856	19,935,000	257,054	43,473,824	698,595	64,364,473	1,513	5.02%	1.53%
2016	42,544	1,083,723,312	4,534,079,631	29,666,894	274,554	50,735,271	2,211,224	82,887,943	1,948	7.65%	1.83%
2017	42,544	1,445,049,504	4,573,825,423	31,277,113	226,416	47,959,069	2,250,280	81,712,878	1,921	5.65%	1.79%
2018	41,340	1,161,075,240	5,067,583,077	38,864,095	67,083	49,229,007	2,346,553	90,506,738	2,189	7.80%	1.79%

Source: Audited Financial Statements, U. S. Census

Ratios of General Bonded Debt Outstanding

Last Ten Years

Year	U. S. Census Population	Personal Income	Assessed Value	Total Primary Government			
				General Obligation Bonds	Per Capita	Percentage of Personal Income	Percentage of Assessed Value
2009	41,421	\$ 1,180,967,527	\$ 4,511,658,886	\$ 58,395,908	\$ 1,410	4.94%	1.29%
2010	41,361	1,202,841,984	4,294,563,427	63,336,102	1,531	5.27%	1.47%
2011	41,361	1,226,898,824	4,115,970,775	60,246,806	1,457	4.91%	1.46%
2012	41,340	1,250,801,415	3,973,785,748	60,392,731	1,461	4.83%	1.52%
2013	41,654	1,285,525,748	3,927,232,741	51,962,786	1,247	4.04%	1.32%
2014	41,340	1,301,351,782	3,962,936,296	58,769,020	1,422	4.52%	1.48%
2015	42,544	1,282,020,896	4,208,675,856	63,408,824	1,490	4.95%	1.51%
2016	42,544	1,083,723,312	4,534,079,631	80,402,165	1,890	7.42%	1.77%
2017	42,544	1,445,049,504	4,573,825,423	79,236,182	1,862	5.48%	1.73%
2018	41,340	1,161,075,240	5,067,583,077	88,093,102	2,131	7.59%	1.74%

Source: Audited Financial Statements, U. S. Census

Direct and Overlapping Governmental Activities Debt

As of June 30, 2018

	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable (1)</u>	<u>Estimated Share of Overlapping Debt</u>
Overlapping debt:			
North Shore Regional Vocational School District.....	\$ 30,395,000	21.78%	\$ <u>6,620,031</u>
Direct debt:			
Capital Lease Obligations.....			2,346,553
General Governmental Debt			<u>49,229,007</u>
City total direct debt.....			<u>51,575,560</u>
Total direct and overlapping debt.....			\$ <u><u>58,195,591</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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Equalized Valuation.....	\$ 5,168,060,200	\$ 4,568,374,700	\$ 4,568,374,700	\$ 4,256,808,900	\$ 4,256,808,900	\$ 4,191,566,000	\$ 4,191,566,000	\$ 4,757,173,700	\$ 4,757,173,700	\$ 5,354,781,400
Debt Limit -5% of Equalized Valuation.....	\$ 258,403,010	\$ 228,418,735	\$ 228,418,735	\$ 212,840,445	\$ 212,840,445	\$ 209,578,300	\$ 209,578,300	\$ 237,858,685	\$ 237,858,685	\$ 267,739,070
Less:										
Outstanding debt applicable to limit.....	12,004,000	10,884,900	16,669,700	14,905,000	19,976,500	23,966,500	30,306,500	32,996,153	36,040,315	40,102,544
Authorized and unissued debt.....	28,769,240	11,128,240	13,725,802	72,303,161	46,646,035	36,905,041	28,415,041	60,521,980	49,272,080	37,700,822
Legal debt margin.....	\$ 217,629,770	\$ 206,405,595	\$ 198,023,233	\$ 125,632,284	\$ 146,217,910	\$ 148,706,759	\$ 150,856,759	\$ 144,340,552	\$ 152,546,290	\$ 189,935,704
Total debt applicable to the limit as a percentage of debt limit.....	15.78%	9.64%	13.31%	40.97%	31.30%	29.04%	28.02%	39.32%	35.87%	29.06%

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
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%
2017	42,544	1,445,049,504	33,966	39.1	4,144	3.7%
2018	41,340	1,161,075,240	28,086	39.4	3,737	4.2%

Note: Per Capita Personal Income based on DOR Community Comparison Report (2014 Figures available)
 Source: Massachusetts Department of Revenue, Division of Local Services; City Clerks office, Workforce Board

Principal Employers
Current Year and Nine Years Ago

Employer	Nature of Business	2018			2009		
		Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Commonwealth of Massachusetts	State Government	2,735	1	11.5%	520	3	2.4%
North Shore Medical Center	Healthcare	2,566	2	10.8%	2,875	1	13.0%
City of Salem	Municipal Government	1,654	3	7.0%	-	-	-
Salem State University	Higher Education	1,569	4	6.6%	1,500	2	6.8%
Footprint	Utility	310	5	1.3%	-	-	-
Market Basket	Food Market	295	6	1.2%	325	4	1.5%
Peabody Essex Museum	Cultural/Tourism	260	7	1.1%	290	5	1.3%
Salem YMCA	Social Service Agency	217	8	0.9%	185	10	0.8%
Excelitas Technologies	Technology	214	9	0.9%	-	-	-
Finz & Sealevel Seafood	Restaurant	200	10	0.8%	-	-	-
Salem Five Savings	Banking	-	-	-	236	6	1.1%
Hawthorne Hotel	Lodging	-	-	-	210	7	0.9%
Grosvenor Park Nursing Center	Health Care	-	-	-	202	8	0.9%
Home Depot	Retail	-	-	-	187	9	0.8%
		10,020		42.3%	6,530		29.5%

Source: The City Planning Department

City of Salem, Massachusetts

Full-time Equivalent City Employees by Function

Function	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
General government.....	35	35	35	35	35	37	38	56	65	91
Public safety.....	187	191	190	194	203	210	211	210	214	206
Education.....	752	752	752	776	890	841	841	1,008	860	980
Public works.....	37	38	39	40	39	41	41	58	60	40
Engineering.....	1	1	1	1	1	1	1	3	4	10
Health and human services.....	14	17	15	14	15	14	13	15	16	18
Culture and recreation.....	<u>22</u>	<u>22</u>	<u>23</u>	<u>23</u>	<u>23</u>	<u>24</u>	<u>24</u>	<u>25</u>	<u>25</u>	<u>25</u>
Total	<u>1,048</u>	<u>1,056</u>	<u>1,055</u>	<u>1,083</u>	<u>1,206</u>	<u>1,168</u>	<u>1,169</u>	<u>1,375</u>	<u>1,244</u>	<u>1,370</u>

Source: Various City Departments

Operating Indicators by Function/Program

Last Ten Years

Function/Program	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General government										
Marriage recordings.....	276	243	381	321	324	365	338	337	352	346
Birth recordings.....	1,614	1,774	1,599	1,433	1,452	1,566	1,659	1,539	1,560	1,518
Death recordings.....	535	557	492	436	484	560	605	520	474	566
Police										
Physical arrests.....	2,502	2,072	2,629	1,627	1,307	1,597	2,509	2,455	1,320	2,025
Motor vehicle violations.....	191	6,631	10,309	8,497	6,161	7,936	8,660	6,267	5,764	5,437
Police personnel and officers.....	85	87	89	93	99	100	103	101	110	115
Fire										
Inspections.....	886	935	1,077	973	1,307	1,192	1,545	2,047	1,470	1,126
Emergency responses.....	17	6,409	6,079	5,952	6,161	6,292	6,752	7,054	7,116	7,576
Fire personnel and officers.....	81	79	83	90	86	88	88	88	88	88
Education										
Number of students.....	4,474	4,647	4,585	4,541	4,501	4,478	4,222	3,949	3,831	4,065
Number of graduates.....	273	283	246	240	275	275	271	211	228	228
Number of teachers.....	479	488	507	517	540	542	571	521	464	510
Water										
Service connections.....	11,737	11,719	11,719	11,719	11,729	11,827	9,833	9,998	10,136	10,009
Consumption in gallons.....	1,994	2,103	2,025	1,921	1,934	1,898	1,898	1,612	1,504	1,500
Daily consumption (MG).....	5.44	6.00	6.00	5.26	5.30	5.00	4.00	5.20	4	6
Sewer										
Service connections.....	11,727	11,709	11,706	11,719	11,719	11,807	9,813	9,988	9,881	9,894
Health and human services										
Number of persons using COA transportation...	15,526	16,076	16,908	19,630	16,170	12,698	14,704	11,479	12,575	18,548
Libraries										
Volumes in circulation.....	145,634	143,512	148,634	158,011	162,486	168,263	172,628	163,038	177,858	169,299
Total volumes borrowed.....	538,184	508,507	508,293	493,315	471,416	430,391	397,810	353,800	356,973	328,276

Source: Various City Departments; Massachusetts Department of Education

Capital Asset Statistics by Function/Program

Last Ten Years

<u>Function/Program</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>	<u>2017</u>	<u>2018</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.....	38	7	7	7	7	7	7	7	7	7
Number of middle schools.....	1	1	1	1	1	1	1	1	1	1
Number of high schools.....	17	1	1	1	1	1	1	1	1	1
Public Works										
Water mains (miles).....	102	102	102	102	102	102	102	102	102	102
Number of personnel.....	17	17	15	14.7	14.7	13.8	13.8	21	21	18
Culture and recreation										
Parks and playgrounds.....	35	35	35	35	35	35	35	35	35	36
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>General Stabilization Fund</u>
FY2018.....	\$ 5,949,483	\$ 6,511,290
FY2017.....	\$ 4,922,937	\$ 6,037,015
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

Source: City Records